

Anderson County Board of Commissioners

Audit Committee

AGENDA

February 8, 2016

4:30 p.m. in room 118A

Audit Committee

Seven (7) Members to be comprised of members of the County Commission, citizens of Anderson County, or a combination of both, as determined by the Audit Committee.

Applicants: Commissioner Chuck Fritts

Comprehensive Annual Financial Report

Finding 2015-001 - The Office of Circuit, General Sessions and Juvenile Courts Clerk

Old Business

New Business

Adjournment

Mary Murphy

From: Charles Fritts [cf3533@msn.com]
Sent: Tuesday, January 12, 2016 1:59 PM
To: Mary Murphy; myron lwanski
Subject: Re: New Audit Committee membership

My name is Chuck Fritts. I'm presently serving on the Audit Committee and I would like to continue to do so. How's that?

Chuck Fritts

On Jan 12, 2016, at 1:49 PM, Mary Murphy <mmurphy@andersontn.org> wrote:

Commissioners:

Attached is the Audit Committee resolution that passed at Operations Committee last night. It calls for a 7 member committee. The Audit Committee will meet in February, as per the resolution, to select the new members. If you would like to be considered please send me or the current Audit Committee Chairman, Commissioner lwanski your name and why you would like to be on the audit committee.

Thanks!!

Mary E. Murphy

Chief Deputy to the Anderson County Commission

Certified Public Administrator

Telephone (865) 463-6866

Fax (865) 457-6264

Web Site www.andersontn.org

<Audit+Committee+Resolution 011916 _2_.pdf>

Anderson County
Board of Commissioners
RESOLUTION NO. 16-01-569

RESOLUTION TO ESTABLISH AN AUDIT COMMITTEE

WHEREAS, *Tennessee Code Annotated* (T.C.A.) Section 9-3-405, encourages county governments to establish an independent Audit Committee, and provides that the Tennessee Comptroller of the Treasury (Comptroller) may require an Audit Committee in counties that (1) are in noncompliance with the accounting and financial reporting standards required by the Governmental Accounting Standards Board or have recurring findings from the annual audit for three or more consecutive years that are determined by the Comptroller's office to be a material weakness in internal control or material noncompliance with government auditing standards; and

WHEREAS, the Comptroller and the Government Finance Officers Association of the United States and Canada recommends that all county governments establish an Audit Committee as a best practice and to assist the County Commission in the oversight of the public funds and financial reporting process; and

WHEREAS, the Anderson County Commission realizes the need, especially in today's current environment of fewer available resources, for increased transparency and accountability of public funds, and that the County Commission is ultimately responsible for ensuring that management is meeting its internal control and financial reporting responsibilities; and

WHEREAS, the County Commission finds it to be in the best interests of Anderson County to establish an Audit Committee;

NOW THEREFORE, BE IT RESOLVED by the County Commission of Anderson County, meeting this 19th day of January, 2016, that:

SECTION 1. Pursuant to the provisions of T.C.A. § 9-3-405, the County Commission of Anderson County does hereby establish an Audit Committee to provide independent review and oversight of the county's financial reporting processes and the county's internal controls, a review of the external auditor's report and follow-up on management's corrective action, and compliance with laws, regulations, and ethics.

SECTION 2. The Audit Committee will consist of seven (7) members, to be comprised of members of the County Commission, citizens of Anderson County, or a combination of both, as determined by the Audit Committee. To insure the committee's independence and effectiveness, no Audit Committee member will be an elected official (with the exception of elected County Commissioners), employee, spouse of an official/employee, or person that commingles assets with an official/employee of

Anderson County. While committee members need not be accountants, they should possess sufficient knowledge and experience in finance, business, and accounting to discharge the committee's duties. The members of the Audit Committee shall be appointed by the County Commission to staggered four (4) year terms. To establish staggered terms, the initial members of the committee shall be appointed so that four (4) of the members serve three (3) year terms and three (3) members serve one (1) year terms. Thereafter all members shall be appointed to serve four (4) year terms as appointed by the Anderson County Commission at its September meeting.

SECTION 3. Meetings of the Audit Committee shall be held in accordance with the provisions of T.C.A. § 9-3-405. Meetings shall be subject to the open meetings provisions of T.C.A. Title 8, Chapter 44, except that upon a majority vote of those members in attendance for the public portion of a meeting, the Audit Committee may hold confidential, nonpublic executive sessions to discuss the following items as authorized in T.C.A. § 9-3-405:

- (1) Items deemed not subject to public inspection under T.C.A. §§ 10-7-503 and 10-7-504, and all other matters designated as confidential or privileged;
- (2) Current or pending litigation and pending legal controversies;
- (3) Pending or ongoing audits or audit related investigations;
- (4) Information protected by federal law; and
- (5) Matters involving the reporting of illegal, improper, wasteful, or fraudulent activity under T.C.A. § 9-3-406, where the informant has requested anonymity.

The Audit Committee will follow Roberts Rules of Order. Each year at its first meeting, the committee will elect a chairman, vice-chairman, and secretary. Meeting agendas will be prepared by the chairman and provided in advance to members along with appropriate briefing materials. Minutes of the Audit Committee meetings will be filed in the Office of the County Clerk.

SECTION 4. The committee shall have access to the services of a financial expert, either through a committee member or an outside party engaged by the committee for this purpose. Such financial expert should, through both education and experience, and in a manner specifically relevant to the county government sector, possess (1) an understanding of generally accepted accounting principles and financial statements; (2) experience in preparing or auditing financial statements of comparable entities; (3) experience in applying such principles in connection with the accounting for estimates, accruals, and reserves; (4) experience with internal accounting controls; and (5) an understanding of Audit Committee functions.

SECTION 5. The duties and responsibilities of the Audit Committee are:

(a) To participate in the entrance conference of the annual audit in order to discuss planning and areas of potential concern and to meet with the external auditor prior to commencement of the annual audit. To carefully review, upon completion of the county's annual audit, all audit findings in audit report and consult with the external auditors regarding any irregularities and deficiencies disclosed in the annual audit. The Audit Committee is empowered to meet with management to discuss audit findings and/or disagreements with the external auditors. The committee should satisfy itself that appropriate and timely corrective action has been taken by management to remedy any identified weaknesses. The committee should determine what corrective action, if any, should be recommended to the County Commission.

(b) To consider the effectiveness of the internal control system, including information technology security and control, review the effectiveness of the system for monitoring compliance with laws and regulations, and review the process for communicating the county's ethics policies to county personnel and monitoring compliance therewith.

(c) To establish a process by which employees, taxpayers, or other citizens may confidentially report suspected illegal, improper, wasteful or fraudulent activity under provisions of T.C.A. § 9-3-406.

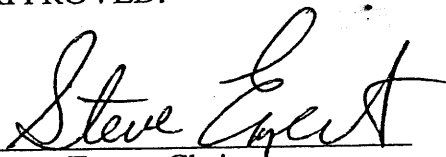
(d) To annually present a written committee report detailing how it discharged its duties and any committee recommendations to the full County Commission.


SECTION 6. The Audit Committee will be adequately funded to carry out the duties and responsibilities as set out in this Resolution and under applicable law.

SECTION 7. This resolution creating the duties and responsibilities of the Audit Committee has been submitted to the Comptroller prior to approval by this legislative body, and this resolution conforms with the report issued by the Comptroller.

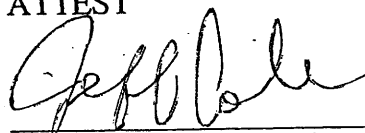
Adopted this 19th day of January, 2016.

APPROVED:


Steve Emert, Chairman


Terry Frank, County Mayor

ATTEST


Jeff Cole, County Clerk



Comprehensive Annual Financial Report

**ANDERSON COUNTY,
TENNESSEE**

For Fiscal Year Ended June 30, 2014



OFFICE OF CIRCUIT, GENERAL SESSIONS, AND JUVENILE COURTS CLERK

FINDING 2014-004

THE OFFICE OF CIRCUIT, GENERAL SESSIONS, AND JUVENILE COURTS CLERK DID NOT PREPARE ADEQUATE TRIAL BALANCES OF THE EXECUTION DOCKETS

(Internal Control – Significant Deficiency Under *Government Auditing Standards*)

The Office of Circuit, General Sessions, and Juvenile Courts Clerk did not provide adequate trial balances of execution docket cause balances as required by Section 18-2-103, *Tennessee Code Annotated (TCA)*. The office began using a new computer court application in August 2013 that did not provide the office the ability to generate a docket trial balance. At June 30, 2014, the circuit, general sessions, and juvenile courts clerk was able to generate listings of undisbursed receipt items. However, these listings did not reconcile with Circuit Court, General Sessions Court, and Juvenile Court general ledger accounts. In addition, the undisbursed receipt listings did not give specific information on case numbers. The information provided on these listings included the receipt number, date, and amount by general ledger account number. Other information provided was to reference the receipt number and/or transaction number; therefore, we were unable to verify the information to individual cases. Also, information relating to short-term investment account activity and cash bonds was not reflected on these reports. This deficiency was in part attributable to the failure of management to ensure that the software vendor designed the system with proper computer application controls and reporting as required by state statute. The failure to accurately reconcile execution docket trial balances with the general ledger application in a timely manner could lead to inaccurate accounting records and increases the risk of misappropriation of funds.

RECOMMENDATION

An accurate execution docket trial balance should be maintained for each court. This execution docket trial balance should be reconciled with general ledger accounts of that court, and any differences should be investigated.

FINDING 2014-005

THE OFFICE'S SOFTWARE DID NOT HAVE ADEQUATE APPLICATION CONTROLS

(Internal Control – Significant Deficiency Under *Government Auditing Standards*)

The following internal control deficiencies related to the office's software were identified:

- A. Users with deletion permissions can delete cases with receipt history and/or current balances without leaving an adequate audit trail.

- B. A general ledger account with an existing balance can be deleted from the application. If deleted, the related account information is removed from the application.
- C. The application allows a user to void/delete a transaction from the general ledger without an adequate audit trail of the void/deletion being maintained. The general ledger detail retains the transaction number, date, and general description, but it does not retain the debit or credit information for the transaction.

Sound business practices dictate that proper computer application controls be implemented. Since the vendor did not design the system with proper controls, inappropriate system activity could occur.

RECOMMENDATION

Users should not have the capability to delete cases that have any receipt activity associated with the case, and the capability to delete a general ledger account with an existing balance should be removed. Also, the application should not allow a transaction to be deleted/voided from the general ledger detail. A void transaction should create a reversal of the original transaction, and both transactions should be maintained in the detailed general ledger.

MANAGEMENT'S RESPONSE – CIRCUIT, GENERAL SESSIONS, AND JUVENILE COURTS CLERK

My office became aware of these software deficiencies after meeting with the local government auditor in the summer. We immediately contacted the vendor to rectify these problems. We were promised that these issues would be fixed. My last communication with the vendor before leaving office on August 28, 2014, was confirmation that an update was coming, which would resolve the issues found by the auditor. Unfortunately, the vendor did not fulfill his promise, which also goes against the contract signed between Anderson County Government and the vendor. The vendor contractually committed to offering reports and documents that were in compliance with State of Tennessee auditing standards. Our office worked diligently from the point of learning about these deficiencies to the end of my term to get this updated. However, the vendor continues to delay the updates he promised to release in August.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

ANDERSON COUNTY, TENNESSEE

FOR THE YEAR ENDED JUNE 30, 2015



DIVISION OF LOCAL GOVERNMENT AUDIT

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

Findings and recommendations, as a result of our examination are presented below. We reviewed these findings and recommendations with management to provide an opportunity for their response. The circuit, general sessions, and juvenile courts clerk provided a written response to one of the findings, which is paraphrased in this report.

OFFICE OF CIRCUIT, GENERAL SESSIONS, AND JUVENILE COURTS CLERK

FINDING 2015-001

THE OFFICE OF CIRCUIT, GENERAL SESSIONS, AND JUVENILE COURTS CLERK DID NOT PREPARE ADEQUATE TRIAL BALANCES OF THE EXECUTION DOCKETS

(Internal Control – Significant Deficiency Under *Government Auditing Standards*)

The Office of Circuit, General Sessions, and Juvenile Courts Clerk did not provide adequate trial balances of execution docket cause balances as required by Section 18-2-103, *Tennessee Code Annotated (TCA)*. The office began using a new computer court application in August 2013 that did not provide the office the ability to generate a docket trial balance. At June 30, 2015, the circuit, general sessions, and juvenile courts clerk was able to generate listings of undisbursed receipt items. However, these listings did not reconcile with the general ledger accounts in any of the three courts. Also, information relating to short-term investment account activity and cash bonds was not reflected on these reports. This deficiency was in part attributable to the failure of management to ensure that the software vendor designed the system with proper computer application controls and reporting as required by state statute. The failure to accurately reconcile the execution docket trial balances with the general ledger application in a timely manner could lead to inaccurate accounting records and increases the risk of misappropriation of funds.

RECOMMENDATION

An accurate execution docket trial balance should be maintained for each court. This execution docket trial balance should be reconciled with general ledger accounts of that court, and any differences should be investigated.

MANAGEMENT'S RESPONSE – CIRCUIT, GENERAL SESSIONS, AND JUVENILE COURTS CLERK

We are working diligently with our software vendor to correct the issue of not having an adequate trial balance of the execution docket. We will have this issue corrected before the next audit review.

FINDING 2015-002

**THE OFFICE'S SOFTWARE DID NOT HAVE ADEQUATE
APPLICATION CONTROLS**

(Internal Control – Significant Deficiency Under *Government
Auditing Standards*)

The office's software application allows a user to void a transaction from the general ledger without an adequate audit trail. The general ledger detail retains the transaction number, date, and general description, but it does not retain the debit or credit information for the transaction. Sound business practices dictate that proper computer application controls be implemented. Since the vendor did not design the system with proper controls, inappropriate system activity could occur. This deficiency exists because management failed to correct the finding noted in the prior-year audit report. After the end of the fiscal year, the vendor removed this option from the general ledger and users can no longer void a transaction. Instead, a correcting entry must be entered.

**ANDERSON COUNTY, TENNESSEE
AUDIT COMMITTEE MINUTES
APRIL 9, 2015 3:30PM ROOM 312**

Members Present:

Commissioner Myron Iwanski (Chairman)
Commissioner Steve Emert
Commissioner Whitey Hitchcock
Commissioner Phil Warfield
Mayor Terry Frank
Chris Phillips, Director of Accounts and Budgets

Members Absent:

Commissioner Chuck Fritts

Others Present:

Commission Chairman Robert McKamey
Jim Woodward, School Finance Director

THE 1st ITEM, to be presented to the Anderson County Audit Committee, was a report from Chris Phillips, Director of Accounts & Budgets that addressed audit finding 2014-001, "A transfer approved by County Commission from the General Fund to the Highway/Public Works Fund is of questionable legality", as outlined in the June 30, 2014 Comprehensive Annual Report.

Mr. Phillips's report (attached) discussed how the finding came to be, the steps that Commission took to correct the finding, and how the County can avoid such findings in the future.

Motion by Commissioner Phil Warfield, seconded by Commissioner Whitey Hitchcock, and passed to accept the plan of action written by Chris Phillips, Director of Accounts & Budgets.

THE 2nd ITEM, to be presented to the Anderson County Audit Committee, was a report from Chris Phillips, Director of Accounts & Budgets that addressed audit finding 2014-002, "Payroll taxes were not deposited timely, resulting in assessments of interest and penalty totaling \$12,239", as outlined in the June 30, 2014 Comprehensive Annual Report.

Mr. Phillips's report (attached) discussed how the finding came to be, the steps that the Accounts & Budgets office took to correct the finding, and how the office can avoid such findings in the future.

Motion by Commissioner Steve Emert, seconded by Commissioner Phil Warfield, and passed to accept the plan of action written by Chris Phillips, Director of Accounts & Budgets

THE 3rd ITEM, to be presented to the Anderson County Audit Committee, was a report from Jim Woodward, Anderson County Schools Finance Director that addressed audit finding 2014-003, "Revenue anticipation notes were not retired in compliance with state statutes", as outlined in the June 30, 2014 Comprehensive Annual Report.

Mr. Woodward's report (attached) discussed how the finding came to be, the steps that the School Department took to correct the finding, and how his office can avoid such findings in the future.

Motion by Commissioner Phil Warfield, seconded by Commissioner Steve Emert, and passed to accept the plan of action written by Jim Woodward, Anderson County Schools Finance Director.

THE 4th ITEM, was a motion by Commissioner Steve Emert, Seconded by Commissioner Phil Warfield, and passed to ask William Jones, Circuit Court Clerk, to file an update with the Audit Committee of the software deficiencies as discussed in Audit findings 2014-004 and 2014-005, as outlined in the June 30, 2014 Comprehensive Annual Report.

Meeting adjourned.

Commissioner Myron Iwanski



Director of Accounts & Budgets, Chris Phillips

Anderson County Government

Accounts & Budgets Office

April 7, 2015

Anderson County Audit Committee

Dear Chairman Iwanski:

Thank you for the opportunity to respond to Findings 2014-001 and 2014-003 as found in the exit interview regarding Anderson County's 2013/2014 FY Audit

Finding 2014-001: It was the intent of County Commission at the February 18, 2014 to commit bond proceeds to the highway project on Slatestone Road. This was verified by observing the video recording of that meeting. However, the minutes from that Commission meeting read "from County General Fund, therefore the interim Director of Accounts & Budgets used that as the basis for proposing a June 2014 budget committee appropriation. At the June 16, 2014 County Commission meeting, a motion was made to appropriate the actual funding needed for the project, \$200,000, from the General Fund's Unassigned Fund Balance. This motion was passed unanimously (with two Commissioners absent). Therefore it has been determined that while there was initial intent to use bond proceeds, the Commission ultimately voted to expend Unassigned Fund Balance from the General Fund based on improper minutes. Management now understands that whether the funding for the road project was sourced from bond proceeds or Unassigned Fund Balance from the General Fund, it would have been improper. It is management's intent to properly fund road projects from the Highway Fund. It is the intent of management to reverse the transfer, as no funds have been expended, and fund the project in the proper manner with funds derived directly from the Highway Fund.

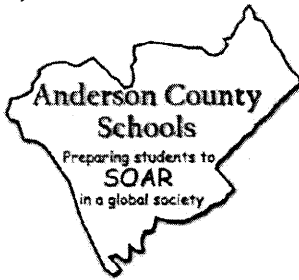
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Finding 2014-003: The penalty assessed Anderson County government by the IRS was due to a payroll tax deposit being submitted one day later than required. This was the first penalty assessed that can be recalled in the last 15 years. While there have been mistakes made in the past concerning payroll deposits, the IRS has always been gracious and understood the honest mistakes. However in this case, they ultimately chose to enforce the penalty. The initial penalty was \$5,808 and was paid. The IRS, we suspect, also

reduced that amount from a Build America Bond tax rebate, and therefore caused the penalty to be reflected twice on our general ledger. Research by the IRS is currently still underway to determine if this is the case or not. The remedy to the late payment, unfortunately, was that an employee lost their job because of the error. In order to not cost the taxpayers the penalty, the Accounts & Budgets office delayed replacing that employee until the full cost of the penalty was recovered in salary.

Thank you,

Chris Phillips, CGFM

Director of Accounts & Budgets



Anderson County Schools
101 South Main Street, Suite 507
Clinton, Tennessee 37716
Office: (865) 463-2800, x 2803
Fax: (865) 457-1336

James J. Woodward, Sr.
Deputy Director for Operations and Chief Financial Officer

April 9, 2015

Anderson County Board of Commissioners
Audit Committee
Anderson County Government
100 North Main Street
Clinton, Tennessee 37716

Subject: Response to and Corrective Actions for **Audit Funding 2014-003 REVENUE ANTICIPATION NOTES WERE NOT RETIRED IN COMPLIANCE WITH STATE STATUTES**

In order to respond to the Audit Committee of the Anderson County Board of Commissioners, I am providing this audit response and corrective action to the subject audit finding in the recent County Audit of the records as of June 30, 2014.

Anderson County Schools is aggressive in pursuing funds from a variety of sources in the form of grants. Some of these sources of funds are slower to respond to requests for reimbursement of funds than are others. Last year end the following internal loans between funds were not paid by June 30, 2014, primarily for this reason. They are as follows:

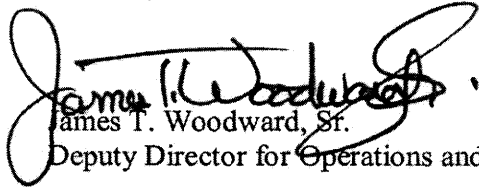
1. School Federal Projects Fund Borrowed \$50,000 from the Education Debt Service Fund. **Corrective Action - paid back on July 7, 2014**
2. School Federal Projects Fund Borrowed \$225,000 of which \$100,000 was paid back leaving a \$125,000 balance due. **Corrective Action – paid back \$80,000 on July 7, 2014 and \$45,000 on October 15, 2014**
3. Other Education Special Revenue Fund Borrowed \$105,000 of which \$95,000 was paid back, leaving a \$10,000 balance due. **Corrective Action – paid back \$10,000 on July 22, 2014**

These are reimbursement grants which by their nature create cash flow issues. In the past the State Department of Education would allow us to schedule our payrolls and set them on an automatic pay out. That practice ended and now we must request those funds on a reimbursement basis. Additionally, in June 2014 the County Commission, at the request of the Board of Education appropriated \$50,000 as an inter-fund loan in order to avoid any temporary overdrafts of cash in the Trustee's Office.

This action along with the progressive implementation of the ePlan System by the State has increased the speed with which the majority of the funds are reimbursed. As we evaluate the situation currently this seems to have improved the cash flow from these funds considerably. We continue to monitor these funds and will adjust the amounts necessary to provide proper cash flow as necessary.

If further information is necessary please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "James T. Woodward, Sr.", is written over the printed name and title.

James T. Woodward, Sr.
Deputy Director for Operations and Chief Financial Officer

Attachment: Finding 2014-003

OFFICES OF DIRECTOR OF SCHOOLS AND DIRECTOR OF ACCOUNTS AND BUDGETS

FINDING 2014-003

**REVENUE ANTICIPATION NOTES WERE NOT
RETIRED IN COMPLIANCE WITH STATE STATUTES
(Noncompliance Under Government Auditing Standards)**

During the period under examination, the School Federal Projects Fund and Other Education Special Revenue Fund borrowed funds in the form of revenue anticipation notes to provide cash flow for the payment of federal grant expenditures. As of June 30, 2014, the School Federal Projects Fund had outstanding notes of \$50,000 due to the Education Debt Service Fund and \$125,000 due to the General Purpose School Fund. The Other Education Special Revenue Fund also had a note of \$10,000 due to the General Purpose School Fund. These amounts were not repaid due to the lack of available funds. The table below summarizes the transactions related to these notes. As of the date of this report, all borrowed funds have been repaid.

<u>Fund</u>	<u>Balance 7-1-13</u>	<u>Issued</u>	<u>Paid</u>	<u>Balance 6-30-14</u>
School Federal Projects Fund (Borrowed from Education Debt Service Fund)	\$ 0	\$ 50,000	\$ 0	\$ 50,000
School Federal Projects Fund (Borrowed from General Purpose School Fund)	50,000	175,000	(100,000)	125,000
Other Education Special Revenue Fund (Borrowed from General Purpose School Fund)	0	105,000	(95,000)	10,000

Section 9-21-801, *Tennessee Code Annotated*, provides that revenue anticipation notes shall mature not later than the close of the fiscal year issued. The notes between school funds have been reflected in the financial statements of this report as Due from Other Funds in the General Purpose School Fund and as Due to Other Funds in the School Federal Projects and Other Education Special Revenue funds. The other note has been reflected in the financial statements of this report as Due from Component Units in the Education Debt Service Fund and Due to Primary Government in the School Federal Projects Fund.

RECOMMENDATION

Revenue anticipation notes should be retired prior to the end of the fiscal year issued as required by state statute.