DEPARTMENT OF HEALTH & HUMAN SERVICES OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20201

January 25, 2011

**TO:** Yolanda J. Butler, Ph.D.
Acting Director
Office of Community Services
Administration for Children and Families

**FROM:** /Lori S. Pilcher/
Assistant Inspector General for Grants, Internal Activities, and Information Technology Audits

**SUBJECT:** Results of Limited Scope Review at Tri-County Community Council, Inc. (A-04-10-01085)

The attached final report provides the results of our limited scope review at Tri-County Community Council, Inc. In accordance with the Recovery Act, the Office of Inspector General (OIG) will provide oversight of covered funds to prevent fraud, waste, and abuse.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://oig.hhs.gov.

Please send us your final management decision, including any action plan, as appropriate, within 6 months. If you have any questions or comments about this report, please do not hesitate to contact me at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov. Please refer to report number A-04-10-01085 in all correspondence.

Attachment

Department of Health & Human Services

**OFFICE OF INSPECTOR GENERAL**

# RESULTS OF LIMITED SCOPE REVIEW AT TRI-COUNTY COMMUNITY COUNCIL, INC.

Daniel R. Levinson
Inspector General

January 2011
A-04-10-01085

# *Office of Inspector General*

http://oig.hhs.gov

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health & Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

## *Office of Audit Services*

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

## *Office of Evaluation and Inspections*

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

## *Office of Investigations*

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

## *Office of Counsel to the Inspector General*

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

# *Notices*

**THIS REPORT IS AVAILABLE TO THE PUBLIC**
at http://oig.hhs.gov

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

**OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

## EXECUTIVE SUMMARY

### BACKGROUND

The Community Services Block Grant (CSBG) program was authorized by the Community Opportunities, Accountability, and Training and Educational Services Act of 1998, P.L. No. 105-285 (the CSBG Act), to provide funds to alleviate poverty in communities. Within the U.S. Department of Health & Human Services, the Administration for Children and Families (ACF), Office of Community Services administers the CSBG program. The CSBG program funds a State-administered network of more than 1,000 local Community Action Agencies (CAAs) that create, coordinate, and deliver programs and services to low-income Americans. The CAAs provide services and activities addressing employment, education, housing, nutrition, emergency services, health, and better use of available income. The CSBG program awarded $620 million in fiscal year (FY) 2007 and $643 million in FY 2008.

The American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, provided an additional $1 billion to ACF for the CSBG program. CSBG Recovery Act funds are distributed to CAAs using the existing statutory formula.

Florida's Department of Community Affairs (DCA) acts as the lead agency for purposes of carrying out State activities for the CSBG program. DCA is responsible for approving the State's CAA Recovery Act grant applications and monitoring the CAAs for compliance with program regulations. DCA was awarded with an additional $29,060,460 in Recovery Act funds for the State of Florida's CSBG program.

Tri-County Community Council, Inc. (the Agency), a private, nonprofit organization, provides services to households throughout Bay, Holmes, Jackson, Okaloosa, Santa Rosa, Walton, and Washington counties in Florida. During FY 2009, DCA awarded the Agency $471,959 in CSBG grant funds and a Recovery Act grant award totaling $1,028,570. For FY 2009, the Agency received total Federal grant awards of $4,880,075.

### OBJECTIVE

Our objective was to assess the Agency's financial viability, capacity to manage and account for Federal funds, and capability to operate the CSBG programs in accordance with Federal regulations.

### SUMMARY OF FINDINGS

Based on our assessment, the Agency is financially viable, and its accounting system can segregate costs for various Federal programs. However, the Board has not provided the Agency with the oversight required by law and instead, has granted the Executive Director autonomy in operating the agency. We also noted weaknesses involving inadequate safeguarding of Federal funds, outdated or ineffective policies and procedures, a lack of documentation of inventory oversight, and an inability to fully expend funds. As a result, the risk for mismanagement of

Federal funds has increased and the Agency's capability to operate the CSBG program in accordance with Federal regulations may be impaired.

**RECOMMENDATION**

We recommend that DCA consider the information presented in this report in assessing the Agency's ability to operate the CSBG program in accordance with Federal regulations.

**AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

The Agency noted corrective actions it had taken in regard to the lack of Board participation, conflict of interest and procurement policy, lack of documentation of inventory oversight, and inability to fully expend funds. Furthermore, it agreed that the CSBG policies and procedures were in need of updating.

The Agency stated that it had never used signature stamps on contracts. In response to Agency comments, we removed the word "contracts" from the report. However, we observed contracts executed by the Executive Director or another employee of the Agency. These did not contain Board member signatures. The Agency stated that when the Executive Director signs contracts, an original resolution from the Board authorizing the Executive Director to execute contracts on its behalf would be provided. However, the minutes did not include this requirement. Therefore, we maintain that the Executive Director may affix signatures of Board members to checks via rubber stamp, and that the Executive Director may enter into contracts on behalf of the Board.

The Agency stated that its bank accounts were Trust Sweep/Public Funds net interest checking accounts. The documentation provided states that deposits are insured by the FDIC to the maximum amount required by law, which we used in calculating the Agency's insurance coverage. Accordingly, we maintain that our finding is valid.

The complete text of the Agency's comments is included as the Appendix.

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## TABLE OF CONTENTS

# INTRODUCTION

## BACKGROUND

### Community Services Block Grant Program

The Community Services Block Grant (CSBG) program was authorized by the Community Opportunities, Accountability, and Training and Educational Services Act of 1998, P.L. No. 105-285 (the CSBG Act), to provide funds to alleviate poverty in communities. Within the U.S. Department of Health & Human Services, the Administration for Children and Families (ACF), Office of Community Services administers the CSBG program. The CSBG program funds a State-administered network of more than 1,000 local Community Action Agencies (CAAs) that create, coordinate, and deliver programs and services to low-income Americans. The CAAs provide services and activities addressing employment, education, housing, nutrition, emergency services, health, and better use of available income. The CSBG program awarded $620 million in fiscal year (FY) 2007 and $643 million in FY 2008.

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### Tri-County Community Council, Inc.

Tri-County Community Council, Inc. (the Agency), a private, nonprofit organization, provides services to households throughout Bay, Holmes, Jackson, Okaloosa, Santa Rosa, Walton, and Washington counties in Florida. During FY 2009, DCA awarded the Agency $471,959 in CSBG grant funds and a Recovery Act grant award totaling $1,028,570.[1] For FY 2009, the Agency received total Federal grant awards of $4,880,075.

### Requirements for Federal Grantees

Pursuant to 45 CFR part 74, grantees of Federal awards must implement written accounting policies and procedures and maintain financial systems that provide for accurate and complete

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[1] DCA executed the Agency's CSBG-ARRA contract for $774,556 on August 31, 2009. On June 10, 2010, the Agency received an additional $254,014 for Bay County CSBG-ARRA, bringing the total grant award to $1,028,570.

reporting of grant related financial data, effective control over grant funds, and allocation of costs to all benefitting programs. In addition, grantees must establish written procurement procedures. Grantees are also required to maintain inventory control systems and take periodic physical inventory of grant-related equipment. In addition, pursuant to 45 CFR § 74.27, the allowability of costs incurred by nonprofit organizations is determined in accordance with the provisions of Office of Management and Budget Circular A-122, *Cost Principles for Nonprofit Organizations*. The CSBG Act establishes the CSBG program and sets the requirements and guidelines for CSBG funds.

## OBJECTIVE, SCOPE, AND METHODOLOGY

### Objective

Our objective was to assess the Agency's financial viability, capacity to manage and account for Federal funds, and capability to operate the CSBG programs in accordance with Federal regulations.

### Scope

We conducted a limited review of the Agency's financial viability, financial management system, and related policies and procedures. Therefore, we did not perform an overall assessment of the Agency's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objectives. Our review period was October 1, 2006, through June 30, 2010.

We performed our fieldwork at the Agency's administrative office in Bonifay, Florida, during July 2010.

### Methodology

To accomplish our objective, we:

- confirmed that the Agency is not excluded from receiving Federal funds;
- reviewed relevant Federal laws, regulations, and guidance;
- reviewed the Agency's application and implementation of the grant awards for the Recovery Act funding;
- reviewed the Agency's audited financial statements and supporting documentation for the period of October 1, 2006, through September 30, 2009;
- reviewed the findings related to the most recent State review;
- reviewed the Agency's policies and procedures, the CSBG Act, and ACF Information

Memorandum 112;

- reviewed the Agency's bylaws, minutes from the Board of Directors' meetings, composition of the Board, and organizational chart; and

- performed audit steps to assess the adequacy of the Agency's current financial systems.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those 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 objective.

## FINDINGS AND RECOMMENDATION

Based on our assessment, the Agency is financially viable, and its accounting system can segregate costs for various Federal programs. However, the Board has not provided the Agency with the oversight required by law, and, instead, has granted the Executive Director autonomy in operating the Agency. We also noted weaknesses involving inadequate safeguarding of Federal funds, outdated or ineffective policies and procedures, a lack of documentation of inventory oversight, and an inability to fully expend funds. As a result, the risk for mismanagement of Federal funds has increased and the Agency's capability to operate the CSBG program in accordance with Federal regulations may be impaired.

### AUTONOMY OF EXECUTIVE DIRECTOR

The Board abdicated its responsibilities for directing the agency by granting the Executive Director autonomy in operating the Agency. The Board authorized the Executive Director to enter into contracts on its behalf and to affix signatures of Board members to checks via rubber stamp. As a result, any segregation of duties was eliminated, and the risk for mismanagement of Federal funds increased.

#### Lack of Participation by the Board of Directors

Section 676B of the CSBG Act requires that all agencies administer the CSBG program through a tripartite board that fully participates in developing, planning, implementing, and evaluating the CSBG program. The Agency's by-laws state that "[t]he governing body of the corporation shall be its Board of Directors…. When present, the Chairperson shall preside at all meetings of the Board. He/she may sign with the Treasurer and/or Executive Director, any contract, check, agreement, or other instrument which the Board has authorized."

The Board abdicated its responsibilities for directing the activities of the Agency and its Executive Director by authorizing the Executive Director to enter into contracts on its behalf during the January 14, 2010, meeting.

Minutes from the Board of Directors' meetings provide additional evidence that the Board does not fully participate in developing, planning, implementing, and evaluating the CSBG program. In three instances, the minutes included a statement that the CSBG Quarterly Report was provided to the Board for review; however, minutes noted no specific comments or concerns regarding that report. In a fourth instance, the minutes did not include a CSBG Report section.

### Checks Signed with Rubber Stamps

The Agency used rubber stamps of Board members' signatures to sign checks. The Agency policy for signing checks provided that, in the absence of the Board Liaison (who is to safeguard the rubber stamps), the Executive Director shall authorize the administrative assistant to stamp checks:

> Checks along with supporting documents are submitted to the Finance Officer for review of accuracy and then submitted to the Executive Director for review and signature. A copy of the check register shall be faxed to the Treasurer, Chairman and/or Vice Chair for approval to use authorized signature stamp(s). The Board Liaison shall be the custodian of the signature stamps. Checks shall be stamped with appropriate signature stamp after receipt of at least one signed authorization form. In the absence of the Board Liaison, the Executive Director shall authorize the Administrative Assistant to stamp checks.

### Increased Risk for Mismanagement of Federal Funds

Therefore, the Executive Director had the ability to control grant funds without the Board oversight required by law. Without a Board Chairperson or Board Member's signature on contracts and checks, there is no evidence that the Board has authorized expenditures, and the Board is limiting its governing authority over the Agency. This ability of the Executive Director to control grant funds without Board oversight potentially exposes Board members to liability issues.

## INADEQUATE SAFEGUARDING OF FEDERAL FUNDS

Pursuant to 45 CFR § 74.22(i)(2), grantees are required to deposit and maintain advances of Federal funds in insured accounts whenever possible. Federal Deposit Insurance Corporation (FDIC) policy states that deposits owned by a corporation, partnership, or unincorporated association are insured up to $250,000 at a single bank.

The Agency has approximately $3.8 million in cash or money market funds in different accounts with one bank and its sister investment company. The Agency is insured for only $500,000 of these funds. In the event of a bank failure, the Agency could lose all of its uninsured funds.

## OUTDATED OR INEFFECTIVE POLICIES AND PROCEDURES

### Community Services Block Grant

Title II of the CSBG Act requires States that receive grant funds to establish fiscal control and fund accounting procedures necessary to ensure the proper disbursal of and accounting for Federal funds paid to the State, ensure that cost and accounting standards of the Office of Management and Budget apply to a recipient of the funds, and have an audit of the expenditures of the State and of grant amounts received. In accordance with the Act, ACF Information Memorandum 112 states that risk assessments should contain current and clearly stated administrative, fiscal, and programmatic policies and operating procedures in accordance with the CSBG statute.

We requested but did not receive a copy of the Agency's Recovery Act CSBG policies and procedures. The Community Resource Director stated that the Agency used the same policy for both the regular and Recovery Act CSBG programs and that the policy was outdated. Outdated or ineffective policies and procedures could lead to improper use of program funds and could impair the Agency's capability to operate the CSBG program in accordance with Federal regulations.

### Conflict of Interest

Pursuant to 45 CFR part 74, grantees of Federal awards must implement written accounting policies and procedures that include specific procurement provisions. Among other requirements, it specifies that: "Awards shall be made to the bidder or offeror whose bid or offer is responsive to the solicitation and is most advantageous to the recipient, price, quality and other factors considered." Further, per the HHS Grants Policy Statement:

> HHS requires recipients to establish safeguards to prevent employees, consultants, members of governing bodies, and others who may be involved in grant-supported activities from using their positions for purposes that are, or give the appearance of being, motivated by a desire for private financial gain for themselves or others, such as those with whom they have family, business, or other ties. These safeguards must be reflected in written standards of conduct.

The Agency's *Financial Policies and Procedures Manual* did not address the provisions set forth in 45 CFR part 74, including the requirements upon which the purchasing decisions are to be made, and did not adequately address conflicts of interest. Section IV(E) states that "purchasers shall endeavor to obtain a full and open competition on all procurement transactions by avoiding conflicts of interest."

Without effective policies and procedures, the Agency could enter into conflict of interest situations in the procurement of goods and services.

## LACK OF DOCUMENTATION OF INVENTORY OVERSIGHT

The Agency's *Financial Policies and Procedures Manual*, Section XIV(A) states that "[t]he Executive Director shall review the inventory and sign the documentation."

However, the Agency's Executive Director had signed only one of the five inventory documents we reviewed. There is no segregation of duties between the person performing the physical inventory and the person preparing inventory lists. Without the Executive Director's oversight and without the segregation of duties, the likelihood of inventory errors is increased. The Agency's inventory is valued at $1.4 million.

## INABILITY TO FULLY EXPEND FUNDS

Pursuant to the Recovery Act, the period of funds availability ends September 30, 2010. If CSBG Recovery Act funds are not spent by September 30, 2010, funds must be returned to DCA, and intended recipients may not receive the services as envisioned in the Recovery Act.

At the time of our fieldwork, the Agency had expended $363,575, or 35 percent, of the awarded funds. The Community Resource Director stated that the 3-month delay in the execution of the contract and the late funding for Bay County made it difficult to expend all of the funds in the given period.

The Agency has adequate controls to assure unexpended funds are returned to the State.

## RECOMMENDATION

We recommend that DCA consider the information presented in this report in assessing the Agency's ability to operate the CSBG program in accordance with Federal regulations.

## AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

The Agency noted corrective actions it had taken in regard to the lack of Board participation, conflict of interest and procurement policy, lack of documentation of inventory oversight, and inability to fully expend funds. Furthermore, it agreed that the CSBG policies and procedures were in need of updating.

The Agency stated that it had never used signature stamps on contracts. In response to Agency comments, we removed the word "contracts" from the report. However, we observed contracts executed by the Executive Director or another employee of the Agency. These did not contain Board member signatures. The Agency stated that when the Executive Director signs contracts, an original resolution from the Board authorizing the Executive Director to execute contracts on its behalf would be provided. However, the minutes did not include this requirement. Therefore, we maintain that the Executive Director may affix signatures of Board members to checks via rubber stamp, and that the Executive Director may enter into contracts on behalf of the Board.

The Agency stated that its bank accounts were Trust Sweep/Public Funds net interest checking accounts. The documentation provided states that deposits are insured by the FDIC to the maximum amount required by law, which we used in calculating the Agency’s insurance coverage. Accordingly, we maintain that our finding is valid.

The complete text of the Agency’s comments is included as the Appendix.

# APPENDIX

# APPENDIX: TRI-COUNTY COMMUNITY COUNCIL, INC COMMENTS

**TRI-COUNTY COMMUNITY COUNCIL, INC.**
**302 North Oklahoma Street**
**Bonifay, FL 32425**

Report Number: A-04-10-01085
Response to Findings and Recommendations
December 01, 2010

AUTONOMY OF EXECUTIVE DIRECTOR:

Signature stamps have never been used for contracts. The Board Chair *or* the Executive Director sign contracts, in which case an original Board Resolution from the board authorizing the Executive Director to execute contracts on their behalf would also be provided.

Grants to be applied for are included on the agenda and are approved by the Board at regular meetings.

Lack of Participation by the Board of Directors:

The Board Chair appointed all board members to serve on a committee during the August 2010 meeting in an effort to prompt the members to be more involved. These committees are: Personnel; Finance; Programs; Head Start; and Board Development. There have been noted improvement in the involvement of the Board and both board and staff will strive to improve and expand the board's involvement and expand the minutes to include more comments from the board.

Checks Signed with Rubber Stamps:

Currently the Check Register is reviewed by the authorized signers and only when a signed authorization form is received are the stamps utilized. This is consistent with the current Board Policy - see Attachment #1 from the policy. This policy has been in place since the mid 1990's.

Increased Risk for Mismanagement of Federal Funds:

The above issues will be addressed with the Board.

INADEQUATE SAFEGUARDING OF FEDERAL FUNDS:

Tri-County Community Council's Regions Bank accounts are Trust Sweep/Public Funds net interest checking accounts. Our Regions representative assures us that our accounts are fully safeguarded by the attached Regions Pledging of Collateral policy. See Attachment #2.

OUTDATED OR INEFFECTIVE POLICIES AND PROCEDURES:

Community Services Block Grant:

CSBG Program policy & procedures were in need of updating. Some staff members had changed and the maximum amounts allowed per service had changed. Staff were given copies of current work plans and budget detail so they were aware of the maximum amounts for expenditures in both CSBG and CSBG ARRA grants although the policies and procedures had not been updated.

Conflict of Interest:

The Conflict of Interest is addressed in both the Personnel Policies & Procedures and the Board Policy. See Attachment #3. However, the Financial Polices and Procedures Manual will be updated to include Conflict of Interest and the Procurement Policy will be expanded to include the requirements addressed.

LACK OF DOCUMENTATION OF INVENTORY OVERSIGHT:

While performing the physical inventory review at 9/30/2009 the Property Officer was accompanied by the Fiscal Assistant who was training to perform the inventory. Prior to that time, we had a limited staff of 3 and the Property Officer was responsible for maintaining the inventory list and had limited help in doing the physical inventory check. The agency's Financial Policies and Procedures Manual will be updated to include the procedures we are currently following where the Property Officer is responsible for maintaining the inventory list and the Fiscal Assistant does the physical count of inventory. We will also be more diligent to include the Executive Director

INABILITY TO FULLY EXPEND FUNDS:

Agency received the MOD to the CSBG Contract to include Bay County on June 16, 2010. It took until July 2010 to secure office space, fully staff the office, and start serving clients. All CSBG ARRA funds were spent. All of the regular CSBG funds for the fiscal year were not spent but the unspent amount falls within the 20% that is allowable to carry forward into new fiscal year.

ATTACHMENT # 1

From the Board Policies

**<u>Organizational Finance</u>**

**Signing checks**

Authorized signatories for all general fund accounts must include two of the following: president of the board, treasurer of the board, other board members designated as signatories by the board, and the executive.

The executive may authorize the use of a signature stamp for checks. The signature stamp will contain the facsimile signatures of authorized signatories.

It is the responsibility of the executive director to ensure that signatures can be gained from appropriate signatories so that payment can be made on obligation of Tri-County Community Council, Inc. It is also the responsibility of the executive to ensure that adequate controls and safeguards have been established to ensure disbursement of funds only for proper purposes.

It is the responsibility of all check signers to ensure that there is adequate documentation consistent with good internal controls, for valid payment of checks they sign.

**Use of credit cards**

The executive will authorize those staff members the use of the agency credit card. Credit cards will only be used for appropriate agency business, and all uses will be appropriately documented. Agency credit card will not be used for personal expenditures.

**Investment plans**

Funds not required for current operations will be invested according to an investment plan approved and revised annually by the board.

Investments must be government-secured and guaranteed. Investments may be made at the discretion of the executive within the plan adopted by the board, with the exception of any investments in securities with a maturity of more than one year which must have the prior approval of the board.

The executive will report the board the status of investments.

**Executive limitation**

The executive director may not risk financial losses to the agency beyond those that may occur in the normal course of business. The

ATTACHMENT # 2

Regions Financial Corporation Pledging of Collateral

REGIONS

Regions Financial Corporation
Pledging of Collateral

The following security types are used by Regions to pledge against Public Fund deposits or Repurchase Agreement sweep transactions. All securities used are part of the Regions investment portfolio. The following security descriptions are taken directly from the Regions investment policy. The policy is approved by the Corporate ALCO committee and the Board of Directors.

**U.S. Government and Government Sponsored Entity Debt**

- Non Callable U.S. Government and Agency Securities – Full faith and credit obligations of the United States Government and its sponsored agencies up to a remaining maturity of 30 years.

- Callable and Structured Agency Securities – Debt securities issued by a federal agency or federally sponsored agency that contain "embedded options" up to a maturity of ten years.

**Mortgage-Backed Securities***

- Agency Mortgage-Backed Securities – Mortgage pass-through securities guaranteed by a federal agency.

- Bonds – Securities issued by Freddie Mac and Fannie Mae, government sponsored enterprises, that continue to maintain high credit ratings with added protection and support offered by the United States Treasury. Additionally, recent Congressional action with the passage of the Housing and Economic Recovery Act demonstrates the United States government will use all means available to ensure these entities remain solvent and well capitalized (July 24, 2008).

Additionally, some Public Funds clients may have the following collateral type pledged against their deposits if it is allowable under their investment policy or under the policies of the state collateral pool to which they belong. Collateral types and methods of pledging are generally agreed to when Regions responds to the client's RFP.

- Agency CMO/REMIC Securities – Agency CMO/REMIC securities with an expected average life less than 10 years.

*Agency Securities include those from Government Sponsored Enterprises (Freddie Mac & Fannie Mae) that issue their own debt. Treasury Securities include Treasury bills, notes and bonds.

# Regions ... Strength and Stability

**Strength and Stability:** Two of the many reasons there has never been a better time to bank with Regions — or switch to Regions. In times like these, you want to make sure you have a financial service provider you can trust, and we are committed to being part of the solution to restore the vitality of the financial services industry.

Regions takes a conservative approach to banking with integrity and transparency, strong customer relationships with over 8.9 million customers across 16 states, a strong balance sheet, diversified revenue streams across multiple product lines, strong credit and risk management and ongoing investment for future growth.

## Fast Facts About **Regions**

- Customers can be confident their **deposits are safe with Regions Bank.** Regions' strength means stability for customers, and deposits are insured by the FDIC to the maximum amount allowed by law.
- Tracing its history to 1856, Regions Bank has a **long track record of stability.**
- As supported by most recent FDIC deposit data, Regions has **gained market share** in virtually all our major markets, with increased share in 15 of the 16 states where we operate.
- **Customer service and loyalty levels are the highest** in our company's history. In the first half of 2010, Regions opened approximately 488,000 new business and consumer checking accounts.
- The Small Business Administration ranked **Regions the #3 small business lender in the country** in its 2009 lending study, and **Regions booked $6.9 billion in 2009 and $1.6 billion in Q1 2010** in new and renewed loan commitments to small businesses.
- Regions has **minimal subprime mortgage exposure (0.1% of the loan portfolio), no structured investment vehicles, no collateralized debt obligations and no credit card loans.**
- Regions ranks **highest in customer satisfaction among primary mortgage servicing companies,** according to a 2009 nationwide study by J.D. Power and Associates.
- Regions' mission is to make life better, and Regions' basic values are to **"put people first, do what is right, reach higher, focus on your customer and enjoy life."**
- Regions **creates value for customers** by offering an easier way to bank and the expertise and personal service they deserve.

## Market Share Gain

| State | Deposits ($B) | % of Total | Mkt. Share | Rank |
|---|---|---|---|---|
| AL | 18.9 | 20% | 23% ↑ | 1 |
| FL | 17.4 | 19% | 4% ↑ | 4 |
| TN | 17.3 | 18% | 16% ↑ | 1 |
| LA | 7.3 | 8% | 9% | 3 |
| MS | 7.0 | 7% | 16% ↑ | 1 |
| GA | 6.4 | 7% | 4% ↑ | 6 |
| AR | 4.6 | 5% | 9% ↑ | 2 |
| TX | 3.7 | 4% | 1% ↑ | 16 ↑ |
| IL | 2.7 | 3% | 1% ↑ | 24 ↑ |
| MO | 2.5 | 3% | 2% ↑ | 9 ↑ |
| IN | 2.4 | 3% | 3% ↑ | 9 |
| Other | 3.5 | 4% | – | – |

Note: Based on June 30, 2009, FDIC data per SNL. Adjusted for brokered deposits in Mississippi and Georgia.

***With $135 billion in assets, Regions is one of the nation's largest full-service providers of consumer and commercial banking.***

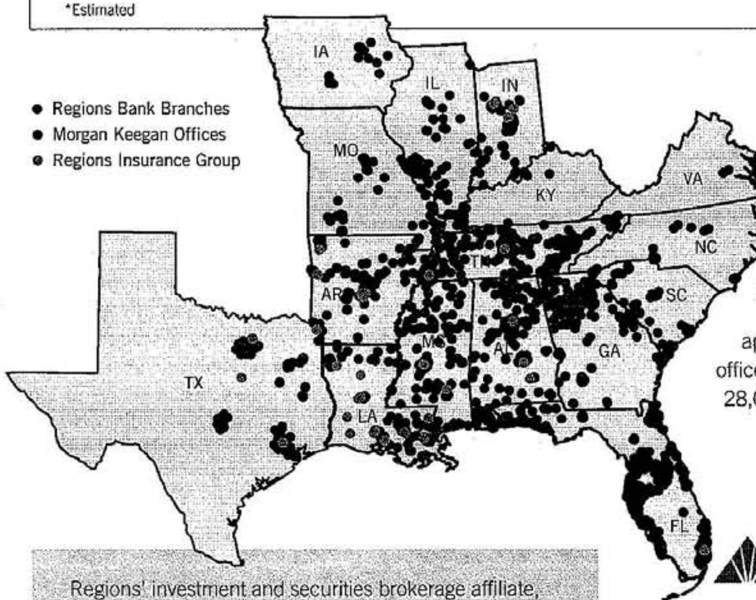
REGIONS

| Industry Challenges | Regions |
|---|---|
| **High-Risk Mortgages** | **Conservative underwriting:** Regions maintains a consistent, disciplined lending philosophy with prudent loan underwriting. Regions does not offer Pay Option Adjustable Rate Mortgages, products designed for negative amortization, or products that offer below market introductory rates (teaser rates). |
| **SIVs and CDOs** | **None:** Regions has a straight-forward balance sheet. We do not have any Structured Investment Vehicles (SIVs) or Collateralized Debt Obligations (CDOs). |
| **Subprime Mortgages** | **Solid portfolio:** Regions has a solid mortgage portfolio and only 0.1% are subprime loans. |

| Regions: Well-Capitalized | 2Q10* RF | "Well-Capitalized" Requirements |
|---|---|---|
| Tier 1 Capital Ratio | 12% | 6.0% |
| Total Risk-based Capital Ratio | 15.9% | 10.0% |

*Estimated

**There's never been a better time to bank with Regions.**




## Regions: Strength Through Diversification

Regions Bank serves customers in 16 states across the South, Midwest and Texas and operates approximately 1,800 banking offices and 2,200 ATMs. Nearly 28,000 Regions associates are committed to making life better for their customers and communities.

Regions' investment and securities brokerage affiliate, Morgan Keegan & Company Inc., advises on more than \$74 billion in client assets.[1]

Investment services are provided by Morgan Keegan & Company Inc., a subsidiary of Regions Financial Corporation and a member FINRA and SIPC. Trust services are provided by Regions Morgan Keegan Trust, a trade name for the trust division of Regions Bank. Securities and insurance products sold through Morgan Keegan and Regions Morgan Keegan Trust are not FDIC insured, not a deposit, not an obligation of or guarantee by Regions Bank, its affiliates, or any government agency, and may lose value.

[1]Assets under management as of June 30, 2010.

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(Rev. 8/17/10)

FDIC

# ATTACHMENT # 3

Conflict of Interest from Personnel Policies and Board Policies

## 4.7 Conflict of Interest

All employees shall avoid activities that create a conflict of interest with their responsibility to the AGENCY. All employees are to observe the highest moral and ethical standards in any dealings in which they represent the AGENCY.

The AGENCY recognizes and respects each employee's right to privacy and to engage in personal activities outside the scope of employment. Each employee also has an obligation to refrain from activities that conflict or interfere with the AGENCY'S operations.

The AGENCY reserves the right to determine when an activity conflicts with the best interest of the AGENCY and to take action necessary to resolve the conflict. If necessary, this action can include terminating the employee.

Employees who are aware of conflict of interest violations are obligated to report them to their supervisor immediately. Those who fail to do so will be subject to discipline. Confidentiality of all employees reporting conflicts of interest will be protected.

**Board member conflict of interests**

Board members have a duty to subordinate personal interests to the welfare of Tri-County Community Council, Inc., and those we serve. Conflicting interests can be financial, personal relationships, status or power.

Board members and employees are prohibited from receiving gifts, fees, loans, or favors from suppliers, contractors, consultants, or financial agencies, which obligate or induce the board member or employee to compromise responsibilities to negotiate, inspect or audit, purchase or award contracts, with the best interest of Tri-County Community Council, Inc.

Board members or employees may not have a significant financial interest in any property which Tri-County Community Council, Inc., purchases, or a direct or indirect interest in a supplier, contractor, consultant or other entity with which Tri-County Community Council, Inc., does business.

Since it is not possible to write a policy that covers all potential conflicts, board members and employees are expected to be alert for and avoid situations which might be construed as conflicts of interests. Refer to separate "Board Director Conflict of Interest Policy" form

**Corporate Structure/Board Organization**

Any possible conflict of interests on the part of any board member should be disclosed to the other board members and made a matter of record, either through an annual procedure or when the interest becomes a matter of board action.

Any board member having a conflict of interest or possible conflict of interest should not vote or use his/her personal influence on the matter, and he/she should not be counted as part of a quorum for the meeting. The minutes of the meeting should reflect that a disclosure was made, the abstention from voting and the quorum situation.

These restrictions should not be construed as preventing the board member from briefly stating his/her position in the matter, nor from answering pertinent questions of other board members, since his or her knowledge could be of assistance to the deliberations.

All board members will be required to complete the "Conflict of Interest Statement." This policy will be reviewed by the board annually and given to each new board member for signature during the orientation.

TRI-COUNTY COMMUNITY COUNCIL, INC.
BOARD DIRECTOR CONFLICT OF INTEREST POLICY

The following policy shall be adhered to by all officers, directors, of Tri-County Community Council, Inc., involved in procurement activities:

- It is a breach of ethical standards for an officer, director, of Tri-County Community Council, Inc., to participate directly or indirectly in a procurement when:
    - The officer, director, or immediate member of his/her family has financial interest in the procurement;
    - A business organization in which the officer, director, or immediate family member has a financial interest pertaining to the procurement; or
    - Any other person, business, or organization with whom officers, directors, or any immediate family member is negotiating or has arrangement concerning prospective employment is involved in the procurement.
- Where an officer, director, or immediate family member holds financial interest in blind trust, there will be no conflict interest, provided that the blind trust has been disclosed to the organization governing procurement ethics.
- Whenever the officer, director, discovers or becomes aware of such an actual or potential conflict, he/she should promptly withdraw from the procurement, or seek guidance on

participation from the group that governs procurement ethics for the agency.

**In addition, officers and directors shall adhere to the following:**

Officers and directors of Tri-County Community Council, Inc., shall avoid placing themselves in a situation where personal interest may, or appear to, conflict with the best interest of the organization. As stated in Public Law 97-300, section 141(f), "No member of any Council under this Act shall cast on the provision of services by that member nor any organization which that member directly represents or vote on any matter which would provide direct financial benefit to that member."

Any officer or director with a conflict of interest shall:
- Refrain from voting on the proposed motion; and
- Excuse themselves from any Board Discussion involving the proposed transaction.

In addition, officers and directors are prohibited from:
- Receiving compensation for serving on the Board or providing services to the agency;
- Being employed by the agency;
- Operate as an entity independent of staff employed at the agency.

Tri-County Community Council, Inc., staff shall be responsible for:
- Recording in the Minutes of that particular Board meeting that a member abstained from influencing the Board's decision by oral/written communication or by casting a vote.

Board Members Signature ______________________ Date ____________