

County Financial Issues for Sheriffs

August 2018

Overview

- ▶ Operating Budgets
- ▶ Capital Improvements Plan
- ▶ Debt Management
- ▶ Purchasing
- ▶ Annual Audit
- ▶ Internal Controls

Operating Budgets

Legal Authority

1. General Law

- ▶ When a county does not operate under a local option law, private act or is a charter or metro government then they operate under **general law**.
- ▶ Public Chapter 1080 amended T.C.A. § 5-9-402 to provide a budget adoption timeline and procedures for counties operating under the general law. Pursuant to T.C.A. § 5-9-402, general budgeting law counties must follow the timeline set forth in the statute or adopt their own timeline. Should a county legislative body choose to adopt its own budget timeline, it must also receive the approval of the county board of education for the portion of the timeline established for the LEA. The provisions in T.C.A. § 5-9-402 do not apply to Davidson, Hamilton, Knox or Shelby counties.

2. General law with local option application

- 1981 Centralized Financial Management Act
- 1957 Budgeting Law
- 1993 Budgeting Law

3. Private acts for a specific county

Sheriff's Office is on the Budgetary System

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Statutory Timeline for County Budget Law 2016 – Public Chapter 1080

All Funds except Education - In the absence of a locally adopted schedule and locally adopted procedures, the budgetary procedures for the county shall be as follows:

No later than February 1st

Forms for all budget requests shall be delivered to all departments, commissions, institutions, boards, offices and agencies.

No later than March 1st

All departments, commissions, institutions, boards, offices, and agencies except the local board of education shall deliver the budget request to the county budget committee.

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Timeline Continued

No later than April 1st

- County budget committee shall vote upon the proposed budget and shall notify the department, commission, institution, board, office or agency whether the county budget committee approves or rejects the proposed budget.
- If approved, the county budget committee or the committee's designee shall immediately forward the proposed budget to the county legislative body for consideration.
- If rejected, the department, commission, institution, board, office or agency shall submit a revised budget proposal to the county budget committee within ten business days after receipt of notice that the budget proposal was rejected.

Maintenance of Effort

T.C.A. requires certain financial mandates for certain local governments offices such as:

- ▶ Board of Education
- ▶ **Sheriff's Office, including the jail**
- ▶ Highway Department
- ▶ Administrator of Elections
- ▶ Public Library
- ▶ Assessor of Property
- ▶ 911 Board

Planning for Recurring Revenues and Expenditures

- ▶ The CLB needs to be aware of expenditures that are recurring and if revenues are available for the expenditures and whether the revenues will grow at the pace of expenditure growth
- ▶ This can include inter-local agreements with other government entities
 - ▶ SROs

Estimating Expenditures

- ▶ An approach to estimating expenditures for the next year is to recalculate the current year's estimated expenditures
- ▶ Salaries are generally known and thus a percentage increase can be applied for raises
- ▶ Individual object codes will need to be analyzed
- ▶ Large capital outlays should not be budgeted in operating funds.
 - ▶ Budget these in accordance with an adopted CIP in a capital projects fund.

Letter of Agreement/Salary Suit

- ▶ Agree with personnel budget?

Yes
Letter of Agreement

No
Salary Suit

Either must be done within 30 days of the budget's passing.

*Newly elected officials have 30 days from taking office (Sept 1) to sign letter of agreement or file a salary suit.

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State and Local Revenues

- ▶ Sales Tax
- ▶ Property Taxes
- ▶ Hotel/Motel Tax Sales Tax
- ▶ County Mineral Severance Tax
- ▶ State and County Litigation Taxes
- ▶ Marriage Licenses
- ▶ Wheel Tax
- ▶ Alcoholic Beverage Tax
- ▶ Mixed Drink Tax
- ▶ Contracted Prisoner Board

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Common Revenues from Sheriff's Office

- ▶ Jail Fees
- ▶ Data Processing Fee
- ▶ Other fines and fees
- ▶ Prisoner Board
- ▶ Commissary / Telephone Commissions
- ▶ Grants

Sheriff's Office has their own cash journal

Policies Relative to Grants

- ▶ CLB should have a policy outlining their position on grants.
- ▶ **CLB is the only entity with authority to expend funds.**
- ▶ **T.C.A. requires that CLB must approve all reimbursable grants and contracts before county funds are expended.**
- ▶ CLB should be aware of percentage matching grants and grants that have a hook that when the grants are over the CLB may be required to fund.

Cash Flow Management Operating Budget

- ▶ Cash receipts/disbursements in county operations typically do not come in in as a clean, even 12 monthly installment plan. Most counties recognize majority of property tax receipts from December through February.
- ▶ Fund balance contains receivables which may or may not be spendable when needed.
- ▶ Poor tracking of accounts payable (especially at June 30 balance sheet date) can greatly impact available cash for operations in the beginning of the fiscal year.
- ▶ Budget committee needs to focus on CASH NEEDS by month when they are preparing the budget. County financial management needs to provide accurate estimates of their cash flow needs to the county commission

Remember:

➤ **Counties that regularly use TRANS to meet routine operating activities run the risk of having their bond rating downgraded.**

➤ **Recurring use of TRANS is a red flag for either (1) spendable fund balance is too low or (2) poor cash management practices by county financial management**



Cash Flow Management Operating Budget Recommended Practices

- ▶ County management and trustee should work closely to develop an accurate cash flow forecast for upcoming fiscal year by month (payroll and essential services cash needs prior to realization of property tax/other large revenues are adequately funded). Budget committee should review this.
- ▶ County management should update budget documents regularly as fiscal year comes to an end and provide good fund balance numbers for the budget committee. This requires good purchasing/accounting policies that include use of encumbrance accounting and payable tracking
- ▶ County Commission should establish a minimum fund balance policy that provides for an adequate amount of available liquid assets for operations until cash receipts are realized.
- ▶ County management needs to have an understanding of and practice good cash management. Without good cash management, a county can have a sizable cash reserve on July 1 and still have cash flow problems.



Budget Development

- ▶ General Budget Information (**current**)
 - ▶ Review all current and proposed special revenue funds
 - ▶ Budget preparation instructions
 - ▶ Preparation of the budget
 - ▶ Estimating revenues, expenditures, and calculation of fund balance
 - ▶ Review analysis and recommendations
 - ▶ Review by the CLB
 - ▶ Priorities and Alternatives
 - ▶ Consolidation of budgets and preparation of resolutions

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Putting the Chart of Accounts Together

- ▶ 101 General Fund
 - ▶ 54110 Sheriff's Department
 - ▶ 101 County Official
 - ▶ 106 Deputies
 - ▶ 201 Social Security
 - ▶ 308 Consultants
 - ▶ 413 Drug and Medical Supplies
 - ▶ 515 Liabilities Claims
 - ▶ 718 Motor Vehicles

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Putting the Chart of Accounts Together

- ▶ 101 General Fund
 - ▶ 54210 Jail
 - ▶ 105 Supervisor/Director/Jail Administrator
 - ▶ 160 Guards
 - ▶ 309 Contracts with Government Agencies
 - ▶ 340 Medical and Dental Supplies
 - ▶ 413 Drug and Medical Supplies
 - ▶ 422 Food Supplies
 - ▶ 719 Office Equipment

Putting the Chart of Accounts Together

- ▶ 101 General Fund
 - ▶ 54220 Workhouse
 - ▶ 105 Supervisor/Director
 - ▶ 160 Guards
 - ▶ 201 Social Security
 - ▶ 204 State Retirement
 - ▶ 207 Medical Insurance
 - ▶ 599 Other Charges

Fund 122 – Drug Fund

- ▶ 122 Drug Fund
 - ▶ 54150 Drug Enforcement
 - ▶ 307 Communication
 - ▶ 309 Contracts with Government Agencies
 - ▶ 319 Confidential Drug Enforcement Payments
 - ▶ 351 Rentals
 - ▶ 510 Trustee's Commission
 - ▶ 716 Law Enforcement Equipment
 - ▶ 718 Motor Vehicles

Adopting the Budget

- ▶ Appropriation Resolutions (T.C.A. § 9-21-403 (b))
- ▶ Tax Levy Resolutions (T.C.A. § 9-21-403 (b))
- ▶ Non Profit Resolutions (does not effect schools)
- ▶ Notice in Newspaper (put in newspaper by central finance) (T.C.A. § 5-8-507(c))
- ▶ Capital Outlay Note/Bond Note Resolution (not required during the budget)
- ▶ Notify State Director of Local Finance of Approved Budget (T.C.A. § 9-21-403 (c))

Information in the Newspaper

- ▶ Proposed tax rate by fund
- ▶ General Fund, Highway Fund, School Fund and Debt Service Fund(s)
- ▶ Each Fund must
 - ▶ Include three columns with fund balances
 - ▶ (1) actual (audited/year end closing)
 - ▶ (2) estimate (current budget)
 - ▶ (3) proposed budget
 - ▶ Number of employees for the 3 year period

Budget Management

- ▶ Accounting, Reporting, Reviewing, and Monitoring
- ▶ Amendments
- ▶ Allotments and Impoundments



Accounting, Reporting and Reviewing for Budgets

- ▶ A good accounting system is necessary to comply with state law and provide accurate information
- ▶ The accounting records must be kept up to date.
- ▶ Reports should be reviewed by the Budget Coordinator at minimum-monthly.
- ▶ Reports should be given to Sheriff's Office and CLB monthly.
 - ▶ Sheriff should distribute the corresponding report to the appropriate department heads

Amendments to the Budget

- ▶ Timely revisions should be made to the budget when needed
- ▶ Amendments should be made prior to any expenditure of funds, unless there is a health or safety emergency
- ▶ Instruction of how and when the budget can be amended needs to be known T.C.A. § 5-9-407
- ▶ Amendments to the budget. Three methods (T.C.A. § 5-9-407)
 - ▶ Legislative Body
 - ▶ County Mayor and if not to budget committee (Minor line items not salary). Reported back to the Commission
 - ▶ Budget committee (minor line items not salary) Reported back to the commission.
- ▶ Be aware of the MOE requirements

Allotments and Impoundments

- ▶ Laws that allow allotments and impoundments
 - ▶ 1957 optional law
 - ▶ 1981 optional law
 - ▶ Does not effect the fee offices, including sheriff
 - ▶ 1993 optional law
 - ▶ Some private acts
- ▶ No provision for allotments or impoundments under General Law

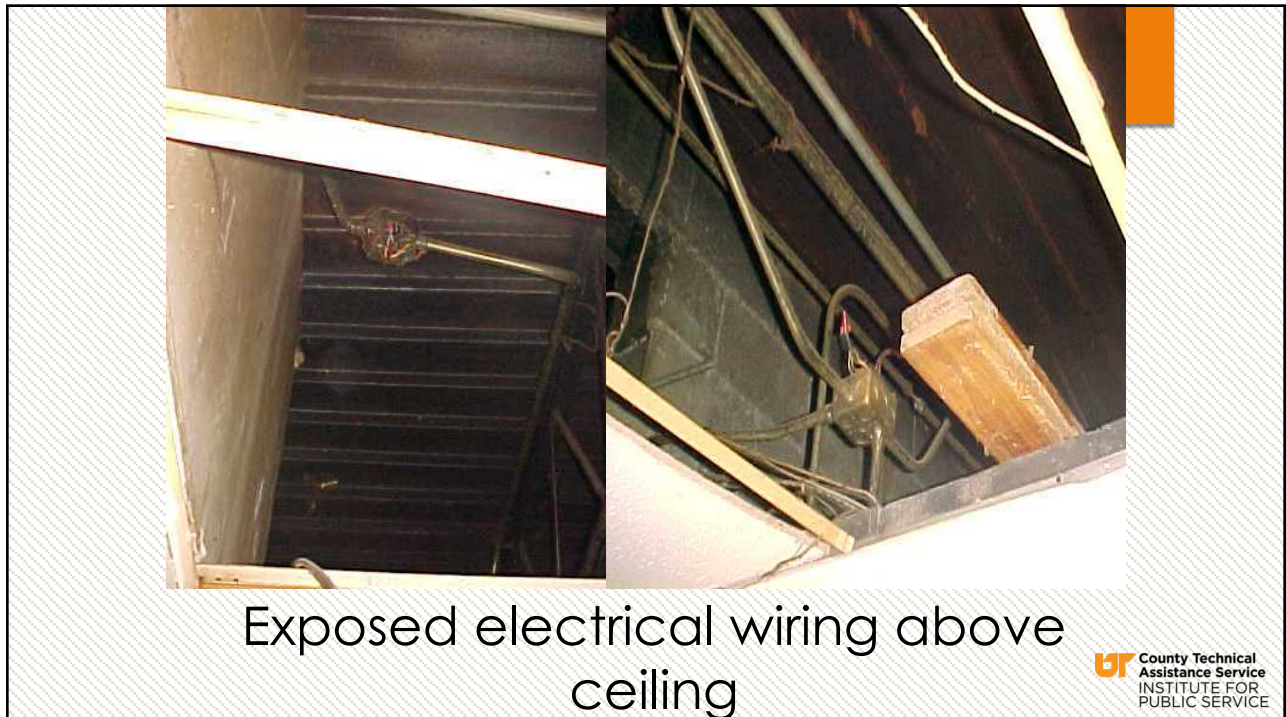
Capital Budgeting

- ▶ **Capital Improvements** - facilities and equipment that are either required by law or necessary for public interest.
 - ▶ Includes land, buildings, and equipment that last more than one year and are generally expensive.
- ▶ **Capital Improvements Plan (CIP)** - a multi-year document used to identify needed improvements to your capital assets.

Factors Creating a Need for a CIP

- ▶ **Physical Obsolescence** - assets deteriorate over time
- ▶ **Functional Obsolescence** - improvement costs are high but does not extend the asset's useful life
- ▶ **Population Growth** - Schools and Jails
- ▶ **State and Federal Mandates** - Fire Marshall and Handicap requirements
- ▶ **Citizens' Pressure** - new ambulance, fire stations, parks
- ▶ **Changes in Economic Base** - +/- growth in residential, commercial or industrial

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Use of extension
cords in women's
cell block corridor

Use of extension
cords in men's
cell

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Flammable materials hanging
from ceiling in men's cell block

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Gas fired water heater in a non-rated area

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Improper storage of combustibles, 4 ATV's, motorcycle, weed eater, water heaters, lawn mower, gasoline, tires, and other items.

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Plumbing leaking from upstairs area into a plastic drape above inmate sleeping area.

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Advantages of a CIP

- ▶ Stabilizes payments and tax rates over time
- ▶ Orderly and systematic planning for replacements
- ▶ Provides for a more effective evaluation of alternatives and solutions other than "Crisis-Management"
- ▶ More in-depth consideration of "hidden costs"
- ▶ Funding on a priority basis and keeps governments within financial bounds
- ▶ Better planning, installation or construction since it will not be in "crisis" time



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Disadvantages of CIP

- ▶ Requires time and effort of officials and staff
- ▶ May create expectations of citizens



Debt Management

Legal Authority

- ▶ T.C.A. Title 9 Chapter 21 and Title 12 Chapter 10 address the issuance of debt and related budget requirements
- ▶ Comptroller publishes "Guide for Issuance of Notes by the Counties, consolidated Governments, and Municipalities of Tennessee"
<http://www.comptroller.tn.gov/sl/Notelssues.asp>

Authority to Borrow

- ▶ **Local Government Obligation Acts of 1986** (T.C.A. § 9-21-101 through T.C.A. § 9-21-1017) and T.C.A. § 49-3-1001 through T.C.A. § 49-3-1110
 - ▶ Authorized purposes for issuing notes and bonds are listed under T.C.A. § 9-21-105(20).
 - ▶ G.O. bonds are usually issued for buildings and other major improvements when the life of the capital improvement will last longer than 12 years.
 - ▶ Upon the issuance of a general obligation (GO) bond, the county pledges the full faith, credit, and unlimited taxing power of the county as to all taxable property in the county or a designated portion of the county. T.C.A. § 9-21-201. These bonds may be issued with a maturity of up to 40 years; however, investors usually prefer 15 to 20 years. T.C.A. § 9-21-213(a).
 - ▶ Under this act, registered voters may petition the county for an election on the issuance of the proposed bonds. T.C.A. § 9-21-207. Also, the county legislative body may hold a voluntary election. T.C.A. § 9-21-208.

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Authority to Borrow

- ▶ **Lease Purchase T.C.A. § 7-51-901 through 904**
 - ▶ Counties are also authorized by T.C.A. § 7-51-901 *et seq.* to enter into long and short-term contracts, leases, and lease-purchase agreements.
 - ▶ Long-term contracts are specifically authorized by statute, although lease terms for capital improvement property may not exceed forty (40) years or the useful life of the property, whichever is less. T.C.A. § 7-51-902.
 - ▶ When the term of the contract, lease, or lease-purchase agreement is less than five years, the agreement must be approved by a resolution of the county legislative body.
 - ▶ If the agreement is for a term greater than five (5) years, county legislative body approval is also required, and public notice of the proposed contract must be given at least seven (7) days prior to the meeting at which it is to be considered. T.C.A. § 7-51-904.

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Debt Issuance

- ▶ T.C.A. § 9-21-102 – Intent
 - ▶ Must be consistent with the county's debt management policy and fixed asset policy
- ▶ T.C.A. § 9-21-103 - No indebtedness limit
- ▶ Tax Exempt Debt
- ▶ CT-0253 Form



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Types of Debt

- ▶ Capital Outlay Notes (CON)
 - ▶ 3 to 12 years (Short-term)
- ▶ Inter-fund Capital Outlay Notes
 - ▶ One fund, such as the General Fund, loans monies for a project.
 - ▶ The General Fund is repaid the money via the Debt Service Fund, or the operating fund that purchased the capital asset.
 - ▶ The inter-fund loan is often used to save the county money by absorbing all debt issuance cost, and potentially saving the difference in the investment rate of return on the county money versus the interest rate charged to borrow the funds.
 - ▶ The internal funding also can be the county trustee purchasing the note as an investment.
- ▶ General Obligation bonds (Long-term)

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Types of Debt (cont.)

- ▶ Loan Agreements
- ▶ Capital Leases (Long-term beyond fiscal year requires CLB approval and Comptroller approval)
- ▶ TRAN (Tax Revenue Anticipation Note)

Debt in Tennessee

Source: Transparency and
Accountability for Governments, TN
Comptroller's Office, 2017

Facts About Debt in TN

Indebtedness Range Across TN:
\$0 to \$5,724,043,221

Average debt...	
... per county	\$130,793,098
... per capita	\$1,023
... per assessed value	7.17%

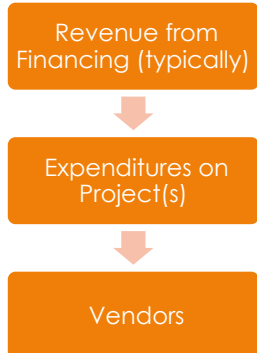
Best Practices for Debt Management

- ▶ Develop a capital projects policy
- ▶ Develop a capital projects improvement plan and budget
- ▶ Determine your current debt position
- ▶ Find your debt (bond) rating
- ▶ Establish a payment calendar
 - ▶ Schedule payments when cash is available such as December through February

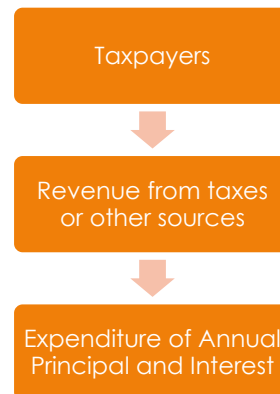
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Flow of Cash

▶ Capital Project Fund



▶ Debt Service Fund



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Debt Management Policy

- ▶ Recent concerns in Tennessee and across the Nation about debt transactions caused the need to create a Debt Management Policy.
- ▶ “Pursuant to T.C.A. § 9-21-151(b)(1), the State Funding Board is authorized to develop model financial transaction policies for the State, state agencies, local governments and local government instrumentalities. The State Funding Board on December 15, 2010, adopted a statement on debt management that reflects four principles for strong financial management in the public sector:
 - ▶ 1. Understand the transaction
 - ▶ 2. Explain to citizens what is being considered
 - ▶ 3. Avoid conflicts of interest
 - ▶ 4. Disclose costs and risks”

Debt Management Policy

This law dictates that it contain minimum language:

- ▶ Transparency- The Entity shall comply with legal requirements for notice and for public meetings related to debt issuance.
- ▶ Professionals- The Entity shall require all professionals engaged in the process of issuing debt to clearly disclose all compensation and consideration received related to services provided in the debt issuance process by both the Entity and the lender or conduit issuer, if any. This includes “soft” costs or compensations in lieu of direct payments.
- ▶ Conflicts- Professionals involved in a debt transaction hired or compensated by the Entity shall be required to disclose to the Entity existing client and business relationships between and among the professionals to a transaction (including but not limited to financial advisor, swap advisor, bond counsel, swap counsel, trustee, paying agent, underwriter, counterparty, and remarketing agent), as well as conduit issuers, sponsoring organizations and program admin

Debt Management Policy

- In the 2010 Tennessee legislative session and codified in T.C.A. § 9-21-151(b)(1), the legislature authorized these policy's be established by local government on or before December 31, 2011.
- The policies adopted by the government entities will be implemented in such time that they issue new debt or in the case of refunding existing debt. If no new debt is issued, the policy will not reflect on debt prior to December 31, 2011.
- After the policy has been implemented and new debt is issued, the Office of the Comptroller ensures that the government is adhering to the policy that was adopted. If the policy is not being followed, the debt could be challenged as not meeting the guidelines and could create issues of non-conformity.
- After the policy has been implemented and tested, any changes to the policy are acceptable to correct possible errors or even to strengthen the policy or make it less stringent as long as it maintains the minimum language as set forth.

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Main Takeaway for Debt Policies

Understand the debt
management policy

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Purchasing

- ▶ General Laws
 - ▶ County Purchasing Law of 1983 - \$10,000 limit
 - ▶ Education Purchasing Law Title 49
 - ▶ County Uniform Highway Law
- ▶ Optional General Laws with local application
 - ▶ County Purchasing Law of 1957
 - ▶ 1981 County Financial Management System
 - ▶ Up to \$25,000 limit with a full-time purchasing agent
- ▶ Other Laws
 - ▶ Private Acts and Metro Charters
 - ▶ Up to \$25,000 limit with a full-time purchasing agent if the county is centralized

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Purchasing Process

- ▶ **Requisition**
 - ▶ Formal request for a purchase to be made. It is the first step after the need for goods or services is recognized.
- ▶ **Purchase Order**
 - ▶ The written evidence of a contract between the buyer and supplier for the purchase of goods or services at an agreed price and delivery date.
- ▶ **Material Receiving Report**
 - ▶ The receiving department matches the items actually received, the packing list provided by the supplier of the shipment, and the receiving copy of the purchase order.

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Three Principles of Purchasing

1. **Maximization of Competition**

Specifications are written to allow the purchasing process to be as open as possible to a number of qualified vendors.

2. **Equal and Fair Competition**

Each vendor is provided the same information regarding product or service needs/specifications.

3. **Best Value at the Lowest Price**

The purchase must be made at the lowest price for the product or service that best meets the needs of the department.

Common Method of Purchasing

Competitive Sealed Bids

- ▶ In this method, the government issues an invitation to/for bids (ITB, IFB).
- ▶ These documents usually include a standard form on which vendors respond by filling out their bid.
- ▶ The award is made to the vendor submitting the lowest bid.
- ▶ Competitive sealed bids are the **preferred method** for purchases that exceed the statutory small purchase limit thresholds.

Annual Audit

- ▶ What is an annual audit?
 - ▶ In Tennessee, the records of all local governments must be audited annually T.C.A. § 9-3-211
 - ▶ Includes statistical information, expresses an opinion of the county finances, and, to a certain degree, how finances are managed.
 - ▶ <http://www.comptroller.tn.gov/la/CountySelect.asp>

Audit Opinions

- ▶ Four Levels:
 - 1) Unmodified – Clean audit opinion
 - 2) Modified – Not completely compliant
 - 3) Adverse – Negative opinion
 - 4) Disclaimer of Opinion – Unable to render an opinion



Audit Findings

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. Written responses for all findings are paraphrased and presented following each finding and recommendation. The county mayor, circuit and general sessions courts clerk, register of deeds, and sheriff provided corrective action plans, which are paraphrased in the Management's Corrective Action Plan section of this report.

OFFICES OF COUNTY MAYOR, CIRCUIT AND GENERAL SESSIONS COURTS CLERK, REGISTER OF DEEDS, AND SHERIFF

FINDING 2016-001

DUTIES WERE NOT SEGREGATED ADEQUATELY

(Internal Control – Significant Deficiency Under Government Auditing Standards)

Duties were not segregated adequately among officials and employees in the Offices of County Mayor, Circuit and General Sessions Courts Clerk, Register of Deeds, and Sheriff. Officials and employees responsible for maintaining accounting records were also involved in receipting, depositing, and/or disbursing funds. Sound business practices dictate that management is responsible for designing internal controls to give reasonable assurance of the reliability in financial reporting and of the effectiveness and efficiency of operations. This lack of segregation of duties is the result of management's decisions based on the availability of financial resources and is a significant deficiency in internal controls that increases the risk of unauthorized transactions. This deficiency also resulted from management's failure to correct the same finding noted in the prior-year audit report.

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What is GASB?

- ▶ **Governmental Accounting Standards Board**
- ▶ *An independent, not-for-profit organization that was organized in 1984*
- ▶ *Establishes standards of financial accounting and reporting for state and local governmental entities. Its standards guide the preparation of external financial reports of those entities*
- ▶ GASB Statements are considered GAAP for TN counties
- ▶ On-line at <http://www.gasb.org/index.html>

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Audit Committee

- ▶ Required to maintain Three Star status
- ▶ Created by the CLB
- ▶ Members must be external to management
- ▶ The audit committee must consist of no fewer than three members to be comprised of members of the County Commission, citizens of the county, or a combination of both.
- ▶ The budget committee cannot serve as the audit committee
- ▶ **Note: The audit committee does not have investigative powers or authority over other officials.**

What are Internal Controls?

U.S. Government Accountability Office (GAO) The Green Book Definition:

Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved.

Source: COSO, GAO Greenbook, Para. OV1.01

What is an Internal Controls System?

"An internal controls system is a continuous built-in component of operations, effected by people, that provides reasonable assurance, not absolute assurance, that an entity's objectives will be achieved."

Source: COSO, GAO Greenbook Para. OV1.04

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T.C.A § 9-18-102(a)

- ▶ An amendment to State Law requiring all county governments to establish and maintain internal controls which provide reasonable assurance that...
 1. Obligations and costs are in compliance with applicable law
 2. Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
 3. Revenues and expenditures are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets.

Law took effect June 30, 2016!

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Why Do County Governments Need Internal Controls?

- a) Reduce opportunities for fraud and waste
- b) Help management make better informed decisions
- c) Establish performance standards
- d) Helps ensure compliance with applicable laws, regulations, policies, and procedures
- e) Eliminate adverse publicity
- f) Protect county assets
- g) Promote effectiveness and efficiency of operations
- h) Ensure reliability of financial reporting
- i) Promote transparency and accountability

Enhanced Single Audit Requirements for Federal grant recipients

- ▶ Auditors will be required to focus more on internal controls of grant recipients dealing with:
 - ▶ purchasing (including bidding procedures)
 - ▶ conflict of interest policies
 - ▶ sub-recipient grant monitoring
 - ▶ cost principals for personnel and indirect grant costs
 - ▶ financial reporting

OMB Super Circular, Audits of States, Local Governments and Non-Profit Organizations.

<https://nonprofitquarterly.org/2015/07/29/explain-the-omb-super-circular/>

Non-Compliance with this Amendment to State Statute

- ▶ State Audit's position is that they will document non-compliance with an audit finding (remember, this is now a State Statute, not just an auditing standard).
- ▶ If non-compliance is egregious enough, then this can impact State/Federal grant eligibility and payments.
- ▶ Potential negative impact on county bond rating (rating agencies will be asking about your documented internal controls processes during upcoming rating calls).

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Who is Responsible for Establishing Internal Controls?

County Management (elected/appointed officials) are responsible for:

**design, implementation
and maintenance**

of adequate internal controls over the law enforcement/jail.

T.C.A. § 9-18-102(a).

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But isn't it the State Comptroller's responsibility to detect fraud and internal controls weaknesses?

Note ...Auditors tested internal controls during their annual audit of the county's financial statements, **and....**

...Auditors write hundreds of findings each year concerning internal controls weaknesses, **and....**

...they are not expressing an opinion on the effectiveness of the internal controls over county assets....effective internal controls is management's responsibility, **however...**

...The published audit report actually includes a disclaimer of auditor's opinion on whether the county operation's internal controls are effective or not.

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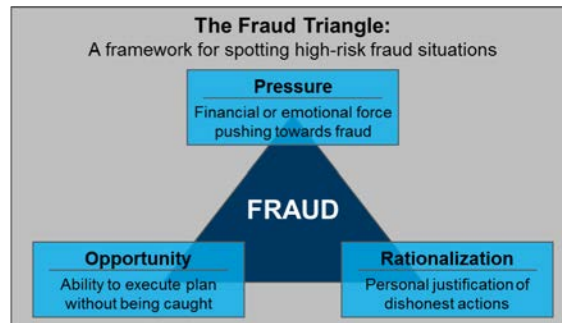
A Point about Auditors and Fraud Detection...

- ▶ Per same report, more fraud was identified by **accident** than by the external annual financial and compliance auditors.
- Per the 2014 Annual Report to the Nations from the Association of Certified Fraud Examiners (ACFE), external auditors (performing routine annual audits) were responsible for detecting less than 5% of identified occupational fraud.



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Poor Internal Controls = Opportunity for FRAUD



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Fraud Happens in Tennessee County Government Every Day

► **Tennessee sheriff office:**

- \$31,460 stolen by an investigator who oversaw sex offender registry and was allowed to receipt funds as well as maintain database on who paid.
- Narcotics unit had a cash shortage of \$1,145.
- Inmate funds totaling over \$800 were missing.

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Sound Internal Controls are Needed for Good Financial Reporting/Management

- ▶ Lack of internal controls over financial reporting = Poor budgeting and reporting practices that can lead to:
 - ▶ Unnecessary tax increases.
 - ▶ Missed grant opportunities and/or loss of grant funds.
 - ▶ Late/failure to file penalties.
 - ▶ Bond rating downgrades.

Find your internal controls assessment



Common Breakdowns in Internal Controls

- ▶ Lack of segregation of duties for non-compatible financial duties.
- ▶ Accounts receivable/collections loss.
- ▶ Poor payroll practices.
- ▶ Inadequate capital asset tracking.
- ▶ Substandard purchasing practices.
- ▶ Absence of vendor contract management.



Components & Principles of internal controls

Components

Control Environment

Risk Assessment

Control Activities

Information & Communication

Monitoring Activities

Source: SAS

Principles

1. Demonstrate Commitment to Integrity and Ethical Values
2. Exercise Oversight Responsibility
3. Establish Structure, Responsibility, and Authority
4. Demonstrate Commitment to Competence
5. Enforce Accountability
6. Define Objectives and Risk Tolerances
7. Identify, Analyze, and Respond to Risk
8. Assess Fraud Risk
9. Analyze and Respond to Change
10. Design Control Activities
11. Design Activities for the Information System
12. Implement Control Activities
13. Use Quality Information
14. Communicate Internally
15. Communicate Externally
16. Perform Monitoring Activities
17. Remediate Deficiencies

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Questions?

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