

Contract Audit Updates

Contract Review Team Members
Division of Local Government Audit

September 5, 2024

TENNESSEE COMPTROLLER OF THE TREASURY



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Overview




- Audit Manual Updates
- Segregation of Duties
- Auditor Inquiries



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Manuals

- › Audit Manual
- › Internal Control and Compliance Manual
- › E911 Manual
- › Confidential Drug Funds Manual
- › School Support Organizations Procedures Manual
- › Internal School Funds Manual
- › Volunteer Fire Departments Financial Reporting and Procedures Manual

 <small>Manual Version - June 2024 PDF Version - June 2024</small>	 <small>PDF Version - December 2015</small>
 <small>Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts PDF Version - Amended 2022</small>	 <small>PDF Version - June 2021</small>
 <small>School Support Organizations PDF Version - May 2020</small>	 <small>Internal School Funds Manual PDF Version - July 2023</small>
 <small>Volunteer Fire Department Manual PDF Version - August 2024</small>	 <small>Internal School Funds (R2) Manual Version - July 2023</small>

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Section A – General Information

- Updated Wording
 - Special Audit-Related Services
 - Indemnification Clauses
 - Comptroller Referrals
 - Corrective Action Plan

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Section C - Municipalities

- New Schedule
 - Schedule of Internal Receivables and Payables

Example Schedule - Section 897.5, June 2024

Schedule of Internal Receivables and Payables

Year of Availability
Schedule of Internal Receivables and Payables
June 30, 2024

	Due from										Total
	General Fund	State	Federal	Private	Other	Interfund	Other	Private	Other	Total	
General Fund	1,000,000	-	-	-	-	-	-	-	-	-	1,000,000
State	-	50,000	-	-	-	-	-	-	-	-	50,000
Federal	-	-	100,000	-	-	-	-	-	-	-	100,000
Private	-	-	-	200,000	-	-	-	-	-	-	200,000
Other	-	-	-	-	100,000	-	-	-	-	-	100,000
Interfund	-	-	-	-	-	500,000	-	-	-	-	500,000
Other	-	-	-	-	-	-	100,000	-	-	-	100,000
Total	1,000,000	50,000	100,000	200,000	100,000	500,000	100,000	-	-	-	2,050,000

Notes:
 (1) Amounts due between Government Departments should be reported on the schedule.
 (2) Long-term debt should be reported on the schedule.

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Section D – Special Purpose Governments

- Municipal Energy Authorities Guidance



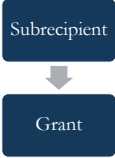
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Section E – Nonprofit Organizations

- Updated Wording




Section G – Medical Waiver Program

- Updated Wording



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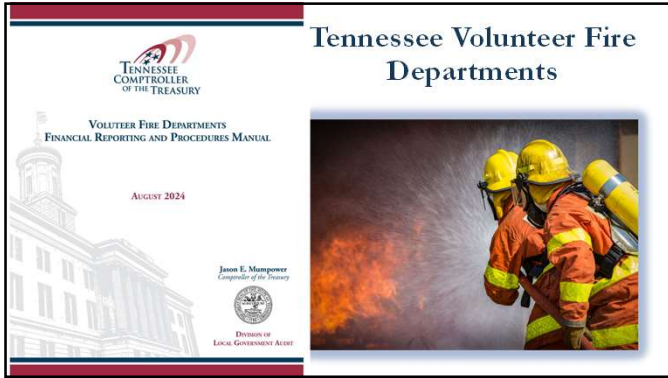
Appendix B – Current Developments and Other Matters

- Municipal Chart of Accounts
- Cyber Security Finding
- New and Prior Legislation
 - TCA Section 67-4-1403 – Occupancy Tax Reporting
 - TCA Section 4-1-422 – United Nations Policies
- Current Developments

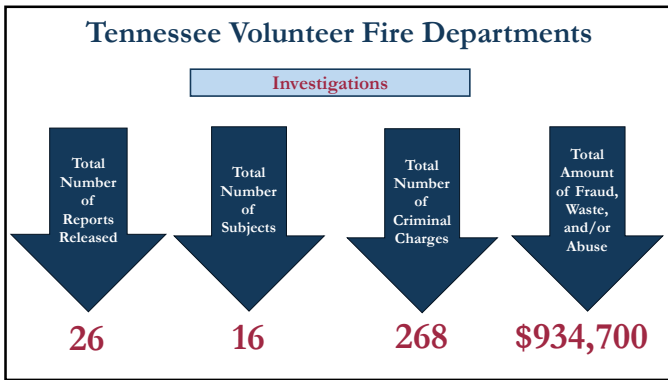
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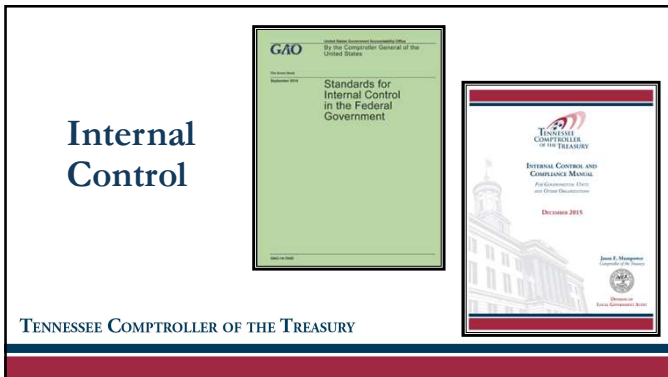
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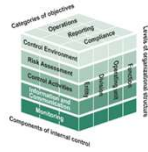
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What is Internal Control?

- a process that is developed by the municipality to provide reasonable assurance that the following categories of objectives will be achieved:
 - Reporting – financial reporting will be reliable;
 - Operations – effectiveness and efficiency of operations; and
 - Compliance – compliance with applicable laws, regulations, contracts and grant agreements.



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Segregation of Duties

or a lack thereof...

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How big of an issue is this?

- Municipalities – 40.5%
- Counties – 11.6%
- County related entities – 14.6%

SCHEDULE OF DISPOSITION OF PRIOR YEAR FINDINGS FOR THE FISCAL YEAR ENDED JUNE 30, 2023

Financial Statement Findings			
Finding Number	Segregation of Original Finding	Finding Title	Status
2022-001	20216-001	Segregation of Duties	Repeated 2023-001

Schedule of Disposition of Prior Year Comments June 30, 2023

Finding Number	Finding Title	Status
2022-001	Segregation of Duties	Repeated

The original finding number was 2005-001. The current finding number is 2023-001.



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Corrective Action Plans

2023-001 Segregation of Duties (Internal Control)

Contact person: _____

Planned Corrective Action: 2023-001 Inadequate Segregation of Duties – Significant Deficiency

Anticipated Segregation of Duties: None. For adequate separation of duties, the employee who writes receipts, prepares statements and does not allow the Treasurer to sign statements cannot give the Treasurer the optimum legal defense.

Anticipated Corrective Action: 2023-001 Segregation of Duties – significant deficiency


Anticipated Segregation of Duties: To the best of our abilities, we will continue to segregate duties as much as possible. We realize the staff size will not allow us to completely segregate duties to the optimum legal defense.

Anticipated Corrective Action: 2023-001 Segregation of Duties

Recommendation: A thorough study of the internal control aspect of the accounting system should be considered by the City.

Action Taken: The Board is currently not capable of establishing a complete segregation of duties as a result of the time requirements necessary for the board members and a lack of funding available for additional staff.

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Segregation of Duties Checklists

comptroller.tn.gov




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Receipting and Depositing

	Daily Receipting and Depositing								Determine that the Trial Balance is in Balance	
	Maintain Separate Cash Drawers	Issue Receipts	Stamp All Checks for Deposit Only when Received	Issue Manual Receipts if Utilized	Post Receipts to Accounting Records	Verify that Mail-In and Manual Receipts were Recorded	Count Cash	Create Daily Deposit		Carry Deposit to Bank
Two-Person Office										
Official	X	X	X	X	X	X	X	X	X	X
Employee #1	X	X	X	X	X	X	X	X	X	X
Three-Person Office										
Official	X	X	X	X	X	X	X	X	X	XX
Employee #1	X	X	X	X	X	X	X	X	X	X
Employee #2 - Bookkeeper						XX	X	X	X	X

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Purchasing – Requesting and Approval

	Obtain Requisition From Department Staff For Purchase	Issue Detailed Purchase Order for Approval	Approve the Purchase Order	Order Goods/Services Based on Approved Purchase Order	Record Purchase Orders Against Departmental Budget	Receive Ordered Goods/Services	Sign Invoice or Shipping Document, Indicating the Goods/Services Were Received	Match Shipping Invoices, Purchase Order and Check for Signature	Approve Check for Payment	Determine the Disposition of any Unused Purchase Orders
Two-Person Office:										
Official			XX							XX
Employee #1	X	X		X	X	X	X	X		
Department Head			XX							
Department Employee						X	X			X
Three-Person Office:										
Official			X							XX
Employee #1	X	X		X	X	X	X	X		X
Employee #2 - Bookkeeper										
Department Head			X							
Department Employee				X		X	X			X

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Purchasing - Payment

	Issuing Checks			Monthly Bank Reconciliation		
	Non Payroll Checks	Signature Authority	Post Checks to Accounting Records	Receive, Open, and Review Bank Statements and Cancelled Checks	Perform Bank Reconciliation	Review Bank Reconciliation and Trace Reconciling Items and Balance to Acct. Records
Two-Person Office:						
Official						
Employee #1	X	X	X	X	X	X
Three-Person Office:						
Official		XX				XX
Employee #1	X	X		X	X	X
Employee #2 - Bookkeeper	X		X		X	

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Payroll

	Issuing Payroll Checks								
	Collect Time sheets, Calculate Hours and Leave	Approve Leave Balances and Time sheets	Write Checks	Manual System: Record the Checks in the Payroll Ledger	Determine that Payroll Deductions Clear out for each Payroll	Determine Amount of Payroll Tax Deposit	Approve and Make Payroll Tax Deposit	Signature Authority: Verify Auth. Sign and Mail/Deliver Checks	Post Checks to Accounting Records
Two-Person Office:									
Official									
Employee #1	X	X	X	X	X	X	X	XX	X
Three-Person Office:									
Official		X						XX	
Employee #1	X				X	X	X	X	X
Employee #2 - Bookkeeper			X	X		X			X

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Journal Entries

Entering Journal Entries and Transfers				
	Prepare and Document the Journal Entry	Approve Journal Entries	Post Journal Entries to Accounting Records	Review Accounting Records for Proper Posting
<i>Two-Person Office:</i>				
Official		X		X
Employee #1	X		X	
<i>Three-Person Office:</i>				
Official		X		XX
Employee #1	XX			X
Employee #2 - Bookkeeper	X		X	

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Reminders

- Update any written policies and procedures
- Discuss any changes with your auditor

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**Required Inquiries
Planning**


- Reporting Entity
 - Component Units
 - Related Organizations
- Compliance with laws, regulations, contracts and grant agreements
 - What compliance requirements exist
 - Have those been complied with
- Findings from previous audits or monitoring reports
- Fraud risks

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**Required Inquiries
Understanding Entity**


- Understanding of Entity and Environment
 - Entity structure
 - Governance
- Understanding of Internal Control
 - Control environment
 - Risk assessment process
 - Information system and communication
 - Monitoring
 - Control activities

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**Required Inquiries
Finalizing**

- Going Concern
- Related Parties
- Commitments and Contingencies
- Subsequent Events
- Status of prior year Corrective Action Plans

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Representation Letter Responsibility

- Internal Control
- Required Supplementary Information
- Supplementary Information
- Other Information
- Nonaudit Services

3) We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

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Representation Letter Inquiries

15) We have no knowledge of any allegations of fraud or suspected fraud affecting the financial statements communicated by employees, former employees, regulators, or others.


16) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or waste or abuse, whose effects should be considered when preparing financial statements.

17) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

18) We have disclosed to you the names of the related parties and all the related party relationships and transactions, including any side agreements.

- Fraud
- Noncompliance
- Related parties
- Subsequent events
- Litigation, claims and assessments

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Representation Letter GASB Statements


- Fiduciary activities
- Leases
- Conduit debt
- SBITAs
- Asset Retirement Obligations

27) We have appropriately identified, recorded, and disclosed all leases in accordance with GASBS No. 87.

28) We have appropriately disclosed or recognized conduit debt obligations and/or certain arrangements associated with conduit debt obligations in accordance with GASBS No. 91.

29) We have appropriately identified, recorded, and disclosed subscription-based information technology arrangements in accordance with GASBS No. 96.

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Representation Letter Financial Statements

39) Components of net position (net investment in capital assets; restricted, and unrestricted) and classifications of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.


40) Investments, derivative instrument transactions, and land and other real estate held by endowments are properly valued.

41) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

42) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

- Major funds
- Investments
- All material transactions are recorded
- Proper classification
 - Revenues and expenses
 - Assets and liabilities
 - Net position
 - Fund balance

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Representation Letter Audits and Investigations

- Regulatory agency communications
- Audit findings and recommendations
- Investigations
- Corrective action plans
- Budget violations


21) We have a process to track the status of audit findings and recommendations.

22) We have identified to you any previous audits, attestation engagements, and other studies related to the objectives of the audit and whether related recommendations have been implemented.

23) We have identified to you any investigations or legal proceedings that have been initiated with respect to the period under audit.

24) We have provided our views on reported findings, conclusions and recommendations as well as our planned corrective actions, for the report.

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Representation Letter Miscellaneous

- Component units properly included
- Estimates
- Guarantees
- Modified Infrastructure
- Pension/OPEB
- Tax abatements
- Federal representations

Tax abatement agreements have been properly disclosed in the notes to the financial statements, including the names of all governments involved, the gross amount and specific taxes abated, and additional commitments.

We believe that the actuarial assumptions and methods used to measure pension and OPEB liabilities and costs for financial accounting purposes are appropriate in the circumstances.

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Questions?



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Contact Information

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