

STATE OF TENNESSEE

FINANCIAL REPORT

SEQUATCHIE/BLEDSON COUNTY LANDFILL

FOR THE PERIOD JULY 1, 2002,
THROUGH JUNE 30, 2004



COMPTROLLER OF THE TREASURY

Department of Audit

Division of County Audit

FINANCIAL REPORT

**SEQUATCHIE/BLEDSOE COUNTY LANDFILL
FOR THE PERIOD JULY 1, 2002, THROUGH JUNE 30, 2004**

***DEPARTMENT OF AUDIT:
JOHN G. MORGAN
Comptroller of the Treasury***

***DIVISION OF COUNTY AUDIT:
RICHARD V. NORMENT
Assistant to the Comptroller***

***ARTHUR L. ALEXANDER
Director***

***CARL LOWE, CGFM
Audit Manager***

***STEVE REEDER, CPA, CGFM, CFE
Auditor 4***

***JUNE ROGERS, CGFM
State Auditor***

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Audit Highlights

Financial Report
Sequatchie/Bledsoe County Landfill
For the Period July 1, 2002, Through June 30, 2004

Scope

We have audited the basic financial statements of the Sequatchie/Bledsoe County Landfill as of and for the two-year period ended June 30, 2004.

Results

Our report on Sequatchie/Bledsoe County Landfill's financial statements was unqualified.

Our audit resulted in two findings and recommendations, which we have reviewed with the Sequatchie/Bledsoe County Landfill management. Detailed findings and recommendations are included in this report.

The following are summaries of the audit findings:

- ◆ The Sequatchie/Bledsoe Solid Waste Board did not assume proper oversight of the landfill's operations during the period examined. Board meetings were not adequately documented, no budget was adopted for the 2002-03 year, contributions due from the participating entities were not collected on a timely basis, and accurate and current records were not maintained for landfill transactions. In addition, landfill oversight and decision-making responsibilities appeared to have been left to the landfill's chairman and treasurer.
- ◆ Duties were not segregated adequately among landfill management and employees.

INTRODUCTORY SECTION

Sequatchie/Bledsoe County Landfill Officials
June 30, 2004

David Barker, Chairman
Gregg Ridley, Treasurer
Dan Barker
Ray Hobbs
Greg Johnson
Paul Powell
Roger Simmons
Gordon Smith
George Wagner
Charles Young

FINANCIAL SECTION



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF COUNTY AUDIT
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JAMES K. POLK STATE OFFICE BUILDING
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INDEPENDENT AUDITOR'S REPORT

May 9, 2005

Board of Directors
Sequatchie/Bledsoe County Landfill

To the Board of Directors:

We have audited the accompanying financial statements of the Sequatchie/Bledsoe County Landfill as of and for the two-year period ended June 30, 2004. These statements collectively comprise the landfill's basic financial statements as listed in the table of contents and are the responsibility of the landfill's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the landfill as of June 30, 2004, and the respective changes in financial position and cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

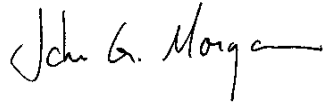
The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board; however, management has chosen to exclude a management's discussion and analysis.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the landfill's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

As described in Note I, the landfill has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as of June 30, 2004.

In accordance with Government Auditing Standards, we have also issued our report dated May 9, 2005, on our consideration of the landfill's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Very truly yours,

A handwritten signature in black ink that reads "John G. Morgan". The signature is written in a cursive style with a long horizontal stroke at the end.

John G. Morgan
Comptroller of the Treasury

JGM/yu

BASIC FINANCIAL STATEMENTS

Exhibit A

Sequatchie/Bledsoe County Landfill

Statement of Net Assets

June 30, 2004

ASSETS

Cash	\$ 284,440
Due from Other Governments	79,587
Capital Assets:	
Assets Not Depreciated:	
Land	<u>71,550</u>
Total Assets	<u>\$ 435,577</u>

LIABILITIES

Noncurrent Liabilities:	
Accrued Liability for Closure/Postclosure Care Cost:	
Due Within One Year	\$ 46,150
Due in More Than One Year	<u>1,292,200</u>
Total Liabilities	<u>\$ 1,338,350</u>

NET ASSETS

Invested in Capital Assets	\$ 71,550
Unrestricted	<u>(974,323)</u>
Total Net Assets	<u><u>\$ (902,773)</u></u>

The notes to the financial statements are an integral part of this statement.

Exhibit B

Sequatchie/Bledsoe County Landfill
Statement of Revenues, Expenses and
Changes in Net Assets
For the Period July 1, 2002, Through June 30, 2004

Operating Revenue

Miscellaneous Refunds	\$ 1,653
Total Operating Revenue	<u>\$ 1,653</u>

Operating Expenses

Accountants/Bookkeepers	\$ 8,980
Social Security Tax	1,547
Unemployment Compensation	173
Audit Services	1,757
Communications	376
Engineering Services	104,738
Closure/Postclosure Care Costs	57,000
Other Contracted Services	6,143
Electricity	320
Other Supplies	75
Other Charges	324
Total Operating Expenses	<u>\$ 181,433</u>

Operating Income (Loss)	<u>\$ (179,780)</u>
-------------------------	---------------------

Nonoperating Revenues

Contributions From Government Entities	\$ 842,532
Investment Income	4,252
Total Nonoperating Revenues	<u>\$ 846,784</u>

Change in Net Assets	\$ 667,004
Net Assets, July 1, 2002	<u>(1,569,777)</u>

Net Assets, June 30, 2004	<u><u>\$ (902,773)</u></u>
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The notes to the financial statements are an integral part of this statement.

Exhibit C

Sequatchie/Bledsoe County Landfill
Statement of Cash Flows
For the Period July 1, 2002, Through June 30, 2004

<u>Cash Flows From Operating Activities</u>	
Miscellaneous Refunds	\$ 1,659
Payments to Employees	(8,980)
Payments to Contractors	(937,423)
Other Payments	<u>(10,303)</u>
Net Cash Provided by (used in) Operating Activities	<u>\$ (955,047)</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Contributions From Government Entities	<u>\$ 842,532</u>
Net Cash Provided by (used in) Noncapital Financing Activities	<u>\$ 842,532</u>
<u>Cash Flows From Investing Activities</u>	
Investment Income	<u>\$ 4,252</u>
Net Cash Provided by (used in) Investing Activities	<u>\$ 4,252</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (108,263)
Cash, July 1, 2002	<u>392,703</u>
Cash, June 30, 2004	<u><u>\$ 284,440</u></u>
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided By Operating Activities:</u>	
Operating Income (Loss)	\$ (179,780)
Adjustments to Reconcile Net Operating Income	
to Net Cash Provided by (used in) Operating	
Activities:	
Capital Assets Exchanged to Satisfy Closure Costs	57,000
Change in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	23,354
Increase (Decrease) in Accounts Payable	(29,078)
Increase (Decrease) in Accrued Liability for Landfill	
Closure/Postclosure Costs	<u>(826,543)</u>
Net Cash Provided by (used in) Operating Activities	<u><u>\$ (955,047)</u></u>

The notes to the financial statements are an integral part of this statement.

SEQUATCHIE/BLEDSON COUNTY LANDFILL
NOTES TO THE FINANCIAL STATEMENTS
For the Period July 1, 2002, Through June 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Sequatchie/Bledsoe County Landfill's financial statements are presented in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments. In June 1999, the GASB unanimously approved Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. The landfill's board of directors has elected to implement the general provisions of the statement in the current period.

The following are the more significant accounting policies of the landfill:

A. Reporting Entity

The Sequatchie/Bledsoe County Landfill is a joint venture entered into by four governmental entities, Bledsoe and Sequatchie Counties and the cities of Dunlap and Pikeville. The landfill was formed in 1973 by agreements entered into by these governments to provide solid waste disposal to the citizens of Sequatchie and Bledsoe Counties. The landfill is administered under the oversight of a Board of Directors consisting of three people from each county and two from each city. The county mayor from each county and the mayors of each city are members of the board, and the remaining members of the board are appointed by these officials subject to the approval of their respective governing bodies. The landfill stopped accepting waste in May 1999, and closure of the landfill site was concluded in November 2003. The landfill board will continue to oversee the necessary post-closure activities at the site until the members dissolve the original agreement. The landfill employs a part-time bookkeeper.

Sequatchie and Bledsoe Counties share equally in earnings and/or losses of the landfill. The cities of Dunlap and Pikeville share in any income/loss derived from the operations of the landfill in a ratio equal to the proportion that each city's population bears to the total population of its respective county.

The 1990 federal census was used to determine fund equity. The percentages were not adjusted to reflect the 2000 federal census because the landfill stopped accepting waste in 1999. Fund equity was determined using the following percentages:

Sequatchie County	28.5%
City of Dunlap	21.5
Bledsoe County	39.0
City of Pikeville	<u>11.0</u>
Total	<u>100%</u>

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The landfill’s financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the landfill’s financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. The landfill is maintained as a proprietary (enterprise) fund. Since the landfill no longer accepts waste, the principal operating revenues of the landfill are the contributions from the governments involved and interest earned on the landfill’s demand deposit account. Operating expenses for the landfill include administrative expenses, engineering fees, and post-closure care costs.

When both restricted and unrestricted resources are available for use, it is the government’s policy to use restricted revenues first, then unrestricted resources as they are needed.

C. Assets, Liabilities, and Net Assets

1. Deposits

For purposes of the statement of cash flows, cash includes demand deposits held by the landfill.

2. Receivables

Due from other governments of \$79,593 on the landfill’s statement of net assets represents uncollected appropriations and reimbursements from the governments participating in the joint venture.

3. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of \$5,000 or more and an estimated useful life of more than two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

4. Long-term Obligations

In proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Debt premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt using the straight-line method. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

5. Net Assets

In proprietary fund financial statements, equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Net Assets Deficit

The Sequatchie/Bledsoe County Landfill had a net assets deficit of \$902,767 at June 30, 2004. This net asset deficit resulted from the recognition in the financial statements of a liability of \$1,338,350 post-closure care costs. This liability represents accruals calculated according to estimates of annual post-closure care costs provided by the landfill's engineer. The landfill board plans to fund these costs using the cash balance as of June 30, 2004, and annual funding requirements from the four governments involved in the joint venture.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits

Cash on the statements of net assets (Exhibit A) consists entirely of demand deposits maintained by the landfill's treasurer.

Deposits – All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Participating banks determine the aggregate balance of their public fund accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must equal at least 105 percent of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the state treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the county.

The carrying amount and the bank balance of the landfill's deposits with financial institutions were \$284,440. These deposits are categorized as follows to give an indication of the level of risk assumed at year-end. Category 1 includes deposits insured or collateralized with securities held by the entity or its agent in the entity's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's agent or trust department in the entity's name. Category 3 includes deposits

uncollateralized or collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the entity's name. Category 1 deposits were \$284,440.

B. Capital Assets

Capital asset activity for the period July 1, 2002, through June 30, 2004, was as follows:

Proprietary Fund:

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2004
Capital Assets Not Depreciated:				
Land	\$ 71,550	\$ 0	\$ 0	\$ 71,550
Total Capital Assets, Not Depreciated	<u>\$ 71,550</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 71,550</u>
Capital Assets Depreciated:				
Buildings and Improvements	\$ 6,955	\$ 0	\$ (6,955)	\$ 0
Machinery and Equipment	160,222	0	(160,222)	0
Total Capital Assets, Depreciated	<u>\$ 167,177</u>	<u>\$ 0</u>	<u>\$ (167,177)</u>	<u>\$ 0</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	\$ 6,955	\$ 0	\$ (6,955)	\$ 0
Machinery and Equipment	103,222	57,000	(160,222)	0
Total Accumulated Depreciation	<u>\$ 110,177</u>	<u>\$ 57,000</u>	<u>\$ (167,177)</u>	<u>\$ 0</u>
Total Capital Assets Depreciated, Net	<u>\$ 57,000</u>	<u>\$ (57,000)</u>	<u>\$ 0</u>	<u>\$ 0</u>
Governmental Activities Capital Assets, Net	<u><u>\$ 128,550</u></u>	<u><u>\$ (57,000)</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 71,550</u></u>

During the period examined, the landfill board contracted to place the final cover over the landfill site. During the closure process, a change order was issued for some additional ponds to be built on the landfill site. The landfill

board negotiated with the contractor to exchange the capital assets held by the landfill for the additional work to be performed. As shown in the above table, a \$57,000 expense was necessary to fully depreciate the landfill's assets during the period. Due to the exchange of these assets for closure work, this amount was presented in the financial statements of the landfill as closure expense rather than depreciation expense, and the assets were eliminated from the landfill's statement of net assets. The only capital asset listed on the landfill's financial statements at June 30, 2004, was the landfill site itself.

C. Long-term Liabilities

Long-term liability activity for the period July 1, 2002, through June 30, 2004, was as follows:

	<u>Landfill Closure/ Postclosure Care Costs</u>
Proprietary Fund:	
Balance, July 1, 2002	\$ 2,164,893
Additions	0
Deductions	<u>(826,543)</u>
Balance, June 30, 2004	<u>\$ 1,338,350</u>
Balance Due Within One Year	<u>\$ 46,150</u>

The decrease noted in the landfill closure/post-closure care costs liability was due to the cost of the closure contract being fully paid during the period examined. The balance on hand at June 30, 2004, represents the full accrual of the estimated post-closure care costs at the landfill site based on the landfill engineer's estimated annual cost.

IV. OTHER INFORMATION

A. Risk Management

Sequatchie and Bledsoe Counties provide for general liability, property, and casualty risks of loss at the landfill site through policies carried by the respective counties. Both Sequatchie and Bledsoe Counties provide for these types of risks through participation in public entity risk pools.

B. Contingent Liabilities

The attorney for the landfill stated that there was no threatened or pending litigation involving the landfill or its board at June 30, 2004.

C. Change in Administration

Connie Easterly resigned from the Office of Sequatchie County Mayor and as landfill chairman effective June 24, 2004, and was succeeded by David Barker on June 25, 2004. Mr. Barker also assumed the duties of landfill chairman on that date.

D. Landfill Closure/Post-closure Care Costs

State and federal laws and regulations require the county to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. These closure and post-closure care costs generally are paid near or after the date that the landfill stops accepting waste. The Sequatchie/Bledsoe County Landfill stopped accepting waste in May 1999. During the period examined, the final cover was placed on the landfill site and the closure contract was fully executed at a cost of \$826,543. Final payment on the closure contract was made in November 2003. The \$1,338,350 reported as landfill post-closure care liability at June 30, 2004, represents the amount of post-closure expenses estimated by the landfill's engineer based on the use of 100 percent of the estimated capacity of the landfill. Actual costs may fluctuate due to variable factors such as inflation, changes in technology, or changes in regulations.

E. Closure Cost Financing

The closure costs of the landfill were financed through the issuance of separate capital outlay notes by the participating governments. The total amount of notes issued was \$600,000, and they were issued by the four governments according to their percentages of fund equity. The proceeds of these notes went to the respective governments, and the total amount was contributed to and held by the landfill for payment on the closure contract.

The repayment of these notes is the responsibility of the individual governments involved; therefore, no long-term liability is reflected in the financial statements of the landfill. The payment of the principal and interest on these notes will reduce the annual contribution to the landfill by each government until the notes are retired.

F. Purchasing Laws

The landfill operates under the purchasing laws applicable to the Office of the County Mayor of Bledsoe County. Bledsoe County's purchasing procedures are governed by provisions of the County Purchasing Law of 1983, Sections 5-14-201 through 5-14-206, Tennessee Code Annotated, which provide for purchases exceeding \$5,000 to be made after public advertisement and solicitation of competitive bids.



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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

May 9, 2005

Board of Directors
Sequatchie/Bledsoe County Landfill

To the Board of Directors:

We have audited the financial statements of the Sequatchie/Bledsoe County Landfill for the period July 1, 2002, through June 30, 2004, and have issued our report thereon dated May 9, 2005. We conducted our audit in accordance with the auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the landfill's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed a material instance of noncompliance that is required to be reported under Government Auditing Standards and is described in the accompanying Schedule of Findings and Recommendations as item 04.01. In addition, we noted certain other, less significant instances of noncompliance that we have reported to management in separate communications.

Internal Control Over Financial Reporting

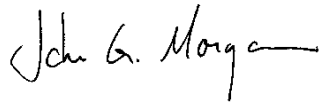
In planning and performing our audit, we considered the landfill's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the

internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the landfill's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 04.02.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of the Board of Directors of the Sequatchie/Bledsoe County Landfill and is not intended to be and should not be used by any other parties. However, this report is a matter of public record.

Very truly yours,



John G. Morgan
Comptroller of the Treasury

JGM/yu

Sequatchie/Bledsoe County Landfill
Schedule of Audit Findings Not Corrected
June 30, 2004

Government Auditing Standards require auditors to report the status of uncorrected findings from prior audits. Presented below are findings from the audit report of the Sequatchie/Bledsoe County Landfill for the year ended June 30, 2002, which have not been corrected.

<u>Finding Number</u>	<u>Page Number</u>	<u>Subject</u>
02.01	21	The Landfill Board Did Not Assume Oversight Responsibility for the Landfill Operation
02.03	23	Duties Were Not Segregated Adequately

FINDINGS AND RECOMMENDATIONS RELATING TO THE FINANCIAL STATEMENTS

Findings and recommendations as a result of our examination are presented below. We have reviewed these findings and recommendations with management to provide an opportunity for their response. Management did not offer written responses to the findings and recommendations. Officials did offer oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

**FINDING 04.01 THE LANDFILL BOARD DID NOT ASSUME OVERSIGHT
RESPONSIBILITY FOR THE LANDFILL OPERATION**
(Material Noncompliance Under Government Auditing Standards)

The Sequatchie/Bledsoe Landfill is a joint venture established in 1973 by interlocal agreements entered into by Bledsoe and Sequatchie Counties and the cities of Dunlap and Pikeville. The interlocal agreements established the Sequatchie/Bledsoe Solid Waste Board to administer the operations of the landfill and established guidelines for the board's operations. Based on these agreements, we noted the following deficiencies in the administration and operation of the landfill for the two-year period ended June 30, 2004:

- A. For the two-year period examined, the only documented meeting of the board was on August 1, 2003. The interlocal agreements establishing the board require it to have monthly meetings. In the minutes of the August 2003 meeting, the board voted to hold two regular meetings per year, in November and June. The treasurer stated that the board had met in November and June and that there had been at least two other meetings held during the period. However, no documentation was available to verify these proceedings. The failure to document the meetings of the board weakens the board's control over the operations of the landfill.

- B. The board did not adopt an operating budget for the 2002-03 year. Instead, the board treasurer billed each government based on contribution amounts established for the 2000-01 year. The interlocal agreements establishing the board require it to approve an annual budget that includes the percentage and amount of contribution required from each government. The agreements further prohibit expending any monies until a budget has been approved. Without a budget approved by the board, the treasurer performed landfill operations without proper oversight and requested contributions without the board's approval.

- C. The board did not take steps to collect contributions and reimbursements totaling \$79,587 due from participating counties and cities at June 30, 2004. The following chart reflects the amounts due from participating governments at June 30, 2004:

Sequatchie County:			
Unpaid appropriation 2003-04		## \$	34,748.90
Bledsoe County:			
Unpaid appropriation 2001-02	\$ 35,663.00	**	
Diesel fuel purchased in error from the landfill account in 2000-01. To be refunded from Solid Waste Fund.	<u>2,469.25</u>	**	
Total due from Bledsoe County			38,135.37
City of Pikeville:			
Unpaid appropriation 2003-04			<u>6,705.78</u>
Total unpaid funding due to landfill at 6/30/04			<u>\$ 79,586.93</u>

This amount was paid by Sequatchie County in August 2004.

** These amounts were paid by Bledsoe County in February 2005.

- D. The interlocal agreements require that the board chairman ensure that adequate accounting procedures are used so that all financial records are maintained accurately and kept current. We noted the following deficiencies in the maintenance of the landfill's accounting records:
1. The accounting records of the landfill were not maintained on a timely basis. When we arrived in March 2005 to perform the audit, revenue had not been posted to the records since the 2001-02 fiscal year. Also, the audit adjustments from the fiscal year ended June 30, 2002, had not been posted to the records. At our request, the landfill bookkeeper posted all of the transactions up to June 30, 2004.
 2. The bank statements for the two-year audit period had not been reconciled with accounting records when we arrived in March 2005. The bookkeeper had reviewed the bank statements and created outstanding check lists; however, the bookkeeper was not able to reconcile the bank account with the accounting records because the records were not properly posted. Again, at the our request, the bookkeeper prepared reconciliations of the bank statements with the accounting records up to June 30, 2004.
 3. The board chairman did not make an annual report to the governing bodies of the participating counties and cities, as required by the interlocal agreements. Because the annual report was not presented to these governing bodies, they were not aware of the transactions or financial position of the landfill during the audit period, including the amount of unpaid contributions.

After analyzing these deficiencies, we conclude that the Sequatchie/Bledsoe Solid Waste Board did not properly function as the oversight agency for the operations of the landfill during the period examined. Landfill oversight and decision-making responsibilities appear to have been left entirely to the chairman and the treasurer.

RECOMMENDATION

The Sequatchie/Bledsoe Solid Waste Board should function as the oversight agency for the landfill by setting and adhering to regular meeting times, as required by interlocal agreements, and by approving an annual budget and the contributions required from each county and city. Furthermore, the board should require detailed and timely reporting of the landfill's transactions and financial position.

FINDING 04.02 DUTIES WERE NOT SEGREGATED ADEQUATELY
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among management and employees of the Sequatchie/Bledsoe County Landfill. The employee responsible for maintaining accounting records was also involved in receipting, depositing, and/or disbursing funds. We realize that due to limited resources and personnel, management may not be able to properly segregate duties among employees. However, our professional standards require that we bring this matter to the reader's attention in this report.