



**Minutes of:
Carter County Audit Committee
June 19, 2020**

Present: Vice Chairwoman Margaret Moses
Secretary Margaret Pate

Absent: Carter Honeycutt

County Officials Present: Finance Director Brad Burke, Deputy Finance Director Michael Kennedy, Carter County Director of Schools Dr. Kevin Ward, Commissioner Brad Johnson Chairman 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, Paula Knight, Brandon Hammes

Call To Order:

Vice Chairwoman Margaret Moses called the meeting to order at 10:03 a.m.

Vice Chairwoman Moses read to those present from the resolution establishing the committee and briefly spoke about the duties of the Committee, membership, and requirements. Vice Chairwoman Moses also spoke about the vacancy on the committee created by the resignation of Chairwoman Rai Lynn Anderson and the process for having a replacement member appointed. Discussion was also held on the qualifications required for appointment to the Committee and whether the position could be filled by a County Commissioner. Marie Tidwell of the Comptroller's Office said that per state statute County Commissioners could serve on the Committee, but other elected officials could not. She stated some counties do have Commissioners appointed to serve on their Audit Committee.

Minutes of Previous Meeting:

Vice Chairwoman Moses presented the minutes from the previous meeting on May 28, 2019, to the committee for approval. Motion to approve the minutes was made by Margaret Pate. The motion received a second from Vice Chairwoman Moses and passed unanimously on a voice vote.

Public Comments:

No members of the public wished to speak.

Old Business:

None

New Business:

Review of audit report for Fiscal Year ended June 30, 2019

Vice Chairwoman Moses began with a review of Prior-year Financial Statement Findings listed in the audit report. She stated the report was a "clean opinion." Vice Chairwoman Moses discussed some of the prior year findings and noted most of those items had been corrected except for some "administrative" items. She noted

this Audit Report did not contain a finding for the Circuit Court Clerk which she described as “really good news” as this had been a recurring finding for several years.

Vice Chairwoman Moses stated this audit report showed no “material weaknesses” in Internal Controls were found, which is good, but there were some “significant deficiencies” in Internal Controls. She stated there no issues of Non-Compliance.

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

PART II, FINDINGS RELATED TO THE FINANCIAL STATEMENTS

FINDING 2019-001 THE SCHOOL DEPARTMENT HAD DEFICIENCIES IN THE USE OF FEDERAL HEAD START PROGRAM GRANT FUNDS, WHICH RESULTED IN QUESTIONED COSTS

(A. and B. – Significant Deficiency Under *Government Auditing Standards and Title 2 U.S. Code of Federal Regulations, Part 200, Subpart F. Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*)

The school department was awarded a federal Head Start Program Grant (CFDA No. 93.600) for the fiscal year ended June 30, 2019, passed through the Upper East Tennessee Human Development Agency. Auditors selected the Head Start Program Grant as a major federal program to be audited in compliance with Title 2 U.S. Code of Federal Regulations, Part 200, Subpart F., *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. As part of the audit procedures to document and test internal controls over Activities Allowed or Unallowed and Allowable Costs/Cost Principles, auditors initially selected a random sample of 25 disbursement items plus an additional four individually significant items for the period July 1, 2018 through June 30, 2019. On January 21, 2020, auditors received notice that a Fraud Reporting Form had been filed with the Comptroller’s Division of Investigations alleging suspected fraud involving vendor purchases of this federal program. Consequently, auditors expanded their sample to include additional disbursements for the period July 1, 2019 through June 30, 2019. Based on the auditor’s test work, the report noted the following deficiencies, which the report lists are the result of a lack of management oversight:

A. In 30 of 181 applicable instances, purchase orders were either not issued or the actual expenditure exceeded the purchase order amount. Purchase orders are required by policies of the Financial Management Committee and are necessary to control who has purchasing authority for the department and to document purchasing commitments. The failure to properly issue purchase orders increases the risk of unauthorized purchases. Allowing the expenditures to be made in amounts beyond what was approved in the purchase order defeats the purpose of the purchase order system as a budgetary control and increases the risk of expenditures exceeding appropriations or misappropriation of funds.

B. In eight of 18 applicable instances, employee time sheets were either not signed by the employee and/or were not signed by the Head Start Director indicating approval. We also noted one instance where the bookkeeper signed the Head Start Director’s name to the summary time sheet, then signed their name below. Sound business practices as well as policies of the Financial Management Committee dictate that payroll time sheets be maintained and signed by the employee and supervisor as documentation that the time reported is accurate and has been reviewed. The failure to properly document time and leave could lead to inaccurate time records and improper payments.

C. As a result of the audit procedures, auditors identified question costs totaling \$19,894 for the period of July 1, 2018 through January 21, 2020. Those questioned costs consist of numerous items that appear to be unallowable under the grant criteria.

An investigation by the Comptroller’s Division of Investigations is ongoing in the Carter County Head Start program. Findings, if any resulting from the investigation will be included in a subsequent report.

Finance Director Burke spoke with the Committee regarding this finding, stating that the issues that can be corrected have been, Purchase Orders are being obtained for all purchases, and time sheets are being approved and submitted properly.

Regarding the questioned expenditures, Finance Director Burke stated the Comptroller's investigation is ongoing at this time and there has been no time frame given as to when their investigation will be concluded. Director of Schools Dr. Ward stated that questionable expenditures were discovered after a new Director took over the program in July 2019. The new Director LeeAnn Carr began to review and question purchases and in December 2019 she contacted Dr. Ward over the weekend after noting a purchase made by the secretary of the department which she felt was not appropriate. The school department notified the Comptroller's Office by completing a Fraud Reporting Form and suspended the employee in question. Dr. Ward stated as the investigation progressed and after consulting with the school system's attorney the employee was then terminated. Dr. Ward stated that Director Carr has since developed new internal controls regarding the program's purchasing and credit card usage and is working closely with the Finance Department to ensure Internal Controls are being followed.

Marie Tidwell of the Comptroller's Office stated auditors reviewed all purchases within the time frame compared to their knowledge of the program and its allowable expenditures and came up with \$19,894 in questionable expenditures. She stated some of the purchases were questionable as to whether they were allowable or nonallowable but there were purchases which were made that were obviously nonallowable.

FINDING 2019-002 COUNTY OFFICIALS WERE NOT PAID IN COMPLIANCE WITH STATE STATUTE

(Noncompliance Under Government Auditing Standards)

The former County Mayor and former Register of Deeds left office on August 31, 2018. The amounts paid to these officials for the two months they served during the 2018-2019 fiscal year were greater than 2/12ths of the annual salaries appropriated for those officials by the County Commission. These overpayments totaled \$4,367 for the former County Mayor and \$3,554 for the former Register of Deeds. These overpayments to the former officials also resulted in the current County Mayor and current Register of Deeds being underpaid for the fiscal year by like amounts. Carter County followed a practice of paying officials ever two weeks. These overpayments resulted from miscalculations due to the two-week payroll cycle. Auditors reviewed these overpayments with the Finance Director, and the Director contacted the former officials requesting reimbursement. The former officials did not reimburse the county; however, on September 16, 2019, the County Commission voted to forgive the excess amounts paid to the two former officials. Additional payments were made to the current County Mayor (\$4,367) and current Register of Deeds (\$3,554) on September 27, 2019, to make up for the amount they were underpaid during the 2018-2019 fiscal year.

Approving the overpayment to the former Register of Deeds appears to violate state Statute since salaries of other county officials were not adjusted proportionately. Section 8-24-102 *Tennessee Code Annotated*, establishes a minimum salary that shall be paid to county officials. This statute also provides that the County Commission may appropriate more than the minimum, as long as all general officers of the county are paid the same. This statute also requires the compensation of the Sheriff and Chief Administrative Officer of the County Highway Department (Road Superintendent) must be 10 percent greater than the general officers of the county and the County Mayor's compensation must be at least 5 percent higher than the salary paid to any other county constitutional officer. The general officers of the county include the Assessor of Property, County Clerk, Clerk and Master, various Clerks of Court including the Circuit and General Sessions Courts Clerk, County Trustee, and Register of Deeds.

As of the date of this report, the County Commission has not appropriated additional funds - and additional payments have not been made - to the other general officers and constitutional officials as required by the above referenced statute. This noncompliance is due to a lack of management oversight and management's failure to monitor salaries paid to officials.

Finance Director Burke stated this issued was related to the timing of the payroll. He stated since the issue was discovered the elected officials were placed on a different payroll timing than other county employees. Instead of being paid every two weeks, Director Burke stated the county officials are now paid twice per month. Director Burke informed the committee that the recommendation by the auditors to correct the issue by making additional payments to the affected office holders to bring the salaries into compliance with the state statute was presented to the County Commission on June 15, 2020, and the Commission voted to not make payment to the shorted officials.

Marie Tidwell of the Comptroller's Office questioned by the Commission voted against making the payment to correct the shortage and comply with state statute. She asked if the Commission understood this was a one-time expenditure to correct an error and would not be a recurring raise for the elected officials. Director Burke stated he had explained that to the Commission prior to their vote on the matter.

Tidwell stated, "That's the decision of the Commission, but don't be surprised if it's in the audit report again."

OFFICES OF COUNTY MAYOR, DIRECTOR OF SCHOOLS, HIGHWAY SUPERINTENDENT, TRUSTEE, AND FINANCE DIRECTOR

FINDING 2019-003 THE OFFICES HAD DEFICIENCIES IN BUDGET OPERATIONS

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

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. Some of these issues have been reported in previous audit reports. Management has provided written responses and corrective action plans to address these weaknesses; however, these weaknesses continue to exist.

A. Budget Amendments approved by the County Commission did not always specify which revenue accounts, expenditure categories, and line-items were being amended. We also noted significant variances between the dates budget amendments for a Health Department Grant and the Community Development Block Grant were approved by the County Commission and when the budget amendments were posted to the financial records. Additionally, auditors could not determine that the budget amendment for the annual health department grant appropriation posted in the General Fund was approved by the County Commission.

B. The original budget appropriation posted to the accounting records for the Central Cafeteria Fund was \$154,000 less than the amount approved by the County Commission. This variance was due to the transfers out appropriation category amount not being posted to the accounting records.

C. Expenditures exceeded appropriations approved by the County Commission at the major Category Level (the legal level of control) in the following funds:

Primary Government: General: Local Health Center - \$427,931

Solid Waste/Sanitation: Miscellaneous - \$506

Sports and Recreation: Miscellaneous - \$30

School Department: General Purpose School: Special Education - \$14,818

School Department: General Purpose School: Career and Technical Education Program: \$184

School Department: General Purpose School: Office of the Principal: \$19,919

School Department: General Purpose School: Early Childhood Education: \$1,742

D. Salaries exceeded appropriations in 51 of 206 salary line-items of the General, Solid Waste, Highway/Public Works, General Purpose School, School Federal Projects, Central Cafeteria, and Head Start Funds by amounts ranging from \$6 to \$278,556. Two of these variances related to a \$14,466.67 bonus payment made to the Planning Director and bonus payments totaling \$1,009.75 made to employees of the Trustee's Office. Likewise, some of the variances resulted from not recognizing the budget amendment for the annual Health Department grant as noted in Part A. 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.

Finance Director Burke stated the portion of the finding related to the recognizing of the annual grant from the state for the Health Department occurred due to a misunderstanding that the grant needed to be accepted and approved each year during a Commission meeting for inclusion in the official minutes.

Regarding expenditures exceeding allocations, Director Burke stated the offices, departments, and Finance Department were working closely together to make sure budget amendments are done as needed and to track expenditures to ensure they do not go over the allocation.

Regarding the bonus payments to the Planning Director and Trustee's Office staff, Director Burke stated the Commission voted to forgive the payments rather than pursue legal action to reclaim them. He stated the departments and officials are now aware of the proper procedure for issuing bonus payments to employees and the appropriate line-item which those payments must come from. He stated future bonus payments would not be made unless they were approved and funded in the correct line-item for such payments.

Regarding the finding that the Community Block Development Grant being posted to the budget amendments, Director Burke stated he disagreed with this finding stating that the approval letter for the grant was dated September 13, 2018, the local match was approved by the County Commission on November 18, 2018, and the budget amendment for both the grant portion and local match was posted November 20, 2018. Director Burke stated the Auditors had provided a rebuttal to his disagreement in the report. In the report, the Auditor's Comment states: On February 21, 2018, the County Commission authorized the County Mayor to apply for and sign a Community Development Block Grant totaling \$315,000. Total cost of the proposed project was \$507,984 with the county to provide matching funds of \$192,984. No further action was taken during the 2017-2018 fiscal year, and the appropriation was not included in the original budget resolution for the 2018-2019 fiscal year. Based on a review of County Commission minutes, the next action taken by the County Commission was at the November 19, 2018, meeting when a resolution to appropriate the local match of \$192,984 was approved. The county Commission did not take any action at that time to appropriate the grant portion of the project. Based on the County Commission's original authorization to apply for the grant and the appropriation of the matching funds by the County Commission, the Finance Department posted a budget amendment to reflect the entire project in the financial statements. Instead of relying on a grant application approval, which occurred nine months prior, the entire project should be approved by the County Commission once the grant funds have been awarded.

SOLID WASTE DEPARTMENT

FINDING 2019-004 THE DEPARTMENT HAD ACCOUNTING DEFICIENCIES (A. and B. – Noncompliance Under *Government Auditing Standards*; C. – Internal Control – Significant Deficiency Under *Government Auditing Standards*)

On May 1, 2019, auditors performed a cash count at the Landfill and Little Milligan Convenience Center locations. As a result of the test performed at the time of the cash count and subsequent to year-end, the following deficiencies were noted in the operations of the Solid Waste Department:

A. At the time of the cash count, no receipts were available to reconcile with collections on hand at the convenience center. Auditors were informed by employees at the convenience center that it was their practice to fill out receipts prior to remitting funds to the landfill employees. Section 9-2-103, *Tennessee Code Annotated (TCA)*, requires official prenumbered receipts be issued at the time of collections.

Without official prenumbered receipts, we were unable to determine if all collections had been accounted for properly. Likewise, auditors were unable to determine if all collections were remitted to the County Trustee to ensure funds were deposited within three days of collection.

B. We selected receipts issued at the landfill for the period of April 15, 2019, through April 30, 2019, and for the month of December 2019 to test for compliance with the three-day deposit law. We determined that collections for the periods noted above were not remitted to the County Trustee for as

many as eight days after collection. Section 5-8-207, TCA, requires county officials to deposit public funds within three days of collection.

C. Receipts at the landfill were not always independently verified with collections, as stated in the Corrective Action Plan submitted in the prior year. During the prior fiscal year, a cash shortage occurred at the Landfill, and part of the Corrective Action Plan for the shortage was that each employee's daily deposit would be verified and signed-off by another employee. From our review of collections for the month of December 2019, we noted five deposit sheets that did not include another employee's signature as verification. Independent verifications of daily collections act as a deterrent to fraud and abuse and ensures that errors that are discovered get corrected properly.

These deficiencies are the result of a lack of management oversight with the potential for revenues not to be reported correctly in the county's financial records. Management's failure to issue receipts or verify receipts with deposits weakens internal controls over cash collections by eliminating the audit trail and increasing the risk of fraud and abuse.

Paula Knight of the Comptroller's Office noted this is a recurring problem at the landfill. Marie Tidwell of the Comptroller's Office stated the landfill has installed new software that does sequential numbered receipts which is helping with the issue.

Director Burke stated that he has spoken with Solid Waste Director Benny Lyons who stated he would begin doing daily deposits if necessary. Paula Knight stated she had checked to see if the timely deposit issue is being corrected and noted that deposits are now being submitted in accordance with state statute.

PART III, FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

A finding and recommendation, as a result of the audit of federal awards of Carter County, Tennessee, for the year ended June 30, 2019, are presented here.

FINDING 2019-005 THE SCHOOL DEPARTMENT HAD DEFICIENCIES IN THE USE OF FEDERAL HEAD START PROGRAM GRANT FUNDS, WHICH RESULTED IN QUESTIONED COSTS

(A. and B. – Internal Control – Significant Deficiency Under *Government Auditing Standards* and Title 2 U.S. Code of Federal Regulations, Part 200, Subpart F., *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*; C. – Noncompliance Under *Government Auditing Standards* and Title 2 U.S. Code of Federal Regulations, Part 200, Subpart F., *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards*.)

The school department was awarded a federal Head Start Program Grant for the fiscal year ended June 30, 2019, passed through the Upper East Tennessee Human Development Agency. Auditors selected the Head Start Program Grant as a major federal program to be audited in compliance with Title 2 U.S. Code of Federal Regulations, Part 200, Subpart F., *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. As part of the audit procedures to document and test internal controls over Activities Allowed or Unallowed and Allowable Costs/Cost Principles, auditors initially selected a random sample of 25 disbursement items plus an additional four individually significant items for the period July 1, 2018 through June 30, 2019. On January 21, 2020, auditors received notice that a Fraud Reporting Form had been filed with the Comptroller's Division of Investigations alleging suspected fraud involving vendor purchases of this federal program. Consequently, auditors expanded their sample to include additional disbursements for the period July 1, 2019 through June 30, 2019. Based on the auditor's test work, the report noted the following deficiencies, which the report lists "are the result of a lack of management oversight"

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approved in the purchase order defeats the purpose of the purchase order system as a budgetary control and increases the risk of expenditures exceeding appropriations or misappropriation of funds.

B. In eight of 18 applicable instances, employee time sheets were either not signed by the employee and/or were not signed by the Head Start Director indicating approval. We also noted one instance where the bookkeeper signed the Head Start Director's name to the summary time sheet, then signed their name below. Sound business practices as well as policies of the Financial Management Committee dictate that payroll time sheets be maintained and signed by the employee and supervisor as documentation that the time reported is accurate and has been reviewed. The failure to properly document time and leave could lead to inaccurate time records and improper payments.

C. As a result of the audit procedures, auditors identified question costs totaling \$19,894 for the period of July 1, 2018 through January 21, 2020. Those questioned costs consist of numerous items that appear to be unallowable under the grant criteria.

An investigation by the Comptroller's Division of Investigations is ongoing in the Carter County Head Start program. Findings, if any resulting from the investigation will be included in a subsequent report.

Vice Chairwoman Moses informed the committee this is the same as Finding 2019-001 but must be listed twice in the audit report – once under **PART II, FINDINGS RELATED TO THE FINANCIAL STATEMENTS** and once under **PART III, FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS** – because the issue discovered related to both the county's financial statements as well as federally awarded funds. Vice Chairwoman Moses informed the committee the same Corrective Action Plan is listed for Finding 2019-005 as is listed for the initial reporting under Finding 2019-001.

Vice Chairwoman Moses opened the floor for questions or comments by Committee members and officials present. After a brief discussion regarding the audit findings, Vice Chairwoman Moses adjourned the meeting at 10:55 a.m.

Respectfully submitted,
Abby Frye