

METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY



February 10, 2010

Don Holmes, Board Chair
Family and Children's Services
201 23rd Ave. North
Nashville, TN 37203

Dear Mr. Holmes:

Please find attached the Monitoring Report of Family and Children's Services relating to the contract it has with the Metropolitan Government of Nashville and Davidson County for the fiscal year ending June 30, 2009.

The Office of Financial Accountability (OFA) is charged with the responsibility of monitoring grant funds, including Community Enhancement Funds (CEF), from Metropolitan Nashville Government to any nonprofit organization. The OFA is also responsible for monitoring the federal and state grants to departments within the Metropolitan Nashville Government. Staff from the OFA concluded the field review on September 21 and a subsequent follow-up on October 26, 2009.

We appreciate the assistance provided by your agency during the course of the review. If you have any questions, please call me at 615-880-1035.

Sincerely,

Fred Adom, CPA
Director

cc: Dr. Raquel Hatter, President and CEO

Richard M. Riebeling, Director of Finance
Talia Lomax-O'dneal, Deputy Director of Finance
Gene Nolan, Deputy Director of Finance
Kim McDoniel, Chief of Accounts
Mark Swann, Internal Audit
Kevin Brown, Office of Financial Accountability
Laura Cowan, Office of Financial Accountability
Brad Thompson, Office of Financial Accountability
Essie Robertson, Office of Financial Accountability



◆ Monitoring Report of ◆

Family and Children's Services



Conducted by



Office of Financial Accountability

February 10, 2010

MONITORING REPORT

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INTRODUCTION

The Office of Financial Accountability (hereinafter referred to as “OFA”) has completed a monitoring review of Family and Children’s Services. A monitoring review is substantially less in scope than an audit. The OFA did not audit the financial statements and, accordingly, does not express an opinion or any assurances regarding the financial statements of the Metropolitan Government of Nashville and Davidson County (hereinafter referred to as “Metro”) or any of its component units. The OFA is responsible for the internal monitoring of Metro agencies that receive federal and state financial assistance, including cooperative agreements and non-profit organizations that receive appropriations and Community Enhancement Funds from Metro government. In summary, any agreement(s) that imposes performance and/or financial requirements on Metro government is subject to review by the OFA.

The purpose of this review was to assess the agency’s compliance with contractual requirements set forth in the following contract with Metro Government:

Contract	Type	Grantor	Amount	Term	Use
L-2143	Community Enhancement Funds (CEF)	Metro Government	\$48,600	July 1, 2008 to July 30, 2009	Salary and Benefits, Supplies & Misc. Operating Expenses

Agency Background

Family and Children’s Services is a private, non-profit entity offering mental health and child welfare services to citizens of Nashville and Davidson County. The agency’s mission is “to strengthen families, children and individuals to achieve self sufficiency, family preservation and emotional well-being”. The agency adheres to a Strength & Systems Based Service philosophy, in which clients are collaborators in their therapy and are understood within the context of their unique life experiences. Family and Children’s Services operates nine programs including Community & Office-Based Counseling, the Crisis Center/ 2-1-1 Help Line, Survivors of Suicide, Family Service Counseling, Trauma Intervention Services, Connecting Kids, Family Resource Center Programs, Davidson County Relative Caregiver Program and School Based Services.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of our review were:

- 1) To determine whether the agency has the resources and capacity to administer the grant funds.
- 2) To determine if costs and services are allowable and eligible.
- 3) To verify that program objectives are being met.
- 4) To test the reliability of the financial and programmatic reporting.
- 5) To verify contractual compliance.

The scope of our review was limited to the contract term July 1, 2008 through June 30, 2009.

Audit procedures included meeting with agency management and staff, reviewing the design of internal controls as a basis for establishing our testwork, reviewing Board minutes and obtaining written representations from management. In addition, we examined certain financial records and supporting documentation necessary to ensure compliance with contractual requirements set forth in Contract L-2143. Specific procedures included:

- Interviewing the employees responsible for grant management, financial reporting, and accountability.
- Reviewing supporting documentation of expenditures for allowability, necessity and reasonableness.
- Reviewing the agency's General Ledger and verifying the accuracy of all invoices submitted to Metro.
- Reviewing documentation to determine that funds were used for intended beneficiaries and expended in accordance with the Spending Plan of the contract.
- Reviewing documentation to support program activities for consistency with grant requirements.
- Assessing the financial stability of the agency and its ability to continue to administer the grant program funded by Metro.

RESULTS OF REVIEW

Summary of Results

Criteria	Yes	No
Agency in Compliance with Contract Requirements?		✓
Sufficient Resources and Capacity to Administer Funds?	✓	
Costs and Services are Allowable, Eligible and Appropriately Accounted for?		✓
Program and Performance Objectives Met?	✓	
Reporting Requirements Met?	✓	
Sufficient Internal Control Environment?		✓
Compliance with Civil Rights Requirements?	✓	

RESULTS OF REVIEW

The overall results of the monitoring review are provided in this section. Results are based on testwork performed and include conclusions regarding specific review objectives and, if applicable, recommendations for improvement and an action plan for implementation. Where applicable, the Findings and Recommendations section of this report provides more insight into any issues identified below.

1. Sufficient Resources and Capacity to Administer Grant Funds

Our review of the agency's accounting system and the qualifications of the individuals assigned to manage the accounting records indicates the agency possesses the necessary resources and professional expertise to effectively administer the grant funds.

2. Allowable and Eligible Costs and Services

Our review covered all of the core compliance areas identified by OMB Circular A- 133: *Audit of States, Local Government, and Non-Profit Organizations*. Based on our testwork, approximately \$700.00 of agency expenses reported to Metropolitan Government of Nashville were accounted for inappropriately. As explained in Finding #1 below, the agency was noncompliant with certain contract stipulations related to allowable and eligible costs and services. First, the agency failed to allocate expenses based on actual costs, but rather allocated expenses based on prior year budgeted costs. This practice essentially provides Family and Children's Services a budgetary "cushion", resulting in an escalating agency Fund Balance over time and increased costs for Metro, as Metro is forced to pay more than 100% of the eligible costs.

Second, the agency failed to maintain adequate supporting documentation for client eligibility. The contract stipulates that the grant funds were to be used to benefit documented residents of Nashville and Davidson County. Because supporting documentation regarding eligibility was inadequate or in some cases nonexistent, we were unable to determine if all of the community enhancement funding was used to benefit residents of Nashville and Davidson County. Finding #2 in the Findings and Recommendation Section provides additional details.

RESULTS OF REVIEW

3. Program and Performance Objectives

The contract stipulates that the Grantee shall use the funds for salary and benefits and other miscellaneous operating expenses to serve at least 83 clients. The contract also states: *“At least 85% of clients served would meet their treatment goals and have reduced trauma symptoms, decreased behavioral problems at home and at school, improved grades and increased ability to manage their reactions and cope with family conflicts”*. Based on our review of program documentation and interviews of staff personnel, these performance objectives have been met and the agency is in compliance with contractual program objectives.

4. Reliability of Financial and Programmatic Reporting

The contract requires submission of an annual audit report performed by a Certified Public Accountant. The contract also requires the agency to submit to Metro year end reports of the program outcome and a final expenditures report no more than 45 days after the close of the contract. We reviewed all applicable financial and programmatic reports required by the contract, including audited financial statements. Based on our review, the agency complied with all financial and programmatic reporting requirements.

5. Internal Control Environment

In order to determine the adequacy of the design of internal controls, we obtained and reviewed an independent auditor’s report on internal control over financial reporting and/or a completed internal control questionnaire. This audit procedure was performed solely as a basis for determining our testwork and to assist us in making suggestions for improvement to management. We did not evaluate the operating effectiveness of internal controls over financial reporting.

We noted certain weaknesses in the agency’s internal control environment. Specifically, we found that Family and Children’s Services does not adequately segregate certain financial activities necessary for effective control over cash receipts. Please see Finding # 3 for additional details.

RESULTS OF REVIEW

6. Civil Rights Requirements

Our review did not reveal anything to indicate that the agency was noncompliant with civil rights requirements. The agency also has necessary written policies and procedures relating to civil rights.

FINDINGS AND RECOMMENDATIONS

1. Inappropriate Allocation of Expenses

The agency failed to allocate expenses based on actual costs, but rather allocated expenses based on prior year budgeted costs, a practice which could provide the agency a budgetary “cushion” to effectively escalate their Fund Balance over time. We found \$7,118 had been inappropriately allocated based on prior year budgeted costs. The following table lists the line items whose allocation was not based on actual cost:

Communication	\$2,580.98
Postage	\$113.00
Occupancy	\$2,900.00
Equipment Rental and Maintenance	\$1,523.90
Total	\$7,117.88

Because budgeted costs are unallowable and ineligible for reimbursements on Metro Grants, we allowed the agency to provide other actual expenditures which they had not previously reported, in order to offset the potential questionable costs. As shown in the following table, Family and Children’s Services provided eligible and allowable costs of \$6418.69. The remaining \$699.19 are ineligible and unallowable because the costs were for rent payments on facilities located in Memphis and Chattanooga, which bear no benefit to the program sponsored by the Metropolitan Government of Nashville.

Line Items	Allocated Amount
Communications	\$501.85
Postage	\$28.14
Occupancy	\$438.45
Equipment rental/maint	\$362.26
Salaries	\$4,240.00
Benefits	\$848.00
Total Allowable	\$6,418.69
Amount Billed to Metro	\$7,117.88
Total Due to Metro	(\$699.19)

FINDINGS AND RECOMMENDATIONS

Recommendation:

Family and Children's Services should take steps to correct this practice immediately. Expenses should be based on actual costs which are allowable and eligible, rather than on prior year costs. In addition, the agency's Board should periodically review grant spending to ensure that all grant funding is properly expended during the contractual period for allowable and eligible costs and services.

Family and Children's Services should resolve the \$699.19 budgeted costs reported for reimbursement with Metropolitan Government of Nashville immediately.

2. Inadequate Support for Client Eligibility

The agency failed to maintain adequate supporting documentation for client eligibility. The contract stipulates that the grant funds are to be used to benefit documented residents of Nashville and Davidson County. Because supporting documentation regarding eligibility was inadequate, we used the referral source as an alternate method of ascertaining residency.

Recommendation:

Family and Children's Services should require proof of residency from clients. Proof of residency, such as a copy of the client's driver's license or utility bill should be maintained on file. Community Enhancement Funding should not be used to benefit clients who are not documented residents of Nashville and Davidson County.

3. Internal Control Environment Needs Improvement

We noted certain weaknesses in the agency's internal control environment. We found that Family and Children's Services does not adequately segregate certain financial activities necessary for effective control over cash receipts. The same employee who prepares the daily Bank Deposit also makes the Bank Deposit and

FINDINGS AND RECOMMENDATIONS

reconciles the Bank Statement. It was noted that bank reconciliations are approved by the Vice President of Finance; however, employees who have access to the accounting system or who are responsible for making bank deposits should not also be allowed to reconcile the agency's monthly bank statements. This is considered an improper segregation of duties. Proper segregation of duties reduces the possibility of an employee both perpetrating and concealing errors or fraud in the normal course of his or her duties.

Recommendation: The agency should segregate the functions of recording cash from reconciling bank statements. If necessary, additional staff should be considered to assure proper segregation of duties. If deemed cost prohibitive, the Board of Directors should engage in more active oversight and participation in regard to certain operational activities, especially those related to cash receipts. This will minimize the current risks posed by the absence of properly segregated internal control activities.

Corrective Action Plan Required

Please submit a corrective action plan indicating the actions the agency intends to take to correct the findings identified in this report. The corrective action plan should be submitted within 30 days from the report date to Tiffy Barnett at the address below:

Tiffy Barnett
Division of Grants Coordination
222 Third Avenue North, Suite 500
Nashville, TN 37201