



Minutes of: Carter County Audit Committee May 28, 2019

Present: Chairwoman Margaret Moses
Vice Chairwoman Rai Lynn Anderson
Secretary Margaret Pate
Carter Honeycutt

County Officials Present: Carter County Mayor Rusty Barnett, Finance Director Brad Burke, Deputy Finance Director Michael Kennedy, Debbie Guy of Circuit Court Clerk's Office, Danny McClain representing Carter County Schools, Commissioner Ginger Holdren of the Financial Management Committee; Abby Frye of the Mayor's Office serving to provide minutes for the meeting.

Comptroller Office Officials Present: Marie Tidwell, Preston Cobb, and Paula Knight

Call To Order:

Chairwoman Margaret Moses called the meeting to order at 5:05 p.m.

Chairwoman Moses provide members with a copy of the resolution establishing the committee and briefly spoke about the duties of the Committee, membership, requirements, and the possibility of creating additional positions on the committee to increase the size of the committee.

Agenda:

Chairwoman Moses presented the agenda to the committee for approval. Rai Lynn Anderson made a motion to adopt the agenda as presented. The motion received a second from Margaret Pate and passed unanimously on a voice vote.

Minutes of Previous Meeting:

Chairwoman Moses presented the minutes from the previous meeting on May 31, 2017, to the committee for approval. Motion to approve the minutes was made by Rai Lynn Anderson. The motion received a second from Margaret Pate and passed unanimously on a voice vote.

Chairwoman Moses presented the minutes from the previous special called meeting held on January 29, 2018 regarding the Comptroller's Office's Investigative Audit into the Elizabethton/Carter County Animal Shelter. Motion to approve the minutes of the special called meeting was made by Rai Lynn Anderson. The motion received a second from Margaret Pate and passed unanimously on a voice vote.

Public Comments:

No members of the public wished to speak.

Election of Officers:

Chairwoman Margaret Moses stated she would like to pass along the duties of Chairwoman after having served in that position for several years. She nominated current Vice Chair Rai Lynn Anderson to serve as

Chairwoman and Margaret Pate to continue serving as Secretary. Rai Lynn Anderson nominated Moses to serve as Vice Chairwoman. Nominations were ceased and by a unanimous voice vote the new officers were elected. The newly elected officers were begin serving in their new roles at the next meeting of the Audit Committee.

Old Business:

Review Audit Summary for Fiscal Year ended June 30, 2017 and Investigative Audit on Elizabethton/Carter County Animal Shelter.

Finance Director Brad Burke reported there have been no findings on Animal Shelter operations since the investigative audit. He stated that a large amount of the money from the investigative audit has been paid back to the county.

New Business:

Review of audit report for Fiscal Year ended June 30, 2018

Chairwoman Moses began with a review of Prior-year Financial Statement Findings listed in the audit report. Finance Director Burke reviewed each of the Prior-year Findings and provide an update as to which ones had been corrected and steps the Finance Department is taking to correct the ones still existing.

Chairwoman Moses then began with a review of each finding in turn in the audit report.

FINDING 2018-001 THE ACCOUNTING RECORDS FOR VARIOUS FUNDS HAD NOT BEEN MAINTAINED PROPERLY (A. – Noncompliance Under *Government Auditing Standards*; B., C., and D. – Internal Control – Material Weakness Under *Government Auditing Standards*)

Our audit revealed the following deficiencies related to the administration and maintenance of the accounting records. Many of these issues have been reported in previous audit reports.

A. Accounting records, including subsidiary capital assets records, for the year ended June 30, 2018, were not closed and available for audit by August 31, 2018, as required by Section 9-2-102, *Tennessee Code Annotated*. The accounting and capital assets records were made available to auditors on October 10 and November 13, 2018, respectively.

B. Accounting records were not maintained on a current basis for all funds of the primary government and the School Department (except for the Central Cafeteria Fund). Revenue entries reflected in the trustee's reports were posted to the accounting records as late as four months after month-end. A subsequent review for the 2018-19 fiscal year disclosed monthly trustee reports' revenues for all funds other than the Central Cafeteria Fund for the months of July through September 2018 were not posted until November 2018.

Additionally, from our review of the audit log and discussions with management, it was noted that accounting periods are routinely re-opened after being closed in order to post monthly revenues. The software application allows for three consecutive months to be open at any given time; however, from our review of the audit log, it was noted that the months of August, September, and October 2017 were all closed on January 18, 2018, which would mean that management would have to close accounting periods currently open in order to re-open periods that had been closed. The software application used by the county and the School Department generates a log that documents the closing and reopening dates of the accounting periods within the general ledger application. These audit logs were not reviewed by management to ensure periods are closed timely and not re-opened. Although management was aware of the importance of this log, they chose not to review it. Since accounting entries had not been posted currently, and closed ccounting periods were re-opened as noted above, accurate monthly financial reports could not be presented to the county commission to be used as a management tool for financial decisions.

C. Several general ledger payroll liability accounts were not reconciled adequately with subsidiary payroll records, monthly billings, and payments made from the various county and School Department funds. While personnel attempted reconciliations of certain payroll liability accounts, no adjusting entries were prepared or posted during the current-year to correct identified reconciling items. As a result, the composition of the balances in the payroll liability accounts could not be readily determined. Balances in the payroll liability

accounts in the various funds ranged from a negative \$5,695 to a positive \$104,033. A total of 18 accounts had deficit (negative) balances.

D. The employee health insurance bank clearing account had not been reconciled adequately with the general ledger payroll liability accounts resulting in an unidentified balance. The School Department maintains the bank clearing account for deposits of employee payroll deductions and School Department contributions for employee health insurance premiums, which are then withdrawn from the account by the state insurance program administrator. While reconciliations were performed monthly beginning in April 2018, and retrospectively for July 2017 through March 2018, no adjusting entries were prepared or posted during the current-year to correct identified reconciling items. Additionally, an unidentified balance remained each month. At June 30, 2018, the employee health insurance bank clearing account had a balance of \$1,136,076 of which \$1,124,428 represented amounts due the state insurance program administrator for unbilled health insurance premiums. The remaining \$11,648 (\$1,136,076 minus \$1,124,428) was unidentified. Auditors explained part of the finding related to the Finance Department not having the fiscal year closed out and records available for audit by the August 31 deadline as required by state statute.

Finance Director Burke informed the committee that he concurred with the finding and that all records are now maintained on a current basis, monthly revenue and expenditure reports are being provided to the County Commission, and now reviewing the audit logs monthly. General ledger payroll liability accounts will be reconciled and adjusting entries properly posted.

Item A – has been addressed

Item B – This item was largely during the tenure of the previous finance director and is being addressed with protocols and software

Item C – Finance Director Burke working to locate errors as some go back years. Did not anticipate all errors being found and corrected before the fiscal year end on June 30, 2019, but progress is being made and the work to correct the errors continues.

Item D – Has been an issue for years but has improved and anticipates should be corrected.

FINDING 2018-002 THE OFFICE HAD DEFICIENCIES IN PURCHASING PROCEDURES (Noncompliance Under *Government Auditing Standards*)

Our examination revealed the following purchasing deficiencies, which are the result of a lack of management oversight and management's failure to follow the county's established purchasing policy. These deficiencies increase the risks of unauthorized expenditures.

A. During the year, the office paid for an emergency purchase related to flood damages at one of the county high schools totaling \$162,372. After discussions with management, the insurance carrier required immediate clean-up services and recommended a vendor to use to satisfy the claim; however, the purchase was not made in compliance with the county's emergency purchases policy.

Carter County's policy and procedures manual provides for emergency purchases outside of business hours and states that "if an emergency exists, every effort should be made to obtain at least three bids (oral or written) and authorization written for emergency purchases. Then a requisition given to the Department of Finance indicating the purchase and description of the emergency." Our review of accounting records and paid invoice files noted written authorization was not prepared/obtained, and a requisition was not given to the Finance Department prior to payment related to this emergency purchase.

B. The county did not deposit amounts withheld from contractor payments into an escrow account related to a \$567,400 construction contract for renovations to a football stadium and bathrooms at one of the high schools. Section 66-34-104, *Tennessee Code Annotated (TCA)*, requires that funds withheld from contractor payments be deposited into an escrow account with a third-party for contracts of \$500,000 or more. This deficiency could result in the loss of interest earnings for the contractor.

C. During the year, a building at the solid waste facility (landfill) was destroyed by fire. The county solicited bids for construction of a replacement building at the landfill (\$279,606); however, bid specifications were brand specific. Using bid specifications that apply only to a specific brand violates the intent of the county's purchasing law. Additionally, the county did not employ a registered architect or engineer to design plans,

specifications, or estimates related to the construction of the building. Section 62-2-107, *TCA*, requires a registered architect or engineer should be employed whenever construction projects are estimated to exceed \$50,000. The county did not have a formal written contract for the construction of the new building at the landfill. Without a formal written contract, there is no guidance for the responsibilities of the county or the contractor.

Purchases for Carter County are governed by the County Financial Management System of 1981, Sections 5-21-101 through 5-21-130, *TCA*. This act provides that the finance director or a deputy appointed by the finance director serve as the purchasing agent, and that competitive bids be solicited for purchases exceeding the \$25,000 bid limit authorized by the Financial Management Committee.

Finance Director Burke said he concurred with the finding. He stated discussions have been held with employees involved in the process of procuring construction contracts and management is involved in the bidding and contracting process and is aware of all corresponding policies and procedures.

Item A – Comptroller’s Office Official Marie Tidwell stated the issues auditors had was the county did not follow its own policy for emergency purchases

Item B – Retainage Accounts will be reviewed and utilized per state law requirement

Item C – Landfill bid specification for project was brand specific and state law requires an architect or engineer for such construction projects. Going forward projects will comply with requirements and bids will not be brand specific

FINDING 2018-003 THE COUNTY HAD DEFICIENCIES IN BUDGET

OPERATIONS (A. through C. – Noncompliance Under *Government Auditing Standards*; D. and E. – Internal Control – Significant Deficiency Under *Government Auditing Standards*)

Our examination revealed the following deficiencies in budget operations. These deficiencies exist due to a lack of management oversight and management’s failure to hold spending to the limits authorized by the county commission, which resulted in unauthorized expenditures; management’s failure to correct the finding noted in the prior-year audit report; and the failure to implement their corrective action plan.

A. Total expenditures and other uses exceeded total appropriations approved by the county commission in the Highway/Public Works Fund by \$301,310. This deficiency is due to unrecorded liabilities related to a state aid project totaling \$388,396. It should be noted that a purchase order had been issued related to this project; however, the amount of the purchase order appears to have been only for the county’s matching share and was not subsequently adjusted to reflect actual/estimated costs of the project.

B. Expenditures exceeded appropriations approved by the county commission at the major category level (the legal level of control) in the following funds:

Government: Highway/Public Works: Capital Outlay - \$569,016

School Department: General Purpose School Fund: Special Education Program - \$12,836

School Department: General Purpose School Fund: Career and Technical Education Program - \$1,618

School Department: General Purpose School Fund: Board of Education - \$2,302

School Department: General Purpose School Fund: Office of the Principal - \$17,181

C. Salaries exceeded appropriations in 46 of 174 salary line-items of the General, Solid Waste, Highway/Public Works, General Purpose School, and Head Start funds by amounts ranging from \$8 to \$82,806 for a total of \$236,009. The budget resolution approved by the county commission states that the salary, wages, or enumeration of each official, employee, or agent of the county will not exceed appropriations that accompany this resolution. Therefore, the salaries that exceeded line-item appropriations were expenditures not approved by the county commission.

D. During the year, a budget amendment approved by the county commission for the Drug Control Fund was erroneously posted to the General Fund, and the error was not detected by management. We have recognized the amendment as approved by the county commission in the Drug Control Fund in the financial statements of this report.

E. Budget amounts for the Title II Improving Teacher Quality State Grants program and Special Education – Grants to States program in the School Federal Projects Fund did not agree with the state-approved budget reported in E-plan. The recorded budget varied by as much as \$4,145 from the amounts reflected in E-plan. We

have reflected the recorded budgets for the Title II Improving Teacher Quality State Grants program and Special Education – Grants to States program in the financial statements of this report.

Finance Director Burke stated he concurred with the finding. He said purchase orders are now issued for the entire amount of all highway and bridge projects and he reviews expenditure reports monthly and compares them to amounts per the E-plan, and prepares necessary budget adjustments.

Item A – Purchase Orders were issued only for the county portion of these Highway Department projects instead of the full project amount on a state aid project. Going forward purchase orders will be for the full amount of the project instead of just the county portion.

Item B – Expenditures exceeded appropriations. The Finance Department has instituted an earlier cut off date for requesting purchase orders to better be able to track outstanding expenditures and prevent overages.

Item C – Salaries paid out of incorrect salary line items. This has been addressed through budget amendments and line item corrections during the fiscal year 2019-2020 budget process to ensure employees salaries are taken from the correct line items and those line items are appropriately funded.

Item D – Item was corrected

Item E – Working to monitor and reconcile this issue

FINDING 2018-004 A CASH SHORTAGE OF \$97 EXISTED IN THE SOLID WASTE/SANITATION FUND AT JUNE 30, 2018 (Noncompliance Under *Government Auditing Standards*)

A cash shortage totaling \$97 existed in the Solid Waste/Sanitation Fund at June 30, 2018. On June 22, 2018, the finance director filed a Fraud Reporting Form with the Comptroller of the Treasury indicating that the Carter County Landfill had a cash shortage totaling \$100 related to collections for June 13-14, 2018. This shortage was discovered by Office of Trustee employees on June 19, 2018, when collections for the two above-noted days were taken for deposit. During the audit, it was determined that a cash shortage of \$119 occurred on June 13, 2018. It was also noted that three checks totaling \$22 were deposited with the trustee; however, there were no corresponding receipts/transactions noted for these checks. The shortage appears to be due to a lack of management oversight and inadequate close-out procedures. It should be noted that the shortage was repaid as of November 30, 2018.

Finance Director Burke stated steps have been taken to ensure the cash shortage does not happen again and detailed for the committee how the Landfill has changed their deposit and close out process to have better internal controls.

Comptroller's Office Official Marie Tidwell commended the excellent corrective action plan implemented by the Solid Waste Department to prevent future cash shortages.

FINDING 2018-005 THE SCHOOL AND FINANCE DEPARTMENTS HAD DEFICIENCIES IN THE ADMINISTRATION OF THE REHABILITATION SERVICES VOCATIONAL REHABILITATION GRANTS TO STATES - SCHOOL TO WORK GRANT (Internal Control – Significant Deficiency Under *Government Auditing Standards*)

The School Department was awarded a federal Rehabilitation Services Vocational Rehabilitation Grants to States – School Work Grant for the fiscal year ended June 30, 2018. This grant provides funds to support programs, which provide coaching services for students in selected grades. Grant funds are used to pay salary expenses for coaches and related travel. The grant operates on a reimbursement basis for the federally-funded portion of the grant, with a local match of 21.3 percent for the maintenance of effort portion. Total expenditures for the program during the fiscal year ended June 30, 2018, were \$86,528. A review of the program revealed the following deficiencies:

A. Expenditure amounts claimed for reimbursement were incorrect. Total expenditures reflected on the June 30, 2018, reimbursement request were more than actual expenditures for the grant. Total expenditures of \$90,855 were reported on the June 2018 reimbursement request while total expenditures of \$86,528 were reported on the

general ledger. Of the total \$68,098 federal portion of actual grant expenditures, only \$66,169 was received during the year and has been recognized in the financial statements of this report.

B. Since incorrect expenditure amounts were used to prepare the June 30, 2018, claim for reimbursement for the federal portion of the grant, the locally funded maintenance of effort was also calculated incorrectly. Total maintenance of effort claimed on the June 2018 reimbursement request was more than actual. Of the total \$18,430 local portion of the actual grant expenditures, \$19,500 was claimed.

C. Due to errors in amounts claimed for reimbursement for the 2017 grant as noted in the prior-year audit, a receivable of \$18,752 for the unclaimed federal portion of the grant expenditures had been recognized for the fiscal year ended June 30, 2017; however, due to the timing of amended requests, the state disallowed these unclaimed expenditures. Since this grant was accounted for in the School Federal Projects Fund, which is used to account for restricted federal revenues and must be expended on specific programs, there was a cash deficit for this grant due to the items noted-above. Receivables from the General Purpose School Fund totaling \$39,111 recognizing the current-year \$1,929 difference in the federal portion of amounts claimed and amounts received, \$18,430 of the current-year local funded portion of the grant, and \$18,752 for the prior-year disallowed federal portion have been recognized in the financial statements of this report. The cash deficit will be liquidated with the receipt of money from the General Purpose School Fund.

These deficiencies can be attributed to a lack of management oversight, a lack of internal controls over the reporting process for the grant, management's failure to correct the finding noted in the prior-year audit report, and the failure to implement their corrective action plan.

Finance Director Burke stated he had provided guidance to the School Department employee responsible for maintaining records and submitting reimbursement requests and as of December 31, 2018 the year-to-date expenditures per the general ledger and reimbursement requests agree. He believes the issue has now been corrected.

FINDING 2018-006 THE ACCOUNTING RECORDS FOR THE SCHOOL FEDERAL PROJECTS FUND WERE NOT ADEQUATELY MONITORED AND MAINTAINED (Internal Control – Significant Deficiency Under *Government Auditing Standards*)

The School Federal Projects Fund is used to account for restricted federal revenues, which must be expended on specific education programs. As noted in Finding 2018-001 above, accounting records were not maintained on a current basis. Additionally, as noted in prior audits, balances reflected in numerous balance sheet accounts assigned to the various federal grant programs were not maintained adequately and reconciled with beginning and ending balances for each program, which resulted in restricted fund equity balances being reported for inactive programs. To correct prior-years' posting errors in the School Federal Projects Fund, the county's finance director decided to only recognize the operations of the grant programs that were active during the audit period and to write-off all balances/accounts related to the inactive grant programs. The finance director used expenditure and revenue accounts/amounts for the various active grant programs as reported in E-plan to calculate the general ledger balance sheet, revenue, and expenditure accounts and their related amounts. To achieve this, numerous adjustments were made to assets, liabilities, revenues, and expenditures of the fund with the offset of these postings to fund balances. These adjusting entries were mainly dated June 30, 2018, and were posted without adequate supporting documentation to justify the entry. Sound business practices dictate that financial transactions should be accurately posted and documented in accordance with generally accepted accounting principles. These deficiencies resulted from a lack of management oversight and a lack of understanding of federal grant requirements in the prior years that allowed these differences to accumulate without timely corrections. The effect of these adjusting entries made by the client resulted in a net Unidentified Fund Equity amount of \$43,339. This amount is included in the total Restricted for Education Fund Equity Balance of \$86,365 in the School Federal Projects Fund at June 30, 2018. Representatives from the State Department of Education were made aware of this unidentified balance and have advised that the balance will be liquidated through adjustments made to subsequent claims for reimbursement.

Finance Director Burke stated reports for the School Federal Projects Fund are reviewed each month and are utilized for preparing requests for reimbursement in E-plan. He said he and his staff would work with the State

Department of Education to liquidate the unidentified balance. He stated the unidentified cash excess would most likely be paid back to the State.

FINDING 2018-007 THE OFFICE DID NOT PREPARE ADEQUATE TRIAL BALANCES OF THE EXECUTION DOCKETS (Internal Control – Significant Deficiency Under *Government Auditing Standards*)

The Office of Circuit and General Sessions Courts Clerk did not provide adequate trial balances of execution docket cause balances as required by Section 18-2-103, *Tennessee Code Annotated*. The office began using a new court computer application during the 2012 fiscal year that did not have the capability to generate a docket trial balance. At June 30, 2018, the circuit and general sessions courts clerk was able to generate listings of undisbursed receipt items. However, these listings did not reconcile with general ledger accounts for General Sessions Court by \$32,087. Also, information relating to short-term investment account activity and cash bonds was not reflected on these reports. It should be noted that the office is reconciling the listings of undisbursed receipt items and short-term investment account activity monthly using alternative methods to identify any variances based on current activity. In addition, the clerk is correcting errors as they become known, and the variance between listings and general ledger balances has decreased. This deficiency was in part attributable to the failure of management to ensure the software vendor designed the system with proper computer application controls and reporting as required by state statute. The failure to accurately reconcile execution docket trial balances with the general ledger application in a timely manner could lead to inaccurate accounting records and increases the risk of misappropriation of funds. This deficiency was the result of management's failure to correct the finding noted in the prior-year audit report.

Finance Director Burke stated this is the same issue with the Circuit Court Clerk's Office that has been in on several audits in the past. He stated the issue is improving as Debbie Guy, the bookkeeper for the Circuit Court Clerk's Office, continues to work to reconcile the trial balances.

Debbie Guy described for the committee the work she is doing to reconcile the trial balances as well as some of the issues she is encountering.

Comptroller's Office Official Marie Tidwell read from a section of the audit report stating: "It should be noted that the office is reconciling the listings of undisbursed receipt items and short-term investment account activity monthly using alternatives methods to identify any variances based on current activity. In addition, the Clerk is correcting errors as they become known, and the variance between listings and general ledger balances has decreased." Ms. Tidwell said the finding may be removed from future audits if the trial docket balance dips below a "significant" level but said they could not commit to what dollar amount that could be.

FINDING 2018-008 THE COUNTY'S AUDIT COMMITTEE IS NOT A FUNCTIONING COMMITTEE

(Noncompliance Under *Government Auditing Standards*)

Carter County participates in the ThreeStar Program through the Tennessee Department of Economic and Community Development to assist the county's community development efforts in competing for jobs and attracting industry. One of the requirements of the ThreeStar Program is that the county must create and maintain an Audit Committee. Carter County created an Audit Committee in January 2011, as provided by Section 9-3-405, *Tennessee Code Annotated*. The committee met on January 29, 2018, to discuss the results of the Department of Investigation's report; however, there are no minutes to document that the Audit Committee met to discuss results of the fiscal year 2017 audit. Without a functioning Audit Committee, the county commission does not have independent and objective reviews of the financial reporting process, internal controls, the audit function, and monitoring management's plans to address various risks.

Chairwoman Moses stated this issue is being corrected as the committee was currently in session to discuss the fiscal year 2018 audit and would continue to hold meetings, maintain minutes, and present a written report to the County Commission. She also addressed the lack of meeting following the fiscal year 2017 audit stating she had personal commitments following the illness of her husband and that "the political climate" in the county prior to the election was "not conducive to holding a meeting" at that time.

After reviewing all the audit findings, Chairwoman Moses opened the floor for comments. Members of the committee discussed the possibility of holding more meetings throughout the year, including the possibility of a joint meeting with the Financial Management

Having no further business to discuss, Chairwoman Moses adjourned the meeting at 6:18 p.m.

Respectfully submitted,
Abby Frye