

Contract Audit Updates

Justin Garcia and Matt Piland, CMFO
Division of Local Government Audit

November 6, 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	Other	Other	Other	Other	Other	
General Fund	1,234,567										1,234,567
State		567,890									567,890
Federal			123,456								123,456
Private				345,678							345,678
Other					789,012						789,012
Total	1,234,567	567,890	123,456	345,678	789,012						2,960,503

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



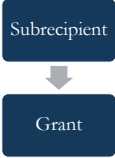
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Section E – Nonprofit Organizations

- Updated Wording




Section G – Medical Waiver Program

- Updated Wording



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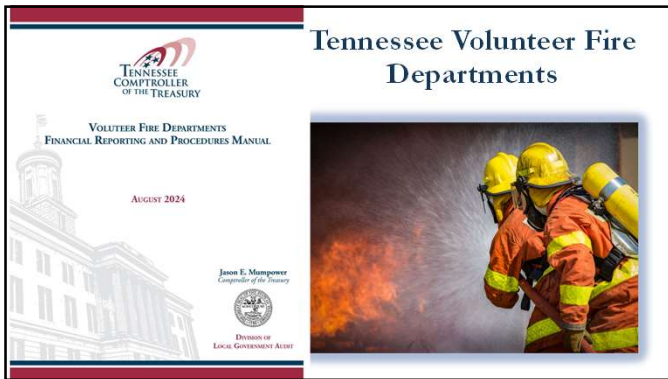
Appendix B – Current Developments and Other Matters

- 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

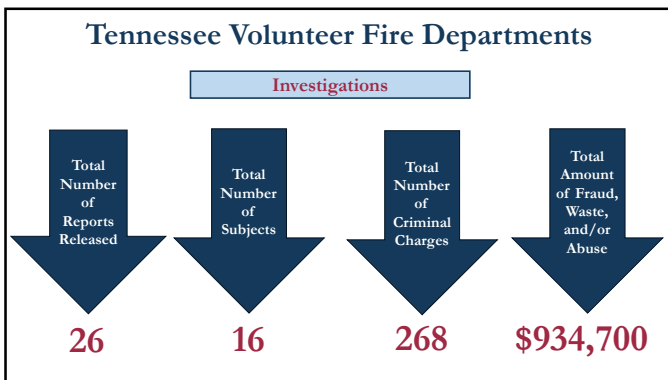
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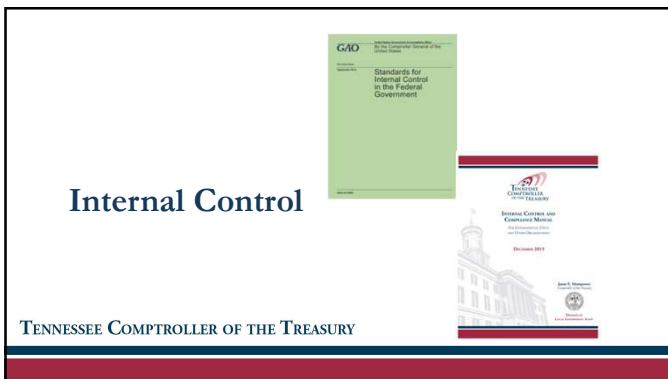
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What is Internal Control?

- 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?

- Segregation of duties was the most common finding issued to municipalities in 2023.
- 2023 municipal report statistics
- What does this say about our corrective action plans?
- Complacency?

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

CITY OF ██████████ TENNESSEE
Schedule of Disposition of Prior Year Findings
June 30, 2023

Finding Number	Finding Title	Status
2022-001	Segregation of Duties - Internal Control System	Reopened

Financial Statement Findings

Finding Number	Finding Title	Status
2022-001	Segregation of Duties - Internal Control System	Reopened

The original finding number was 2007-001. The current finding number is 2023-001.



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Complacent Corrective Action Plans

Management's Corrective Action Plan

Audit period: June 30, 2023

The findings from the June 30, 2023, Schedule of Findings and Responses are discussed below.

2023-001 Segregation of Duties (Internal Control)

Context: **[REDACTED]**

Planned Corrective Action: It is not economically feasible at this time to hire a sufficient number of people to adequately segregate the duties. The Board of Commissioners continues to monitor our finances and internal controls.

Anticipated completion date: Unable to correct, duties are segregated as much as reasonably possible considering the size of the schools.

Responsible party: Each individual school's principal

Management's Corrective Action Plan

Findings: **2023-001 INADEQUATE SEGREGATION OF DUTIES**

Complacent action planned: The **[REDACTED]** have employed a full-time bookkeeper at each school and provided training through attendance at workshops, accounting system vendor and in-house support from the board of education. Principals will review procedures and develop plans to implement segregation of duties within the constraints of the limited office staff.

Anticipated completion date: Unable to correct, duties are segregated as much as reasonably possible considering the size of the schools.

Responsible party: Each individual school's principal

Management's Corrective Action Plan

Audit period: June 30, 2023

The findings from the June 30, 2023, Schedule of Findings and Responses are discussed below.

2023-002 Segregation of Duties (Internal Control)

Context: **[REDACTED]**

Planned Corrective Action: It is not prudent at this time to hire a sufficient number of people to adequately segregate the duties. The Mayor and the Board of Commissioners continue to monitor our finances and internal control.

Anticipated completion date: No date.

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How can we fix it?

Accounting & Auditing Information

• comptroller.tn.gov

Tennessee Comptroller of the Treasury

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How can we fix it when receipting and depositing?

Daily Receipting and Depositing

	Maintain Separate Cash Drawers (9)	Stamp All Issues (10)	Check for Properly Issued Receipts (11)	Issue Manual Receipts (12)	Post Receipts to Accounting Records (13)	Verify that Manual and Manual Receipts were Recorded (14)	Count Cash and Check Out to Current Amount of Cash (15)	Deposit All Cash (16)	Verify Cash Deposits (17)	Verify Cash Deposits (18)	Verify Cash Deposits (19)	Verify Cash Deposits (20)	Verify Cash Deposits (21)	Verify Cash Deposits (22)	Verify Cash Deposits (23)	Verify Cash Deposits (24)
Two-Person Office:																
Official:	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Employee #1:	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Three-Person Office:																
Official:	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Employee #1:	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Employee #2: Bookkeeper:																

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How can we fix it when purchasing?

	Purchasing									
	Obtain Requisition Form	Issue Detailed Purchase Order for Purchase (I)	Approve the Purchase Order (II)	Order Goods/Services Based on Approved Purchase Order (III)	Reveal Purchase Order Departmental Budget (IV)	Review Order, Goods/Services Received (V)	Sign Invoice or shipping Documents Indicating the Goods/Services Were Received (VI)	Match Shipping Documents, Purchase Order, and Check for Signatures (VII)	Approve Check for Payment (VIII)	Determine the Disposition of any Unused Purchase Orders (IX)
Two-Person Office:										
Official	X	X	XX	X	X	X	X	X	X	X
Employee #1										
Employee #2 - Bookkeeper										
Three-Person Office:										
Official	X	X	X	X	X	X	X	X	X	X
Employee #1										
Employee #2 - Bookkeeper										
Employee #3										

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How can we fix it during payroll?

	Issuing Payroll Checks								
	Collect Time-sheets, Calculate Hours and Leave (I)	Approve Leave Time-sheets (II)	Write Checks (III)	Manual System: Record the Checks in the Payroll Ledger (IV)	Determine that Payroll Deductions Clear out for each Payroll (V)	Determine Amount of Payroll Tax Deposit (VI)	Approve and Make Payroll Tax Deposit (VII)	Signature Authority: Verify and Sign and Mail/Deliver Checks (VIII)	Post Checks to Accounting Records (IX)
Two-Person Office:									
Official	X	X	X	X	X	X	X	X	X
Employee #1									
Three-Person Office:									
Official	X	X	X	X	X	X	X	X	X
Employee #1									
Employee #2 - Bookkeeper									

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How can we fix it when doing journal entries?

	Entering Journal Entries and Transfers			
	Prepare and Document the Journal Entry (I)	Approve Journal Entries (II)	Post Journal Entries to Accounting Records (III)	Review Accounting Records for Proper Posting (IV)
Two-Person Office:				
Official	X	X	X	X
Employee #1				
Three-Person Office:				
Official	X	X	X	X
Employee #1				
Employee #2 - Bookkeeper				

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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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Contact Information

<p>Justin Garcia Contract Audit Review Specialist Division of Local Government Audit 615-401-7810 Justin.Garcia@cot.tn.gov</p>	<p>Matt Piland, CMFO Contract Audit Review Specialist Division of Local Government Audit 615-401-7889 Matt.Piland@cot.tn.gov</p>
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