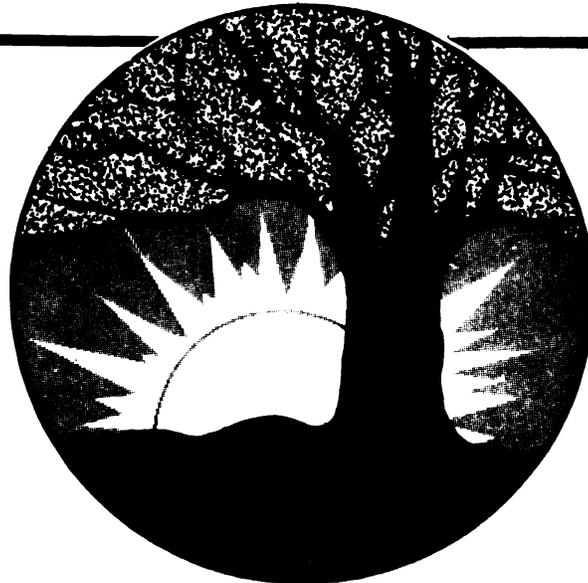


PERFORMANCE AUDIT

Tennessee Community Services Agency

July 2010



Justin P. Wilson
Comptroller of the Treasury



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Comptroller of the Treasury
Department of Audit
Division of State Audit

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July 19, 2010

The Honorable Ron Ramsey
Speaker of the Senate
The Honorable Kent Williams
Speaker of the House of Representatives
The Honorable Bo Watson, Chair
Senate Committee on Government Operations
The Honorable Susan M. Lynn, Chair
House Committee on Government Operations
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the performance audit of the Tennessee Community Services Agency. This audit was conducted pursuant to the requirements of Section 4-29-111, *Tennessee Code Annotated*, the Tennessee Governmental Entity Review Law.

This report is intended to aid the Joint Government Operations Committee in its review to determine whether the agency should be continued, restructured, or terminated.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/js
09-085

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Performance Audit
Tennessee Community Services Agency
July 2010

AUDIT OBJECTIVES

The objectives of the audit were to examine the financial viability of the TNCSA in light of annual operating losses and a declining fund balance; examine issues related to the merging of the individual CSA offices into one statewide agency in the areas of contracts, presentation and compilation of financial information, leased space, and equipment inventory; examine issues related to computer network/technology such as data reliability, user access, backup/disaster recovery, use of an outside entity for payroll processing, and client information related to CoverTN/CoverKids; evaluate program issues for the Tennessee Commission on National and Community Service, AmeriCorps, Partners Achieving School System Success Program, and the Employment Solutions Program; examine payments to vendors and cash receipting; examine compliance with Title VI regulations; evaluate compliance with requirements for the board of directors to have conflict-of-interest statements filed annually; examine whether the board of directors held meetings as required, those meetings were adequately publicized, and there was a quorum present; evaluate the effectiveness of the oversight by the Executive Director and the deputy executive directors; and ensure background checks were performed for employees who have contact with children.

FINDINGS

The Tennessee Community Services Agency Continues to Experience Excesses of Expenditures Over Revenues, Creating the Risk That the Entity Will Not Be Able to Meet Its Financial Obligations and Will Cease Operations

For 2006 through 2008, the loss increased each year. The average annual decrease in fund balance from fiscal year 2006 through fiscal year 2010 is \$1,056,550 (page 7).

The Tennessee Community Services Agency Did Not Report a Loss of Funds to the Tennessee Comptroller of the Treasury

The Tennessee Community Services Agency found several altered checks and fraudulent electronic payments. Neither the checks nor the payments were reported to the Comptroller of the Treasury (page 9).

The Tennessee Community Services Agency Submitted Its 2009 Title VI Implementation Plan After the Statutory Deadline

The TNCSA submitted a Title VI Implementation Plan to the auditors on October 28, 2009, after the October 1 due date (page 10).

Neither the Governing Board nor the Executive Board of the Tennessee Community Services Agency Has Met Frequently Enough to Meet the Requirements of the Agency's Policies and Procedures

The length of time between governing board and executive board meetings is too long to ensure proper governance of the agency, and thus the agency is essentially operating with no governance or oversight (page 11).

Board Members of the Tennessee Community Services Agency Are Not Filing Annual Conflict-of-Interest Statements

Nine of 83 board members (11%) did not have conflict-of-interest statements on file. All seven executive board members had COI statements on file (page 13).

The Tennessee Community Services Agency Does Not Have Adequate Controls to Protect Inventory From Fraud, Waste, and Abuse

Because no complete inventory listing is maintained, there is no way for management

to accurately determine what inventory is on hand, or if theft or misuse of assets is occurring (page 15).

The Tennessee Community Services Agency Does Not Have Adequate Controls Over Computer Access

By not maintaining proper documentation, management risks allowing unauthorized users access to the agency's computer systems (page 16).

Computer Access of Terminated Employees Was Not Canceled in a Timely Manner

For the TennCare database, we found 52 of 84 active IDs (62%) were for people no longer with the agency. For the transportation database, we found 18 of 26 active IDs (69%) were for people no longer with the agency (page 17).

The Tennessee Community Services Agency Has Not Followed Written Policies and Procedures to Perform Background Checks to Ensure Those With Criminal Backgrounds Are Not in a Position to Harm Clients Being Served by the Agency

Of TNCSA personnel hired after October 1, 2008, and all agency personnel in the CoverKids program, we found that 4 of 41 employees (10%) did not have a criminal background check documented in their personnel file (page 18).

Performance Audit Tennessee Community Services Agency

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Performance Audit Tennessee Community Services Agency

INTRODUCTION

PURPOSE AND AUTHORITY FOR THE AUDIT

This performance audit of the Tennessee Community Services Agency (TNCSA) was conducted pursuant to the Tennessee Governmental Entity Review Law, *Tennessee Code Annotated*, Title 4, Chapter 29. Under Section 4-29-232, the nine forerunners of the Tennessee Community Services Agency are scheduled to terminate June 30, 2011. These are East Tennessee, Mid Cumberland, Northeast, Northwest, Shelby County, South Central, Southeast, Southwest, and Upper Cumberland Community Services Agencies. Through numerous statutory changes over several years, these were eventually combined in 2008 into the current Tennessee Community Services Agency that is the subject of this audit. The Comptroller of the Treasury is authorized under Section 4-29-111 to conduct a limited program review audit of the agency and to report to the Joint Government Operations Committee of the General Assembly. The audit is intended to aid the committee in determining whether the Tennessee Community Services Agency should be continued, restructured, or terminated.

OBJECTIVES OF THE AUDIT

The overall objectives of this audit were to review the agency's legislative mandate and the extent to which the agency has carried out that mandate efficiently and effectively, and to make recommendations that might result in more efficient and effective operation of the agency. To that end, we focused our efforts on the following:

1. examining the financial viability of the TNCSA in light of annual operating losses and a declining fund balance;
2. examining issues related to the merging of the individual CSA offices into one statewide agency in the areas of contracts, presentation and compilation of financial information, leased space, and equipment inventory;
3. examining issues related to computer network/technology such as data reliability, user access, backup/disaster recovery, use of an outside entity for payroll processing, and client information related to CoverTN/CoverKids;
4. evaluating program issues for the Tennessee Commission on National and Community Service, AmeriCorps, Partners Achieving School System Success Program, and the Employment Solutions Program;

5. examining payments to vendors and cash receipting;
6. examining compliance with Title VI regulations;
7. evaluating compliance with requirements for the board of directors to have conflict-of-interest statements filed annually;
8. examining whether the board of directors held meetings as required, those meetings were adequately publicized, and there was a quorum present;
9. evaluating the effectiveness of the oversight by the Executive Director and the deputy executive directors; and
10. ensuring background checks were performed for employees who have contact with children.

SCOPE AND METHODOLOGY OF THE AUDIT

We reviewed the activities of the Tennessee Community Services Agency for fiscal years 2006-2009, but concentrated on the period July 2009 through October 2009. We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our methodology included

1. review of applicable legislation and policies and procedures;
2. interviews with management and staff of the Tennessee Community Services Agency;
3. examination of the TNCSA's records, files, reports, and information summaries; and
4. observation of procedures over security of assets, control of physical inventory, and the processing of payments.

HISTORY AND STATUTORY RESPONSIBILITIES

The organization now known as the Tennessee Community Services Agency was originally created as a number of Community Health Agencies by Chapter 567 of the Public Acts of 1989, codified as Section 37-5-301 et seq., *Tennessee Code Annotated*. The organizations were created to fill a perceived need for assisting indigent citizens with various health care issues. The act authorized the Commissioner of Health and Environment to create four

metropolitan Community Health Agencies: (Knoxville/Knox County, Memphis/Shelby County, Nashville/Davidson County, and Chattanooga/Hamilton County) and eight rural Community Health Agencies, using the boundary lines of the rural public health regions.

In 1990, passage of Chapter 1027 of the Public Acts of 1990 amended Section 37-5-316, *Tennessee Code Annotated*, to allow the Community Health Agencies to participate in the Tennessee Consolidated Retirement System, with the requirement that they be treated as one political subdivision for retirement purposes. This requirement was removed by Chapter 164 of the Public Acts of 1995.

Chapter 1079 of the Public Acts of 1996 created the Department of Children's Services, changed the Community Health Agencies into Community Services Agencies, and gave them a broader scope. According to amended Section 37-5-302, *Tennessee Code Annotated*, the purpose of these agencies was "to provide a mechanism to facilitate the provision of services for children and other citizens in need of services in Tennessee through centralized agencies located throughout the state." The CSAs were placed under the authority of the newly formed Department of Children's Services. The act authorized the Commissioner of DCS to create four metropolitan and eight rural CSAs. The act also authorized the creation of a board of directors for each CSA, required each board to produce an annual report, and made the CSA program subject to an annual audit by the Comptroller of the Treasury.

Chapter 390 of the Public Acts of 2001 amended Section 37-5-317, *Tennessee Code Annotated*, and transferred some CSA contract employees from the CSAs to the Department of Children's Services with the purpose of "separating and standardizing department and community functions." These employees were also eligible for state health insurance and retirement benefits without "further examination or competition" and were not required to be placed under a probationary period.

Chapter 354 of the Public Acts of 2005 provided instructions for transitioning CSA employees to the Department of Children's Services or to the Department of Health by June 30, 2006, because of the loss of DCS contracts by the CSAs. However, unlike the 2001 act, the 2005 act provided for a six-month probationary period for employees who had not previously completed one. The act allowed employees to retain any accrued deferred compensation and also to remain at their level of pay.

In 2006, the Community Services Agencies in Hamilton County, Davidson County, and Knox County were closed. In 2007, the remaining CSAs were consolidated with several offices being combined. The following CSAs were merged: Northeast and East Tennessee, Upper Cumberland and Southeast, Mid-Cumberland and Northwest, and South Central and Southwest. This left a total of five CSAs.

In 2007, passage of Public Acts 222, 223, and 478 effectively closed these remaining five CSAs by consolidating them into one. As directed in the Public Acts, in October 2008, the remaining five CSAs were consolidated into one statewide CSA with a central office in Union City, Tennessee. Called the Tennessee Community Services Agency (TNCSA), it has satellite

offices in Memphis, Nashville, Jackson, Johnson City, Chattanooga, Knoxville, and Cookeville. The Executive Director is responsible for general oversight, management, and direction of the statewide entity. Three deputy executive directors are located in satellite offices, one each in Jackson, Memphis, and Johnson City. Following are the revenues and expenses of the Tennessee Community Services Agency.

**Revenues by Source
Fiscal Year 2009**

<i>Source</i>	<i>Amount</i>	<i>Percent of Total</i>
Charges for services	\$7,951,862.42	55.2%
State grants and contracts	5,751,367.07	39.9%
TennCare transportation contracts	694,018.25	4.8%
Interest	<u>16,044.73</u>	<u>0.1%</u>
Total Revenue	\$14,413,292.47	100.0%

Source: Tennessee Community Services Agency.

**Expenses by Program Area
Fiscal Year 2009**

<i>Account</i>	<i>Amount</i>	<i>Percent of Total</i>
Administration	\$1,772,785.31	11.5%
Americorps Program	118,934.07	0.8%
At-Home Support Services Program	729,424.91	4.7%
Community Prevention Initiative Program	58,844.00	0.4%
Community Services Programs	185,901.29	1.2%
Cover Tennessee Program	133,981.19	0.9%
Cover Tennessee, CoverKids Program	1,704,773.86	11.0%
Department of Children's Services Home Studies	112,276.79	0.7%
Division of Intellectual Disabilities Services Programs	1,191,097.12	7.7%
Drug Court Programs	316,048.73	2.0%
Family Services Counseling Program	172,988.36	1.1%
Senior Community Services Employment Program	337,777.64	2.2%
Strategic Prevention Framework-State Incentive Grant	1,885,836.84	12.2%
Tennessee Teen Institute Program	207,036.16	1.3%
Transportation Programs	6,446,689.45	41.7%
Youth Diabetes Program	<u>73,393.08</u>	<u>0.5%</u>
Total Expenses	\$15,447,788.80	100%

Source: Tennessee Community Services Agency.

When the TNCSA was first created, the deputy executive directors in Memphis and Johnson City were responsible for the western half and eastern half of the state. Since that time, the Executive Director has divided the state into three regions, East, Mid-West, and Shelby

County. The deputy in Johnson City is in charge of the East (Chattanooga, Johnson City, and Knoxville), the deputy in Jackson is in charge of the Mid-West (Cookeville, Jackson, Union City, and Nashville), and the deputy in Memphis is in charge of the Shelby County Region.

Statute provides for a board of directors to oversee the operations of the TNCSA. According to Section 37-5-305(b), *Tennessee Code Annotated*, “The membership of each board serving a multi-county community services agency shall be appointed by the governor and consist of a representative of each county within the agency boundary and the commissioner [of the Department of Finance and Administration].” For the statewide TNCSA, the board includes a representative from each of the 95 counties in the state. The Commissioner of Finance and Administration appoints the Executive Director, subject to approval by the board of directors.

The agency’s *Policies and Procedures Manual* provides additional information on the board of directors. Section 3.02 states:

The membership of the Governing Board shall be appointed by the Governor as provided by law. Members are appointed to 4 year terms, staggered so as to replace no more than one-fourth of the members each year. Members may be reappointed after their terms expire. Members whose appointed terms have expired may continue to serve until such time as his/her successors are appointed.

To aid in practical governance, the *Policies and Procedures Manual* defines an executive board of the board of directors. Section 3.03 states:

The membership of the executive board shall consist of eleven members, four members from the executive committee and seven standing committee chairmen. The governing board shall elect four members to the executive committee serving in the following positions: chairman, vice-chairman, secretary, and member-at-large. Additionally, each of the seven standing committees will elect a chairman who will serve on the executive board. Members are elected to one year terms.

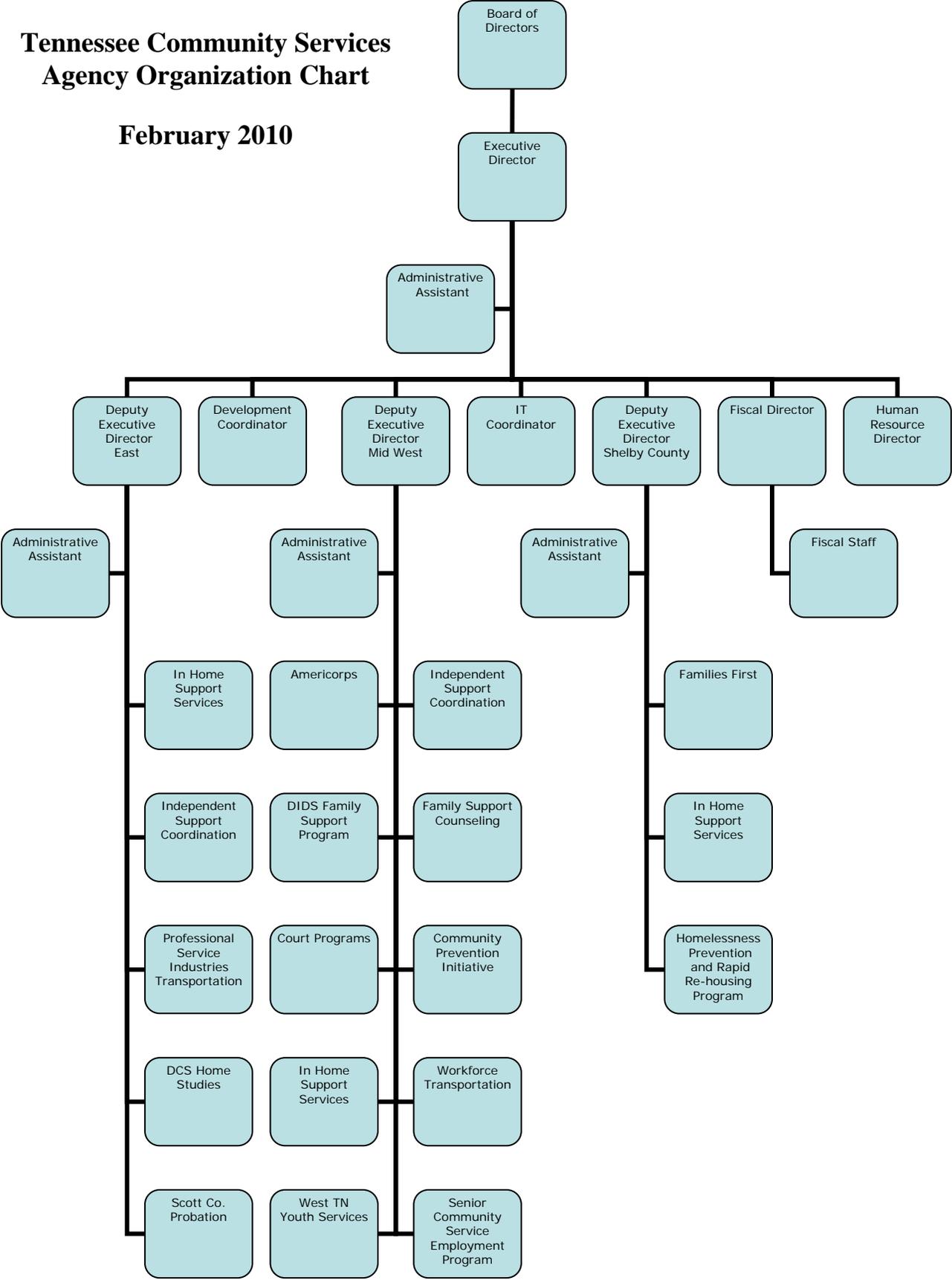
Included in the standing committees mentioned above is an audit committee, appointed by the board of directors. Among the responsibilities of the audit committee is to “immediately notify the Comptroller of the Treasury when fraud is detected.”

According to the TNCSA policies and procedures, meetings of the board of directors, executive board, and committees should conform to the provisions of Tennessee’s Open Public Meetings Law. A quorum for any regularly scheduled or special meeting should consist of half of the active appointed governing board or executive board members. By policy, the board of directors is scheduled to meet annually in February, and the executive board is scheduled to meet on the third Thursday of odd-numbered months of the calendar year. We address the board’s noncompliance with meeting requirements in finding 4 of this report.

A February 2010 organization chart of the TNCSA appears on the following page.

Tennessee Community Services Agency Organization Chart

February 2010



FINDINGS AND RECOMMENDATIONS

Overall Conclusion and Recommendation

As seen in the number and types of issues discussed in the following findings, it appears that management of the TNCSA has not properly assessed and mitigated risks. All organizations, regardless of their size or nature, are vulnerable to fraud, waste, and abuse, and so are required by basic tenets of internal control to assess risks in their operations. The risk assessment is based on a critical review of operations considering the consequences of the absence of adequate controls. Risk assessment by management is the primary method by which the entity is protected from fraud, waste, and abuse. Since the operating environment is dynamic, management's assessment should be an ongoing part of the daily operations of the entity.

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management's responsibility to design, implement, and monitor effective controls in the entity. Management should conduct regular periodic risk assessments, and each assessment should be well documented, complete, and clear. Management should begin with prior audit findings, ensuring that corrective actions recommended by the auditors have been fully implemented. Management should also anticipate the general types of problems that can occur, such as conflicts of interest in procurement, overbillings, and theft of funds.

1. **The Tennessee Community Services Agency continues to experience excesses of expenditures over revenues, creating the risk that the entity will not be able to meet its financial obligations and will cease operations**

Finding

The Tennessee Community Services Agency (TNCSA) is a statewide agency that provides a variety of services to residents of Tennessee. By statute, employees of the TNCSA are considered employees of the state and have access to state benefits, but the TNCSA does not receive state appropriations. The TNCSA depends almost entirely on revenue from contracted activities to fund its operations.

The CSAs that existed prior to the TNCSA completed work on some substantial contracts with the Department of Children's Services in 2006, and those contracts expired that year. Subsequent financial statements revealed that the CSAs showed a lack of sufficient revenues during the fiscal year to meet expenditures. This condition continued for several years as services previously provided by the TNCSA were either no longer needed or were assumed by a state agency. Over the three years from 2006 through 2008, the CSAs collectively experienced operating losses, with the amount of loss increasing each year. Over the three years examined, only three CSAs ever had a positive change in fund balance during a fiscal year. However, in

each case, that gain was offset by a negative change in fund balance either the year before or the year after. In addition, the TNCSA fiscal year 2009 plan of operations expects the agency to fund \$1,318,526 of its operating budget out of fund balance. This amount is approximately 40% of the total fund balance at the beginning of that fiscal year. For fiscal year 2010, the TNCSA plan of operations calls for \$696,006 of the agency's funding to come from fund balance (36.5% of the beginning of the year fund balance). It is important to recognize that these are estimated numbers from the entity's plans of operations; however, an organization planning to provide operating funds from fund balance (in this case, more than 30% of fund balance) is assuming that revenues will fall short for the year by that amount, resulting in an operating loss.

The effect of these annual losses is the possibility that the TNCSA may be forced to cease operations due to lack of resources to meet obligations. The average annual decrease in fund balance for the period from fiscal year 2006 through fiscal year 2010 is \$1,056,550. Projecting this into the future, and assuming no new sources of revenue or significant reductions in expenditures, the TNCSA will likely cease operations sometime in fiscal year 2012 from a lack of sufficient funding to meet obligations.

Recommendation

Management of the TNCSA should work to reduce expenditures and/or pursue additional sources of revenue. In addition, management should evaluate contracts and programs to determine their cost effectiveness. If management is not able to increase revenues and/or decrease expenditures, the TNCSA may be forced to cease operations.

Management's Comment

We concur. Agency management has worked to reduce expenditures and increase revenues for the 2010-11 fiscal year resulting in a budget that will not use or will only use minimal amounts of agency fund balance. This has been accomplished by reducing the size of the offices in Johnson City, Knoxville, Chattanooga, and Nashville and eliminating the office in Columbia. We have evaluated every program within the CSA and reworked budgets to ensure maximum efficiency of staff and available dollars. We have reduced staffing where necessary to all programs, including administration, to a "live within their means" budget. In addition to staffing reductions, we have had to reduce some salaries and reduce the percentage the agency is paying for employee's health insurance from 80% to 70%. Although some of the changes are very difficult to accept, they are necessary to keep the agency financially viable. Some of these changes have already occurred; some are being implemented August 1, 2010. We have also been awarded a new contract from the Bureau of TennCare, in which we will begin training in September 1, 2010.

Since the merger of the regional CSAs into TNCSA in October 2008, we have been in a process to evaluate programs, budgets, cost, use of staff and staffing levels to determine the best

use of agency assets. This process is still evolving; however changes made in the last six months make TNCSA financially viable into the future.

2. The Tennessee Community Services Agency did not report a loss of funds to the Tennessee Comptroller of the Treasury

Finding

During the process of reconciling its bank accounts, the Tennessee Community Services Agency (TNCSA) found that several altered checks had passed through its Memphis bank account in September 2008. In addition, during a reconciliation of the Jackson bank account, the TNCSA found that several more checks as well as fraudulent electronic payments had cleared that account. Neither the altered checks from the Memphis office nor the loss of funds from the Jackson office was reported to the Tennessee Comptroller of the Treasury.

Section 8-19-501, *Tennessee Code Annotated*, requires “any agency of the state having knowledge of shortages of moneys of the state, or unauthorized removal of state property, occasioned either by malfeasance or misfeasance in office of any state employee, to report the same immediately to the comptroller of the treasury.” Although the money of the TNCSA is not direct state appropriations, the agency receives funding through state grants and contracts, and this loss should have been reported to the Comptroller’s office.

According to bank statements provided by the TNCSA, a total of \$4,254 was stolen from the Memphis account through fraudulent checks between August 8 and September 22, 2008. The entire amount lost, including bank fees, was refunded by Regions Bank to the TNCSA. For the Jackson bank account, a total of \$14,024.48 was taken by check or electronic transaction between November 12, 2008, and October 10, 2009. Of that amount, \$3,275.29 has been refunded by Regions Bank to the TNCSA.

The initial fraudulent transactions in the Jackson account were discovered in April 2009. While TNCSA staff worked through the issue, the account remained open. Had the account been closed or blocked from all transactions when the issue first came to light, the TNCSA could have prevented the further loss of funds that occurred after the initial transactions were discovered. Since then, all electronic and check transactions have been blocked, with the exception of the IRS withdrawals for tax collection.

Recommendation

TNCSA management should report all losses of state funds to the Tennessee Comptroller of the Treasury in compliance with statute, and in any loss should work toward recovery of lost funds. In addition, all accounts with fraudulent activity should be immediately closed to prevent any future loss of funds, and a new account should be set up with the IRS for tax purposes.

Management's Comment

We concur. Agency management has subsequently notified the Comptroller's Office of the activity impacting our bank account. It should be noted that no employees were ever suspected to be involved in either incident. Police reports were filed in both cases and agency management worked with area police departments by providing as much information as possible to assist in their investigations. Efforts are continuing to recover all funds from Regions Bank.

3. The Tennessee Community Services Agency submitted its 2009 Title VI Implementation Plan after the statutory deadline

Finding

All programs or activities receiving federal financial assistance, and their subrecipients, are prohibited by Title VI of the Civil Rights Act of 1964 from discriminating against participants or clients on the basis of race, color, or national origin. According to the documentation provided, the Tennessee Community Services Agency was the recipient of \$5,064,117 in federal funds during fiscal year 2008-2009 by way of several state agencies, most notably, the Department of Finance and Administration and the Department of Mental Health and Developmental Disabilities. The TNCSA has entered into service contracts with various consulting firms and colleges throughout the state with total contracts of approximately \$168,000. In addition, the TNCSA contracts with 11 transportation providers on a fee-for-service basis.

Section 4-21-901, *Tennessee Code Annotated*, states, "Each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 . . . shall develop a Title VI implementation plan." Furthermore, Title VI Implementation Plans of any subrecipients of federal funds through the state entity, if applicable, should be included in the state entity's plan. Such state entities should submit annual Title VI compliance reports and Implementation Plan updates to the Department of Audit by October 1 each year.

The TNCSA has not implemented a formal policy specifically regarding monitoring of Title VI requirements. While the agency has established written policies and procedures dealing with Non-Discriminatory Business Practices and Equal Employment Opportunity Practices, the lack of a written Title VI Implementation Plan leaves the agency at risk to inadvertently discriminate in the delivery of services. There was no indication from the testwork in this audit that any discrimination has occurred.

As a subrecipient of the Division of Intellectual Disabilities Services and the Department of Mental Health and Developmental Disabilities, the TNCSA completes an annual Title VI self-survey for each agency. The survey asks questions regarding Title VI training and policies,

program services, community outreach, Limited English Proficiency (LEP) assessment, and Title VI complaints. A review of the Title VI self-surveys submitted by the TNCSA for the fiscal year ending June 30, 2009, found that the surveys were submitted in a timely manner and the agency reported that no Title VI complaints had been received.

The TNCSA submitted a Title VI Implementation Plan to the auditors on October 28, 2009, after the October 1 due date. The agency does have a formal complaint process, though no Title VI complaints have been filed during at least the past two years. [Note: Effective October 1, 2010, Title VI plans are to be submitted to the Human Rights Commission.]

Recommendation

The Tennessee Community Services Agency should prepare and submit a written Title VI Implementation Plan by the annual due date of October 1.

Management's Comment

We concur. Management agrees that the Title VI plan was submitted past the statutory deadline. Future plans will be submitted on time. Management will ask the Policy Committee of the Board of Directors to review the current policies on Non-Discriminatory Business Practices, Equal Employment Opportunity Practices, and Contracting Procedures to ensure Title VI compliance and monitoring is clearly defined or if a separate policy on Title VI is required.

4. Neither the governing board nor the executive board of the Tennessee Community Services Agency has met frequently enough to meet the requirements of the agency's policies and procedures

Finding

As discussed earlier in this report, the governing board of the Tennessee Community Services Agency consists of one member from each of the 95 counties in Tennessee, plus the Commissioner of Finance and Administration. The agency's *Policies and Procedures Manual*, Governance 3.04, "Board Meetings," states that the governing board should convene for meetings at least annually in the month of February. The stated purposes of this meeting are to elect and install board officers and to approve the agency's plan of operation for the following fiscal year. According to a review of the board minutes, the full governing board first met on October 7, 2008, then again on December 15, 2008. The *2008-2009 Plan of Operation* was approved at the meeting on December 15, 2008, six months into the fiscal year.

The board did not meet in February 2009. Per the Executive Director, the board attempted a third meeting in March 2009 but was unable to meet due to "technical difficulties."

Because it did not meet in February 2009, the board did not approve the agency's *2009-2010 Plan of Operation* (the plan), as required by TNCSA policy. According to the board minutes, the plan was distributed at the executive committee meeting on March 31, 2009, and was approved by that committee, but was not approved by the board of directors because the board did not meet. According to the Executive Director, the board met February 24, 2010, and approved the *2010-2011 Plan of Operation*. The plan was submitted to the Department of Finance and Administration.

The 96-member governing board elects the four officers that make up the executive committee. These four members combine with the chairs of the seven standing committees to form the 11-member executive board. As stated in the agency's *Policies and Procedures Manual*, Governance 3.03, "Executive Board Membership; Powers and Duties,"

The membership of the Executive Board shall consist of eleven members, four members from the Executive Committee and seven Standing Committee Chairmen. The Governing Board shall elect four members to the Executive Committee serving in the following positions: Chairman, Vice-Chairman, Secretary and Member-at-Large. Additionally, each of the seven standing committees will elect a Chairman who will serve on the Executive Board. Members are elected to one year terms. Members may be reelected to serve additional terms.

The officers of the executive board (the executive committee) met on March 31, 2009, to distribute committee assignments. This allowed committees to be able to meet and elect chairs to complete the makeup of the executive board. However, according to the Executive Director, the executive board did not meet until November 17, 2009, eight months after the committees were assigned in March. The board also met May 18, 2010.

The executive board is required by policy to meet on the third Thursday of odd-numbered months of the calendar year, at a time and place prescribed by the chair. According to the Executive Director, the executive board could not meet until each committee met and elected a chair. However, the executive board could have met, even if all committee chairs were not elected. The agency's *Policies and Procedures Manual*, Governance 3.04, "Board Meetings," states, "A quorum for any regularly scheduled or special meeting shall consist of half of the active appointed governing board or executive board members present." The policy further states, "Vacant membership positions shall not be considered in the computation of the attendance necessary to constitute a quorum." Therefore, the executive board could have based a quorum on those committee chairs elected at the time of the meeting.

The length of time between governing board and executive board meetings is too long to ensure proper governance of the agency. The purpose of the executive board is to ensure that the agency can be governed efficiently given the size of the governing board. If neither board is meeting as required by policy, the agency is essentially operating with no governance or oversight. Additionally, if the annual plan of operations is not properly approved by the board of directors, the board provides no guidance or oversight regarding the agency's budget.

Recommendation

The executive board of the Tennessee Community Services Agency should meet on the third Thursday of odd-numbered months, and the governing board should meet at least annually in February, as required by the agency's own policies and procedures. The governing board should also properly approve the annual plan of operations before submitting it to the State of Tennessee.

Management's Comment

We concur. When the regional Community Services Agencies were merged together in October 2008, Policies and Procedures were adopted to allow for the merger of the regional boards to merge into one statewide board. This required a massive reorganization of how the Board of Directors would function. Policies were drafted and approved with the understanding of the Board that it would take time for all elements of the policies to be implemented. The formation and organizational meeting of the standing committees took a greater amount of time than anticipated when proposed in policy. Since the executive board's membership consists of each of the committee chairpersons plus the governing board's executive committee, the executive board could not meet and fulfill its functions until after each of the committees had completed the series of organization meetings in which it elected a chairman.

The Board's committees are meeting regularly and the Governing Board and Executive Board are meeting according to the schedule outlined in policy.

5. Board members of the Tennessee Community Services Agency are not filing annual conflict-of-interest statements

The May 2006 performance audits of both the Middle Tennessee Community Services Agencies and the Eastern Tennessee Community Services Agencies found that the boards for all six then-active CSAs (East Tennessee, Northeast, Southeast, Mid-Cumberland, Upper Cumberland, and South Central) did not have a policy requiring annual signed conflict-of-interest disclosure statements and that members were serving who had not signed conflict-of-interest statements or whose signed statements were at least two years old. In the management's response section of the audit reports, management of all six CSAs concurred with the finding. The response from the Mid-Cumberland CSA said, "The staff will continue to make every effort to obtain a signed conflict of interest statement from each board member annually." The response of the Upper Cumberland and the East Tennessee CSA's included, "We will follow the Comptroller's recommendations to require board members to sign conflict of interest statements annually." The South Central CSA said, "All board members have signed their statements as of June 2005." The Northeast CSA and the Southeast CSA both responded "Per the Comptroller's

recommendation, we are obtaining appropriate conflict of interest acknowledgment statements from all board members on an annual basis.”

When the CSAs merged in October 2008, the combined agencies’ policy and procedures manual included a policy to address maintaining conflict-of-interest statements for board members. The agency’s *Policies and Procedures Manual*, Section 3.10, states:

If any matter before the Governing Board involves a project, transaction or relationship in which: a) a Board member personally; or, b) a Board member’s associated institution, business, or board; or, c) a Board member’s family member; or, d) where there may be a reasonable expectation that circumstances might construe the appearance of a direct or conflicting interest with such project, transaction, or relationship, the member shall then make known that interest to the Board immediately when such interest is recognized. The Board member will be prohibited from engaging in any discussion, vote, or other action relative to any matter where such direct or conflicting interest exists and is disclosed.

Each Board member shall execute an appropriate statement no less frequently than annually, or as often as may be warranted by a change of circumstances, that acknowledges the Board member’s awareness of this policy and that affirms the Board member’s agreement to abide by its terms.

Conflict-of-interest disclosures are designed to ensure that the public’s interest is protected. Testwork determined that 9 of the 83 board members (11%) of the merged agency did not have conflict-of-interest statements on file. All seven members of the executive board had conflict-of-interest statements on file.

Annual written disclosures of financial interests, prior employment, employment of immediate family members, and other matters that may influence decisions or could give the appearance of influencing decisions help ensure the board is acting on the state’s behalf and that board members recuse themselves from decision-making as needed.

Recommendation

The Executive Director should ensure that board members submit conflict-of-interest statements annually and more often when circumstances require, as provided by the agency’s policies and procedures.

Management’s Comment

We concur. Board members of the Tennessee Community Services Agency are asked to review the policy on conflict-of-interest and sign the Board conflict-of-interest statement at the time in which they are appointed to the Board of Directors. They are also asked to renew the

conflict-of-interest statement annually as an agenda item for the meeting of the Governing Board. Designated staff make every effort to insure each Board member has a current conflict-of-interest statement on file. Board members that are not in compliance are sent multiple reminders to return conflict-of-interest statements.

6. The Tennessee Community Services Agency does not have adequate controls to protect inventory from fraud, waste, and abuse

Finding

Although the Tennessee Community Services Agency (TNCSA) has written policies and procedures addressing the need to ensure proper controls over capitalized assets, there are no specific policies regarding inventory items that have not been capitalized. The policy requires any single property component with an initial purchase cost of \$5,000 or more to be capitalized. Section 4.21 of the agency's *Policies and Procedures Manual* states:

The Community Services Agency shall maintain a perpetual property inventory system so as to assure proper control of all Agency owned capitalized assets. A detailed physical inventory shall be performed annually for reconciliation with the perpetual property inventory, in preparation for the closure of the Agency's accounting records in each fiscal year. Any discrepancy in this reconciliation will be properly resolved and reported.

Through discussions with the deputy director, we determined that management has yet to perform an inventory count since its formation. In addition, we could not readily determine when the last inventory counts were performed at the various offices prior to the merger of the individual agencies into the current entity. As a result, we could not determine a dollar value for inventory. In addition, the agency does not have a policy for maintaining an inventory on any assets with a purchase price under \$5,000.

Because no complete agency inventory listing is maintained, there is no way for the management to reasonably or accurately determine what inventory is on hand. If management does not maintain an accurate and complete inventory listing, the agency has no way of knowing if theft or misuse of its assets is occurring.

Recommendation

Management of the Tennessee Community Services Agency should review the pre-merger inventory of each office for accuracy and should combine that information into a comprehensive inventory listing for the statewide agency.

Management's Comment

We concur. As recommended, management has reviewed pre-merger inventory listings. During the process of the review, it was discovered that a variety of reporting techniques and record-keeping procedures had been used resulting in a large number of items remaining on the listing that needed to be surplus. In accordance with policies these surplus inventory items have been presented to the agency board of directors for approval. The listings have been combined into one comprehensive TNCSA statewide inventory listing, and new TNCSA property tags have been attached. Additionally, we have performed inventory counts at each location. Statewide inventory counts will be conducted annually in accordance with policy.

7. The Tennessee Community Services Agency does not have adequate controls over computer access

Finding

The Tennessee Community Services Agency (TNCSA) does not have on file complete documentation pertaining to the request, approval, or removal of computer access, including access to the TennCare and the transportation database. These actions should be properly documented to ensure that the approval was proper. In addition, there are no requirements in the agency's *Policies and Procedures Manual* for the agency to maintain documentation to show when computer access for the various systems is requested, approved, or removed.

According to the TNCSA fiscal director, a standardized form was used prior to the merger to document the request and approval of access to the accounting software. However, the fiscal director was unable to locate the forms completed before the merger. After the merger, the agency prepared new forms to document user access, but the users of the system already had access prior to the dates on the forms. While having a signed form shows that management approved the access, we were unable to determine when access was originally approved, and if the approval occurred before the granting of access.

By not maintaining proper documentation, management risks allowing unauthorized users access to the agency's computer systems. Properly documented approvals are a control over access granted by the database administrator. Documenting proper requests and approvals also mitigates the chances unauthorized persons will gain access to sensitive information and ensures the level of access of each employee is appropriate.

Recommendation

Authorized staff of the TNCSA should ensure that each request, approval, and removal of computer access is properly documented to make certain the approval is proper, and should adopt a formal policy for documenting requests and approvals.

Management's Comment

We concur. The process of merging the individually managed local networks proved to be a challenge for the newly merged entity. Each office had different technology contracts for support, e-mail, etc. Each office operated under differing versions of software and operating systems. Agency management quickly became aware of the need for one individual to be responsible for all system management issues. The agency now has a full time person working on systems and IT issues. Additionally, access to the system is managed by this individual. Supervisors submit an approved computer access form prior to any staff member's user account being established. This form is also used to determine the level of access granted to each individual staff member.

8. Computer access of terminated employees was not canceled in a timely manner

Finding

Access to any and all computer systems should be restricted for terminated employees. The Tennessee Community Services Agency (TNCSA) did not remove or restrict computer access in a timely manner for terminated employees. Restricting access for terminated employees is particularly important to safeguard data.

The agency's *Policies and Procedures Manual* requires the removal or restriction of user access for terminated employees as part of the exit interview process. The agency's *Policies and Procedures Manual*, Personnel 5.16, "Termination," states, "the terminated employee's access to any and all Agency or State electronic information resources and/or systems is terminated as of the employee's separation date through the cancellation of applicable access authorizations, invalidation of access passwords, or such other means necessary to prohibit the terminated employee's subsequent access to computer hardware devices, software programs, and electronic data bases, files, and documents." On various systems we reviewed, we found several active IDs for people no longer employed by the agency.

The TennCare database maintains information regarding client contacts by TNCSA caseworkers for CoverKids and CoverTN. The purpose of the database is to enter and document new or potential clients, to follow up on existing clients, and to report the information to the Department of Finance and Administration. The transportation database is used to coordinate client transportation and bill vendors through Workforce Essentials, based in Clarksville, Tennessee. For the TennCare database, we found that 52 out of 84 active IDs (62%) were for people no longer with the agency. Likewise, for the transportation database, we found that 18 of the 26 active IDs (69%) were for people no longer with the agency. By not taking adequate steps to remove access, the agency risks allowing terminated employees access to sensitive information, which may be used to hurt the agency, its vendors, or its clients.

Recommendation

Management of the Tennessee Community Services Agency should follow its *Policies and Procedures Manual* and ensure that user access for terminated employees is properly removed or restricted in a timely manner.

Management's Comment

We concur. Agency Management developed an IT exit form that is used for each employee upon termination from the agency. This is used to terminate access in a timely manner as well as to determine the appropriate person to whom e-mail should be forwarded. Once again, the staff member added who has responsibility for systems has the responsibility for terminating access to the system.

9. The Tennessee Community Services Agency has not followed written policies and procedures to perform background checks to ensure those with criminal backgrounds are not in a position to harm clients being served by the agency

Finding

Although the Tennessee Community Services Agency (TNCSA) has written policies and procedures addressing the need for criminal background checks, the agency has not followed those procedures to prevent criminals, particularly sex offenders and abusers, from having contact with children and other vulnerable individuals being served. The TNCSA's *Policies and Procedures Manual*, Personnel 5.06, "General Employment Practices," states that all positions that require routine interactions with children or other vulnerable individuals will be mandatorily subject to a criminal background investigation. Furthermore, the policies indicate that the agency may investigate any applicant's or employee's background, regardless of the person's employment duties.

Through discussions with the human resources director, we determined that the TNCSA began performing criminal background checks on all newly hired employees since the agency's state-wide merger in October 2008. During a file review of TNCSA personnel hired after October 1, 2008, and all agency personnel in the CoverKids program, we found that 4 of 41 employees (10%) did not have a criminal background check documented in their personnel file. For three of the four employees, the agency had documentation of the employee registering for the criminal background check; however, the results of the check were not documented. By not verifying criminal histories, the agency could place children or other vulnerable individuals at risk of being harmed by persons convicted of criminal offenses.

Recommendation

Agency management should follow the written policies and procedures and immediately ensure that all employees, especially those having contact with children or other vulnerable individuals, have passed a criminal background check to reduce the likelihood of exposing agency clients to criminal offenders. In addition, agency management should conduct follow-up reviews of employees who have registered for the background check but have not yet provided documentation that the check was performed.

Management's Comment

We concur. Processes and procedures have been implemented to ensure a background check is completed on all employees that are in a position to harm clients being served by the agency. Those include the following:

Effective 10/1/09, a Background Investigation Log form was created, and is used, in order to indicate the name of the employee, program, the date registered for a background check and a check box to indicate whether the results have been received.

Background investigation information for all employees has been entered into People – Trak, which is the software program currently utilized by the human resources director for management of all personnel information. A report has been created and is used to monitor the status of the background check for all newly hired employees. In the event the results of a background check are not received within 10 days of the employee registration, the supervisor is contacted. The only employees not required to have a background check are those working within the SCSEP training program.

RECOMMENDATIONS

ADMINISTRATIVE

The Tennessee Community Services Agency should address the following areas to improve the efficiency and effectiveness of its operations.

1. Management of the TNCSA should reduce expenditures and/or pursue additional sources of revenue, or the TNCSA may be forced to cease operations.
2. TNCSA management should report all losses of state funds to the Comptroller of the Treasury in compliance with statute, should work toward recovery of all lost funds, and should immediately close all accounts with fraudulent activity.
3. The Tennessee Community Services Agency should prepare and submit a written Title VI Implementation Plan by the due date each year.
4. The executive board should meet as required by the policies and procedures of the agency. The governing board should meet annually in February, as required by the agency's policies and procedures, and should approve the annual plan of operations.
5. The Executive Director should ensure that board members submit conflict-of-interest statements annually and in a timely manner.
6. Management should review the pre-merger inventories for each office and incorporate the information into a comprehensive inventory listing for the statewide agency.
7. Authorized staff of the TNCSA should ensure that each request, approval, and removal of computer access is properly documented to make certain the approval is proper, and should adopt a formal policy for documenting requests and approvals.
8. Management of the agency should ensure that user access for terminated employees is properly removed.
9. Agency management should ensure that all employees for whom it is a requirement have passed a criminal background check.

Appendix
Title VI Compliance and Gender and Ethnicity Information

All programs or activities receiving federal financial assistance are prohibited by Title VI of the Civil Rights Act of 1964 from discriminating against participants or clients on the basis of race, color, or national origin. In response to a request from members of the Government Operations Committee, the audit team compiled information concerning efforts of the Tennessee Community Services Agency to comply with Title VI requirements. The results of the information gathered are summarized below. The TNCSA has not had any discrimination complaints in at least the past two years and has a designated Title VI Coordinator. The coordinator has prepared and submitted the Title VI Implementation Plan for 2009 to the Department of Finance and Administration, of whom it is a subrecipient, but submitted the plan on October 28, 2009. This is later than the October 1 statutory deadline.

**Gender and Ethnicity of Tennessee Community Services Agency Staff
November 2009**

<i>Title</i>	Gender		Ethnicity		
	<i>Male</i>	<i>Female</i>	<i>White</i>	<i>Black</i>	<i>Other</i>
Administrative Specialist	16	60	55	21	0
Administrative/Executive Assistant	2	18	16	2	2
Program Specialist	10	50	33	25	2
Customer Services Assistant	2	52	53	0	1
Case Manager	2	11	9	4	0
Independent Support Coordinator	1	6	4	3	0
Program Coordinator	1	2	3	0	0
Program Supervisor	0	8	5	3	0
Program Director	1	5	6	0	0
Fiscal Director	0	1	1	0	0
Human Resources Director	0	1	1	0	0
Deputy Executive Director	2	1	3	0	0
Executive Director	1	0	1	0	0
Total	38	215	190	58	5

Source: Tennessee Community Services Agency staff.