

BILL PURCELL
MAYOR



METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

DEPARTMENT OF FINANCE
OFFICE OF FINANCIAL ACCOUNTABILITY
222 3RD AVENUE NORTH, SUITE 315
NASHVILLE, TN 37201

May 7, 2004

Mr. B. Riney Green, Board Chair
Tennessee Justice Center
1800 Sun Trust Center
Nashville, Tennessee 37219

Dear Mr. Green:

Please find attached the Monitoring Report for the Tennessee Justice Center. This report provides the results of our review of the Center's grant contract with the Metropolitan Government of Nashville and Davidson County for the fiscal year ending June 30, 2003. The Office of Financial Accountability is responsible for monitoring grant funds from Metro Government to any nonprofit organization that receives grant appropriations. Staff from our office conducted the on-site review on April 24, 2003.

We appreciate your cooperation and the assistance provided us by your agency during the course of the review. We hope you find the results of the review useful for administering grants for the Tennessee Justice Center. If you have any questions, please call me at (615) 880-1035.

Sincerely,

Fred Adom, CPA
Director

cc: David L. Manning, Director of Finance
Gordon Bonnyman, Tennessee Justice Center
Talia Lomax-O'dneal, Assistant Director of Finance
Kim McDoniel, Audit Manager
Mitzi Martin, Chief Accountant
LaShawn N. Barber, Office of Financial Accountability



Metropolitan Government of Nashville and Davidson County

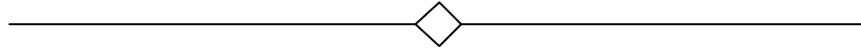
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◆ Monitoring Report of ◆

Tennessee Justice Center



Issued by



Office of Financial Accountability

Fred Adom, CPA
Director

Lead Auditor:
LaShawn Barber

May 7, 2004

Our Vision: To be excellent and proficient in monitoring and management services.

**MONITORING REPORT
FOR THE
TENNESSEE JUSTICE CENTER**

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EXECUTIVE SUMMARY

The Office of Financial Accountability (hereinafter referred to as “OFA”) has completed a monitoring review for the Tennessee Justice Center (hereinafter referred to as “TJC” or “agency”). The OFA conducted its monitoring review along the major compliance areas identified in the Office of Management and Budget (OMB) Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations” and in accordance with Generally Accepted Government Auditing Standards and the Metro Grants Manual of the Metropolitan Government of Nashville and Davidson County (hereinafter referred to as “Metro”).

Overview of the Agency

The Tennessee Justice Center, established in 1996, is a nonprofit organization that provides advocacy for low-income families in civil matters relative to public policy, health, and welfare. These operations include representation in cases involving the TennCare program, technical assistance to government agencies and community organizations regarding legal matters and public policies affecting the poor.

The TJC currently has a legal staff of six (6) attorneys, and four (4) additional administrative or legal staffs. The Managing Attorney serves as the agency’s Executive Director and is responsible for managing the general operations, authorization of revenues and expenses, and oversight of services provided.

TJC requested and received the Metro appropriation to support its advocacy on behalf of Davidson County families. This support encompassed travel expenses incurred in the day-to-day activities such as pick-up for clients and families for legal proceedings and meetings, etc. The grant also allotted funds for postage expenses, which the agency expected to incur for legal matters and for fundraising efforts.

Objectives, Scope, and Methodology

A monitoring review is substantially less in scope than an audit. The OFA did not audit TJC’s financial statements and, accordingly, does not express an opinion or any assurances regarding the financial statements of TJC or Metro. The OFA is responsible for monitoring the direct appropriations awarded by the Metro Council to nonprofit organizations. The OFA is also responsible for monitoring Metro departments that receive Federal and State grants and financial assistance, including cooperative agreements. In summary, any agreement(s) that imposes performance and/or financial requirements on Metro government is subject to review by the OFA.

The monitoring objectives for this review were as follows:

- To determine whether the agency possesses the resources and capacity to administer the grant funds
- To determine if services and costs reported are allowable and eligible
- To determine whether the agency is meeting program objectives
- To determine the reliability of financial reports
- To determine the reliability of internal controls
- To determine contractual compliance

Our review covered the agency’s operations and expenses as of March 31, 2003, while the grant period was from July 1, 2002 through June 30, 2003.

To accomplish the objectives of the monitoring review, the OFA conducted a site visit to review all supporting documentation and to interview key TJC staff. The OFA obtained an understanding of the agency’s operations and records maintained to support the agency’s use of the Metro grant award through interviews and inquiries, physical inspection of accounting records and supporting documentation, and observation of operations and controls in place.

Monitoring Review Highlights

Our review revealed a serious discrepancy in the financial accounting of funds for the TJC. Specifically, we found that the agency could not quantify the total actual expenses related to the Metro grant award. The “Findings and Recommendations” section provides more detailed information for this issue.

EXECUTIVE SUMMARY

The “Results of Monitoring” section that follows provides an overview of these issues and a discussion of the overall results of the tests and analyses conducted to meet our review objectives.

RESULTS OF MONITORING

The overall results of the monitoring review for the TJC are provided in this section. These results are based on tests performed and include conclusions regarding the specific review objectives and, if applicable, recommendations for improvement.

1. Resources and capacity to administer the grant funds

Our review of the agency's accounting system, the qualifications of the individuals assigned to manage the accounting records, and observation of the procedures in place indicate that the TJC indeed has the necessary resources and ability to administer the Metro grant funds. We found that the agency uses the Quicken accounting software to record financial transactions. We also noted that the Office Manager serves as the agency's accountant and adequately performs the agency's fiscal functions, while working closely with the agency's Managing Attorney and an external accounting firm. According to the minutes for the Board of Directors meetings from July 1, 2002 through March 31, 2003, the TJC appears to have close Board oversight and active Board participation.

Further, the agency appears to have the necessary capacity to administer the grant funds. We noted that the TJC had a positive fund balance and appears to be sufficiently solvent, based on our review of the TJC's audited financial statements for the years ending December 31, 2001 and 2000.

2. Allowable and eligible services and costs

The contract between Metro and the TJC for the period ending June 30, 2003 was for postage and travel costs. To determine whether the Metro funds had indeed been used for these specific purposes, we requested a listing of postage/shipping and travel expenses. Once provided, we determined the list was not all-inclusive; all postage and travel expenses were not captured in those specific 'accounts'. This is discussed further in #4 below.

We expanded our scope to include all of TJC's expenses as of March 31, 2003 and tested a sample of all expenses recorded as of March 31, 2003. We found that the costs incurred appear to comply with all applicable guidelines, including OMB Circulars A-122 and A-133 and the Metro Grants Manual.

3. Program objectives

Based on the auditor's observations of the agency's operations and the related program reports, no discrepancy was noted. The contract between Metro and TJC, for the year ended June 30, 2003, was provided to support the advocacy efforts of the agency.

4. Reliability of financial and programmatic reporting

In accordance with the Metro Grants Manual, Chapter 2, Metro paid the \$11,000 appropriation to TJC in one lump sum. The TJC submitted only one report to Metro Finance to claim the funds in December 2002; therefore we conducted no detailed testing for the report. The OFA requested the total amount spent against the grant award for each line item as of March 31, 2003. The amounts provided by the TJC did not agree with the report provide us out of the Quicken program.

Per the Metro Grants Manual, the accounting system used by Metro grant recipients must avoid the commingling of Metro funds with other sources of funding. We found the agency separately accounts for grant revenues received from Metro, however, the grant-related expenses are intermingled with the agency's general operating expenses. Furthermore, we experienced difficulty in quantifying the total amount of postage and travel expenses as of our review date. This is discussed further in the Findings and Recommendations section of this report.

RESULTS OF MONITORING

Per the Metro contract, the TJC is required to submit a final expenditure report and a final program report within 45 days of the close of the grant period. Since the grant period had not closed as of our review date, the DGM could not determine compliance with these reporting requirements; a review of the agency's compliance with this requirement will be reviewed at another time.

We reviewed the most recent annual report, which explains the year's programmatic accomplishments. In addition to the Annual Report, we also reviewed a performance report on the agency's 2002 Work Plan and self-assessment reports required for other private grantors. No problems were noted with either of these program reports.

5. Reliability of internal controls.

Overall, we found that the agency's operations are smooth and well managed. The agency has established some segregation of duties and the appropriate approval processes are in place. The Managing Attorney regularly reviews the accounting records and an external accounting firm conducts an annual audit of the fiscal records. A more in-depth review of the TJC's revealed some weaknesses in internal controls:

- The TJC needs increased controls over its cash receipts. The agency does not maintain a log to document all funds received. The risk of fraud is heightened without such documentation although agency management, through review of Quicken records, and the payer might eventually notice that funds were misappropriated. **The TJC should increase the controls by developing a log that documents all monies received on a daily basis.**
- Fiscal responsibilities need further segregation of duties. According to TJC, the Office Manager is responsible for all phases of bank activity, including receiving the bank statement (opening), preparing the bank deposit, physically depositing funds, and preparing the bank reconciliations. The same individual also serves as the agency's bookkeeper, responsible for recording all accounting transactions, and is the sole reviewer of payroll records (payroll is processed by an outside vendor). Per the Metro Grants Manual, Chapter 4, the agency should "take the necessary measures to ensure that no one employee has complete control of any process from beginning to end." As noted above, agency management would eventually detect fraudulent activity through the 'periodic review' of Quicken records, but **the TJC should delegate some of the above duties to staff other than the Office Manager to reduce the risk.**

6. Contractual compliance.

Overall, the OFA found the agency in compliance with the contract requirements. The purpose of the Metro grant was to provide advocacy services in civil legal matters on behalf of Davidson County families. The TJC has complied with this scope of services, based on our inquiry and review of programmatic reports. The Metro contract requires compliance with civil rights regulations and further requires the agency to show proof and post notices of nondiscrimination. The OFA noted no specific instances of noncompliance with these contractual requirements. We identified the necessary postings at the agency and observed the agency's employee manual, which both includes nondiscrimination and harassment policies.

FINDINGS, RECOMMENDATIONS AND MANAGEMENT'S COMMENTS

Based on the OFA's review of the TJC's operations, it appears the agency is not fully complying with the established grant guidelines. We have determined the following deficiency was significant and should be reported as a finding.

1. **The agency could not adequately quantify the total grant expenditures.**

FINDING

Based on a review of the agency's accounting records, it appears the agency is unable to adequately quantify the total amount spent for specific cost categories. During testing, the auditor requested the total amount spent for both the "postage" and the "travel" grant line item, in addition to the agency's Cash Flow Report and Check register. The Office Manager provided an amount, which the auditor could not verify in either report provided as of March 31, 2003. Upon inquiry, the agency emphasized that the actual expenses for travel and postage could indeed be different because case-related administrative expenses are often recorded as "Litigation Expense" rather than in the specific line item. According to TJC staff, the only way to isolate the specific expenses for postage and travel that are recorded in Litigation Expense would be to review every piece of documentation and categorize them by expense.

The following table shows the difference in the actual expenses as of March 31, 2001, as identified by the auditor in the Cash Flow Report and the Check Register, and the total actual expenses as provided by the agency:

Line Item	Grant Budget	Actual Expenses (Per Cash Flow Rpt)	Actual Expenses (Per Check Register)	Actual Expenses (Per TJC)
Postage & Shipping	\$ 6,000	\$ 3,426.79	\$ 3,540.28	\$ 4,103.49
Travel/Conferences & Meetings	\$ 5,000	\$ 502.88	\$557.54	\$ 1,955.95
Total	\$ 11,000	\$3,929.67	\$4,097.82	\$6,059.44

Our review of the Cash Flow Report shows that almost \$85,000 had been recorded as "Litigation Expense" as of March 31, 2003. Per TJC staff, much of that would most likely qualify as a postage or travel expense and could be counted against the Metro grant.

According to the Metro Grants Manual, Chapter 3 "Standards for Financial Management", all Metro grant recipients must use an accounting system that allow for expenditures to be "identified by the grant and classified by the budget categories in the grant contract." The Manual further states, "expense categories must be consistent with expenditure classifications to provide for actual-to-budget comparisons." Without the ability to adequately quantify the total expenses for any cost category limits the agency's ability to monitor spending and ensure compliance with Metro grant guidelines.

RECOMMENDATION

TJC management should ensure that the agency is able to clearly demonstrate, at any time, the total amount spent for various cost categories. At a minimum, the agency should consider implementing a more definitive procedure for recording and identifying expenses related to the Metro grant such as the following:

- **Recording costs related to the Metro grant in a special 'grant cost' category**
- **Clearly referencing costs related to the Metro grant in the accounting system as grant expenses**
- **Maintaining supporting documentation for Metro grant costs in a separate file**