

Haywood County Audit Committee
Wednesday, May 29, 2024, 3:30PM – 5:00PM
Historic Courthouse Courtroom

Committee Members:

Present - Sharon Hayes (Chair) •Rhonda Thompson (Vice Chair) •Charlie Tripp;
Absent - Richard Jameson

County Officials:

Attorney Sarah Levy •Budget Director Terri Ann Russell• HCS CFO Larry Livingston

Comptroller's Office – Division of Local Government Audit – West Tennessee:

Lee Ann West• Melissa Darby •Katie Hatch • Madison Laster •Tiffany Nolan

County Audit Resolution: adopted by the County Commission March 17, 2014 to establish an Audit Committee, “to provide independent review and oversight of the county’s financial reporting processes and 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.”

Minutes May 29, 2024; Report for County Commission June 17, 2024

I. Call to Order, Determination of Quorum, Welcome & Introductions

Commissioner Hayes called the meeting to order, declared a quorum present, and welcomed committee members, audit team, and county officials, all named above.

II. Approve of Minutes – Previous Meeting 6-20-2023; Report to Commission 6-26-2023

The Audit Committee minutes for June 20, 2023 were duly approved as presented upon motion.

III. Public Comments on Agenda -Three at two minutes each; hearing none this item was closed.

IV. County Audit for the Fiscal Year Ended June 30, 2023 – Three Findings – *attached*

Audit Manager Lee Ann West led the discussion focusing on the deficiencies and corrective actions to strengthen controls to prevent recurrences. The three findings fell into two areas:

Mayor’s Office – 2; School System – 1; summarized below:

Finding 1 - deficiencies in budget operations cited in the Mayor’s Office and School System for not obtaining appropriate approvals on some amendments and spending in major categories and salary lines. Budget Director Russell and School CFO Livingston outlined the additional steps being taken to ensure budget approvals are secured in their respective areas.

Finding 2 - deficiency in the Mayor’s Office; General ledger payroll deduction accounts were not reconciled with payroll reports and payments. Additional follow-up is needed by the Mayor’s Office to verify the reconciliations have been brought up to date.

Finding 3 – The Mayor’s Office did not file Reports on Debt Obligation with the Comptroller’s Office. The Mayor’s Office has assured the necessary forms will be filed in the future.

In summary, the corrective actions presented to the committee were deemed satisfactory. However, the Mayor is requested to follow-up to ensure payroll reconciliations are being performed in a timely manner as recommended in Finding 2.

V. Best Practices – The Audit recommended a central system of accounting, budgeting, and purchasing; Hayes responded this is being explored by the County Local Government Committee.

VI. 2024 Audit Timeline – The current audit is expected to be completed in Jan 2025.

VII. Adjournment - Hayes thanked the committee, the auditors, and county’s financial officers for their commitment to strengthening financial processes for Haywood County.

Respectfully submitted, Sharon Hayes

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

Findings and recommendations, as a result of our audit, are presented below. We reviewed these findings and recommendations with management to provide an opportunity for their response. Written responses for all findings are paraphrased and presented following each finding and recommendation. Management's corrective action plans, whether related to the financial statements or federal awards, are presented separately in the Management's Corrective Action Plan in the Single Audit Section of this report. Findings relating specifically to the audit of federal awards, if any, are separately presented under Part III, Findings and Questioned Costs for Federal Awards.

OFFICES OF COUNTY MAYOR AND DIRECTOR OF SCHOOLS

FINDING 2023-001

THE OFFICES HAD DEFICIENCIES IN BUDGET OPERATIONS

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

Our examination revealed the following deficiencies in budget operations. These deficiencies exist because management failed to hold spending to the limits authorized by the county commission, which resulted in unauthorized expenditures, management failed to provide sufficient oversight, management failed to correct the finding noted in the prior-year audit report, and management failed to implement their corrective action plan.

- A. Several budget amendments were posted in the General Purpose School and the Central Cafeteria funds which were approved by the board of education; however, these amendments were not presented for approval to the county commission. Accurate budgetary statements are necessary to provide county officials and departments with available spending limits. We have recognized only those budget amendments approved by the county commission in the financial statements of this report.
- B. Expenditures exceeded appropriations approved by the county commission in the Drug Control Fund by \$7,218.
- C. Expenditures exceeded appropriations approved by the county commission in two of 43 major appropriation categories (the legal level of control) of the General Fund, in one of six major appropriation categories of the General Debt Service Fund, and in one of 24 major appropriation categories of the General Purpose School Fund as reflected in the following table:

<u>Fund/Major Appropriation Category</u>	<u>Amount Overspent</u>
General:	
Administration of Justice - Juvenile Court	\$ 4,223
Social, Cultural and Recreational Services - Other Social, Cultural and Recreational	780
General Debt Service:	
Other Debt Service - General Government	714
General Purpose School:	
Support Services - Attendance	10,336

- D. Salaries exceeded appropriations in three of 138 salary line-items in the General Fund in amounts ranging from \$154 to \$1,000, in two of 84 salary line-items of the General Purpose School Fund by \$1,308 and \$3,928, and in two of five salary line-items in the Central Cafeteria Fund by \$150 and \$400. The budget resolution approved by the county commission states that the salary, wages, or remuneration of each official, employee, or agent of the county will not exceed appropriations that accompany the resolution. Therefore, the salaries that exceeded line-item appropriations were expenditures not approved by the county commission.

Section 5-9-401, *Tennessee Code Annotated*, states that “All funds from whatever source derived, including, but not limited to, taxes, county aid funds, federal funds, and fines, that are to be used in the operation and respective programs for the various departments, commissions, institutions, boards, offices, and agencies of county governments shall be appropriated to such use by the county legislative bodies.”

RECOMMENDATION

Budget amendments should be posted to the accounting records after approval by the county commission and board of education. Expenditures should be held within appropriations approved by the county commission.

MANAGEMENT’S RESPONSE – COUNTY MAYOR

I concur with this finding. The Mayor’s Office’s will continue to work with elected officials and department heads to ensure that departments request budget amendments in their major categories and salary lines before spending exceeds appropriations approved by the county commission.

MANAGEMENT’S RESPONSE – SCHOOL CHIEF FINANCIAL OFFICER

We concur with the finding. Although improvements were made from the prior year, we still failed to obtain proper approval on all amendments. A special effort was made to get board of education and county commission approval on all budget amendments. All amendments were approved by the board of education. The budget committee and county commission did not receive some of the General Purpose School and Central Cafeteria funds budget

amendments by mistake. Because these amendments were not read to the budget committee and county commission, the auditor reversed the amendments causing overspent lines. In the future, we will have someone to assist the chief financial officer to ensure compliance and will also get the county clerk to send all budget amendments approved by the county commission to the chief financial officer after their approval. This will allow for the comparison of approval for school and county commission amendments. The unapproved budget amendments caused the overspent category and salary line-items referenced in Parts C and D of the finding.

OFFICE OF COUNTY MAYOR

FINDING 2023-002

GENERAL LEDGER PAYROLL DEDUCTION ACCOUNTS WERE NOT RECONCILED WITH PAYROLL REPORTS AND PAYMENTS

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

General ledger payroll deduction accounts were not reconciled with payroll reports and payments in the General and Solid Waste Disposal funds. Sound business practices dictate that these reconciliations be performed monthly. The failure to regularly reconcile payroll deduction accounts allows errors to remain undiscovered and uncorrected. This deficiency exists due to a lack of management oversight, management's failure to correct the finding noted in the prior-year audit report, and management's failure to implement their corrective action plan.

RECOMMENDATION

General ledger payroll deduction accounts should be reconciled monthly with payroll reports and payments, and any errors should be corrected promptly.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

I concur with this finding. We will continue to work on getting these accounts reconciled.

FINDING 2023-003

THE OFFICE DID NOT FILE REPORTS ON DEBT OBLIGATION WITH THE STATE COMPTROLLER'S OFFICE

(Noncompliance Under *Government Auditing Standards*)

On October 17, 2022, and April 7, 2023, the county entered into loan agreements totaling \$112,823 for a wheel loader and \$547,781 for Apple computers, respectively. The office did not file Reports on Debt Obligation with the state Comptroller's Office for the loans. Section 9-21-134, *TCA*, requires that within 45 days following the issuance of debt, a county must provide to the state Comptroller's Office certain information, such as a description of the purchase for which the debt is issued, a description of the debt obligation, and an itemized

description of the cost of issuance. This deficiency was the result of a lack of management oversight and the failure to comply with state statutes.

RECOMMENDATION

The office should file a Report on Debt Obligation with the state Comptroller's Office for each debt issuance within 45 days following the issuance of the debt as required by state statute.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

I concur with this finding. In the future, we will complete the required Report on Debt Obligation when debt is issued.

HAYWOOD COUNTY

TELEPHONE (731) 772-1432



OFFICE OF
COUNTY MAYOR

COURTHOUSE

1 NORTH WASHINGTON • BROWNSVILLE, TN 38012

FINDING

GENERAL LEDGER PAYROLL DEDUCTION ACCOUNTS
WERE NOT RECONCILED WITH PAYROLL REPORTS AND
PAYMENTS

Corrective Action Plan Prepared by:

David Livingston, County Mayor

Person Responsible for Implementing the Corrective Action:

David Livingston, County Mayor

Anticipated Completion Date of Corrective Action:

June 30, 2024

Repeat Finding:

Yes

Reason Corrective Action was not taken in the prior year:

The office attempted to correct the finding but failed to complete the reconciliation process by year-end.

Planned Corrective Action:

The budget director will work on getting withholding accounts reconciled.

David M. Livingston

HAYWOOD COUNTY

TELEPHONE (731) 772-1432



OFFICE OF
COUNTY MAYOR

COURTHOUSE

1 NORTH WASHINGTON • BROWNSVILLE, TN 38012

FINDING

THE OFFICE DID NOT FILE REPORTS ON DEBT OBLIGATION WITH THE STATE COMPTROLLER'S OFFICE

Corrective Action Plan Prepared by:

David Livingston, County Mayor

Person Responsible for Implementing the Corrective Action:

David Livingston, County Mayor

Anticipated Completion Date of Corrective Action:

Immediately

Repeat Finding:

No

Reason Corrective Action was not taken in the prior year:

N/A

Planned Corrective Action:

In the future, we will complete the required Report on Debt Obligation when debt is issued.

David M. Livingston



Amie Marsh
Superintendent

HAYWOOD COUNTY SCHOOLS

900 East Main Street
Brownsville, Tennessee 38012
731-772-9613 office 731-772-3275 fax
www.haywoodschoools.com

Corrective Action Plan

FINDING

THE OFFICE HAD DEFICIENCIES IN BUDGET OPERATIONS

Response and Corrective Action Plan Prepared by:

Larry Livingston, Chief Financial Officer

Person Responsible for Implementing the Corrective Action:

Larry Livingston, Chief Financial Officer

Anticipated Completion Date of Corrective Action:

June 30, 2024

Repeat Finding:

Yes

Planned Corrective Action:

All budget amendments affecting salary lines and/or multiple major categories will be presented to the County Commission for approval.

Signature: Larry Livingston C.F.O.

BEST PRACTICE

Accounting literature describes a best practice as a recommended policy, procedure, or technique that aids management in improving financial performance. Historically, a best practice has consistently shown superior results over conventional methods.

The Division of Local Government Audit strongly believes that the item noted below is a best practice that should be adopted by the governing body as a means of significantly improving accountability and the quality of services provided to the citizens of Haywood County.

HAYWOOD COUNTY SHOULD ADOPT A CENTRAL SYSTEM OF ACCOUNTING, BUDGETING, AND PURCHASING

Haywood County does not have a central system of accounting, budgeting, and purchasing. Sound business practices dictate that establishing a central system would significantly improve internal controls over the accounting, budgeting, and purchasing processes. The absence of a central system of accounting, budgeting, and purchasing has been a management decision by the county commission resulting in decentralization and some duplication of effort. We recommend the adoption of the County Financial Management System of 1981 or a private act, which would provide for a central system of accounting, budgeting, and purchasing covering all county departments.