# Southwest Human Resource Agency

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

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Director

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***Leslie Bethea***
Editor

July 23, 1997

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, 1996. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of the internal control structure and tests of compliance disclosed a deficiency, which is detailed in the Results of the Audit section of this report. The agency's management has responded to the audit finding; the response is included following the finding.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/cr
97/035

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, 1996

## AUDIT OBJECTIVES

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

## INTERNAL CONTROL FINDING

**Controls Over the Property Management System Need Improvement***
The agency had numerous weaknesses in its property management system. These weaknesses included the failure to maintain a complete property listing, to properly tag equipment, and to complete an annual physical inventory (page 20).

* This finding is repeated from the prior audit.

## 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

# Audit Report
# Southwest Human Resource Agency
# For the Year Ended June 30, 1996

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# Southwest Human Resource Agency
# For the Year Ended June 30, 1996

## INTRODUCTION

### 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, 1995, through June 30, 1996, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1996, and for comparative purposes, the year ended June 30, 1995.

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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, 1996, the board was composed of 58 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, 1996, 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.

| Program | Grantor |
| --- | --- |
| 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 |

## PRIOR AUDIT FINDINGS

### RESOLVED AUDIT FINDING

The current audit disclosed that the agency has corrected a previous audit finding concerning charging association dues to federal grant programs.

### REPEATED AUDIT FINDING

The prior audit report also contained a finding concerning controls over the property management system. This finding has not been fully resolved and is 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, 1996, we considered the internal control structure to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards, 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 finding and recommendation, which follows 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, 1996, 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***

April 4, 1997

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, 1996, and have issued our report thereon dated April 4, 1997.

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

The agency's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the agency's financial statements for the year ended June 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and 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 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 need improvement

This condition is described in the Finding and Recommendation 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 that 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**

April 4, 1997

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, 1996, and have issued our report thereon dated April 4, 1997. We have also audited the agency's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated April 4, 1997.

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, 1996, 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 April 4, 1997.

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

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, 1996, 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 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 applicable laws and regulations.

The following reportable condition was noted:

- Controls over the property management system need improvement

This condition is described in the Finding and Recommendation 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***

April 4, 1997

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, 1996, and have issued our report thereon dated April 4, 1997.

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 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**

April 4, 1997

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, 1996, and have issued our report thereon dated April 4, 1997.

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, 1996. 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
April 4, 1997
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 Noncompliance 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, 1996.

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**

April 4, 1997

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, 1996, and have issued our report thereon dated April 4, 1997.

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, 1996: 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 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**

April 4, 1997

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, 1996, and have issued our report thereon dated April 4, 1997.

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, 1996. 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.

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

## FINDING AND RECOMMENDATION

**Controls over the property management system need improvement**

**Finding**

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

a. Information on the agency's year-end property listing was incomplete. Of 655 items listed, 161 (24.6%) had no condition code included on the property listing. Serial numbers for applicable items were not complete or were not included on the listing for 153 items (23.4%). The funding source was not included on the property listing for 19 items (2.9%). No location was included on the property listing for 29 items (4.4%). No acquisition date was included on the property listing for four items (.6%).

   Section .32(d)(1) of the Office of Management and Budget's "Uniform Administrative Requirements for Grant 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.

b. According to the job description, the property officer is required to "make a physical inventory twice a year at all locations." A physical inventory was performed during the last quarter of the 1996 fiscal year; however, 216 of the 614 items (35.2%) on the April 1996 property listing were not documented as being physically observed. If physical inventories are not complete and adequately documented, the likelihood that undetected loss or theft of items may occur increases.

c. The property inventory adjustment forms for the disposal of property were not used properly. Test work revealed that the property officer did not use space provided for disposition date and the method of disposition. If forms are not used properly, the agency could dispose of equipment but still have the equipment on the agency's property listing.

d. Eight items located in the Head Start storeroom were not on the property listing. According to the property officer, these items were in the storeroom prior to her employment. The agency needs to sell, dispose, or re-enter the items on the inventory list so that the inventory records are complete.

e. Three of 25 items tested (12%) did not have a property tag affixed. If equipment is not tagged properly, the agency's assets may not be identified.

f. The agency did not include two tag numbers for new vans purchased during the fiscal year. If items are not added to the inventory list as soon as the agency receives them, equipment could be stolen or misplaced.

Inadequate controls over the property management system could allow 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.

Management concurred with the prior audit finding and stated that proper procedures would be implemented in order to maintain a complete and accurate property listing. However, as noted above, the agency continues to have weaknesses in the property management system.

**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 updated regularly.

**Management's Comment**

We concur. The agency will develop written procedures for property record maintenance. The procedures placed in effect after the receipt of the audit for the year ended June 30, 1995, were unable to correct the property control problems prior to fiscal 1996 due to the lapse in time that it took to complete audit field work and receive the 1995 audit report. This time lapse resulted in a repeat audit finding. It is the position of this agency that the audit for the year ended June 30, 1997, will show marked improvement in the inventory control system.

**Independent Auditor's Report**

April 4, 1997

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, 1996, and June 30, 1995, 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, 1996, and June 30, 1995, 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 43 through 50 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 April 4, 1997, 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, 1996, and June 30, 1995

## 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 58-member governing board. The board consists of the county executives and mayors within the area served by the agency, one state senator, 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.

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 market 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.

**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 $515,623.04 at June 30, 1996, and $490,771.82 at June 30, 1995.

Litigation - The agency was involved with two lawsuits during fiscal year 1996, but the statute of limitations ran out for one, and the other has to be refiled due to the death of the plaintiff. As of June 30, 1996, the agency has no lawsuits pending.

## 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, 1996, the carrying amount of the agency's deposits was $317,728.31, and the bank balance was $529,313.85. Of the bank balance, $115,504.89 was category 1, and $413,808.96 was category 2. However, for the period January 26 to February 1, the agency had deposits in excess of FDIC coverage and the amount of collateral securities pledged. The uncollateralized amounts for this period ranged from $208,462.63 to $618,430.86.

## Southwest Human Resource Agency
## Notes to the Financial Statements (Cont.)
## June 30, 1996, and June 30, 1995

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.

### 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, 1996:

| | Balance July 1,1995 | Additions | Deletions | Balance June 30, 1996 |
|---|---|---|---|---|
| Furniture and equipment | $ 336,563.53 | $ 89,492.31 | $ 5,004.87 | $ 421,050.97 |
| Vehicles | 1,038,327.37 | 168,204.25 | - | 1,206,531.62 |
| Communications equipment | 121,300.45 | - | - | 121,300.45 |
| Leased equipment | 39,947.68 | 49,620.03 | 24,970.68 | 64,597.03 |
| Leasehold improvements | 375,970.04 | 102,772.78 | - | 478,742.82 |
| Land | 8,324.00 | - | - | 8,324.00 |
| Buildings | 79,984.33 | - | - | 79,984.33 |
| Totals | $2,000,417.40 | $410,089.37 | $29,975.55 | $2,380,531.22 |

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

| | Balance July 1, 1994 | Adjustments | Adjusted Balance July 1, 1994 | Additions | Deletions | Balance June 30,1995 |
|---|---|---|---|---|---|---|
| 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 |
| Totals | $1,697,232.89 | $18,621.00 | $1,715,853.89 | $310,367.07 | $25,803.56 | $2,000,417.40 |

## NOTE 6. RESERVED FUND BALANCE

The reserved fund balance as of June 30, 1996, was $98,763.50. This amount includes $35,858.92 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.

The second component of reserved fund balance was the transfer of special revenue funds for the payment of 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, 1996, a reserve of the general fund was established for $19,124.08 for Head Start equipment and supplies purchases.

The third component of reserved fund balance was the accumulation of TennCare transportation revenues for the payment of Transportation costs. At June 30, 1996, a reserve of $1,047.50 was established to fund future Transportation costs.

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, 1996, a reserve of the general fund was established for $42,733. The balance consists of the following grants and funds.

| | Amount Reserved |
|---|---|
| Southwest Tennessee Development District: Special Programs for the Aging - Title III, Part C - Nutrition Services | $12,424 |

| | |
|---|---|
| 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 | 8,902 |
| U.S. Department of Health and Human Services: Head Start | 13,560 |
| Jackson State Community College: Job Training Partnership Act - Title II-A | 477 |
| ACTION: Foster Grandparent Program | 2,189 |
| Southwest Tennessee Development District: Special Programs for the Aging - Title III, Part D - In-Home Services for Frail Older Individuals | 1,010 |
| Tennessee Housing Development Agency: HOUSE Program | 2,774 |
| Tennessee Department of Agriculture: Emergency Food Assistance Program | 640 |
| Southwest Tennessee Development District: Special Programs for the Aging - Title III, Part F - Disease Prevention and Health Promotion Services | 757 |
| | $42,733 |

The reserved fund balance as of June 30, 1995, was $265,373.38. This amount represents $12,774.51 of funds reserved for the Housing Opportunities Using State Encouragement (HOUSE) program, $66,484.00 of funds reserved for Transportation equipment purchases, $140,280.87 of funds reserved for Head Start equipment purchases, and $45,834.00 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, 1996, required monthly rental payments of $3,374.59. During the year ended June 30, 1996, the agency rented 15,000 square feet of office space at a cost of $40,495.08. Payments for other leases during the year totaled $39,839.96.

During the year ended June 30, 1995, the agency rented office space at a cost of $38,937.60. Payments for other leases during that year totaled $38,731.00.

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:

| Property | 1996 | 1995 |
|---|---|---|
| Mail machine | $ 8,526.03 | $ 3,644.00 |
| Computer equipment | 14,977.00 | 14,977.00 |
| Copy machines | 41,094.00 | 21,326.68 |
| | $64,597.03 | $39,947.68 |

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, 1996:

| Year Ending June 30 | |
|---|---|
| 1997 | $18,489.60 |
| 1998 | 15,406.08 |
| 1999 | 14,043.50 |
| 2000 | 5,218.68 |
| Total minimum lease payments | 53,157.86 |
| Less: Amount representing interest | (6,489.60) |
| Present value of net minimum lease payments | $46,668.26 |

## NOTE 9. LEASEHOLD IMPROVEMENTS

During the year ended June 30, 1996, the agency expended $102,772.78 for leasehold improvements. Expenditures of $89,055.00 were payments for Head Start building construction and site preparation for the Bolivar and Pickwick South centers. The remaining $13,717.78 was for improvements to Head Start buildings in Reagan, Parsons, and Middleton, Tennessee. Head Start pays rent for the use of the building in Reagan and Middleton. 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.

During the year ended June 30, 1995, the agency expended $41,376.13 for leasehold improvements. Expenditures of $1,300.00 are 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.

## NOTE 10. GENERAL LONG-TERM DEBT

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

| | Balance July 1, 1995 | Additions | Retirements | Balance June 30, 1996 |
|---|---|---|---|---|
| Capital leases | $21,738.50 | $49,420.03 | $24,490.27 | $46,668.26 |

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

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

## 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 subdivisions in the state. The agency participates in the TCRS as a political subdivision and is liable for the costs associated with the operation and administration of its plan. The agency's payroll for employees covered by the plan for the year ended June 30, 1996, was $1,867,350, and total payroll was $2,417,083. 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 TCRS is a defined benefit retirement plan covering teachers and general employees of the state, higher education employees, and employees of participating political subdivisions. Membership in the system is mandatory for all participants' full-time employees. The TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members may retire at age 60 with five years' service or at any age with 30 years' service. Early retirement with reduced benefits is available to vested members who are at least age 55 or have 25 years of service. Members are vested after five years of service. Disability benefits are available to members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member performed duties. Benefit provisions are established and amended by state statute. Amendments to the TCRS plan are not applicable to a political subdivision unless approved by the political subdivision's governing body.

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 and an actuarial update performed at June 30, 1996. Significant actuarial assumptions used include (a) rate of return on investment of present and future assets of 8 percent a year compounded annually, (b) projected salary increases of 7 percent a year (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries) compounded annually, (c) projected 6 percent annual increase in Social Security wage base, and (d) projected post-retirement benefit increases of 3 percent of the retiree's initial benefit.

## Southwest Human Resource Agency
## Notes to the Financial Statements (Cont.)
## June 30, 1996, and June 30, 1995

Total estimated assets in excess of pension benefit obligation and total unfunded pension benefit obligation applicable to agency employees at June 30, 1996, and at June 30, 1995, were as follows:

| | June 30, 1996 | June 30, 1995 |
|---|---|---|
| Pension benefit obligation: | | |
| Retirees and beneficiaries currently receiving benefits and terminated employees entitled to but not yet receiving benefits | $ 53,860 | $ 22,866 |
| Current employees: | | |
| Accumulated employee contributions including allocated investment earnings | 187,049 | 110,032 |
| Employer-financed vested | 95,416 | 114,619 |
| Employer-financed nonvested | 75,252 | 90,397 |
| Total pension benefit obligation | 411,577 | 337,914 |
| Net assets available for benefits, at cost or amortized cost (market value is $584,511 at June 30, 1996, and $297,582 at June 30, 1995) | 535,769 | 274,224 |
| Assets in excess of (Unfunded) pension benefit obligation | $ 124,192 | $ (63,690) |

### 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. At June 30, 1995, the last actuarial valuation date, the agency's unfunded actuarial accrued liability for its pension plan totaled $63,690. All unfunded actuarial accrued liabilities are amortized over a 28-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, 1996, of $216,053 was made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of June 30, 1993. The contribution consisted of (a) $173,103 in normal costs (9.27% of current covered payroll), (b) $37,347 in amortization of the unfunded actuarial accrued liability (2.00% of current covered payroll), and (c) $5,602 in administrative costs (.30% of current covered payroll). The agency contributed $122,685 (6.57% of current covered payroll); employees contributed $93,368 (5.00% of current covered payroll).

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) $161,529 in normal costs (9.27% 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.

### D. Trend Information

Three-year historical trend information designed to give an indication of the progress made by the agency in accumulating sufficient assets to pay benefits when due is presented below for fiscal years 1996 and 1995. Information for fiscal year 1994 is not available because the agency did not join the system until January 1, 1994.

| Fiscal Year | (1) Net Assets Available For Benefits | (2) Pension Funded Obligation | (3) Percentage Funded (1)÷(2) | (4) Assets in Excess of PBO | (5) Unfunded PBO (2)-(1) | (6) Annual Covered Payroll | (7) Assets in Excess of PBO as a Percentage of Covered Payroll (4)÷(6) | (8) Unfunded PBO as a Percentage of Covered Payroll (5)÷(6) |
|---|---|---|---|---|---|---|---|---|
| 1996 | $535,769 | $411,577 | 130.17% | $124,192 | - | $1,867,350 | 6.65% | - |
| 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 three years ended June 30, 1996, 1995, and 1994, the agency's contributions to the TCRS, made in accordance with actuarially determined requirements, were 6.57% of annual covered payroll.

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, 1996.

## 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 worker's compensation and employer's 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.

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.

## SOUTHWEST HUMAN RESOURCE AGENCY

Samuel L. Dawson, Executive Director

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