AUDIT REPORTS

All municipalities have a June 30 fiscal year end.
All municipalities must have an annual audit.
Audit reports should be filed with the Comptroller's office within six months after the fiscal year end which is December 31 of each year.

AUDIT REPORTS

79% of the 2018 audits for municipalities and municipal related entities were submitted as of March 11, 2019.

Most municipalities feel that late audit reports are the fault of the auditor.

Perhaps the auditor is understaffed.
AUDIT REPORTS

In order to get a more timely audit report:
You must get your audit contract in place,
You need to get your auditors on site to audit,
You need to be ready for your auditors when they arrive,
and you need to cooperate with them during the audit process.

AUDIT REPORTS

You have a contract with your auditor.
Manage the contract.
Plan ahead.
Let your auditor know when you are ready for audit.
If your auditor is consistently late, change auditors as it makes the municipality look bad.

Lack of Segregation of Duties

This is a common finding in both Counties and Cities and is the most common breakdown in internal controls.
Separate duties of employees so that no one person has control over a complete transaction from beginning to end.
Lack of Segregation of Duties

For good internal control, a different person should be responsible for:
- receipting money,
- posting transactions,
- disbursing funds,
- and reconciling bank statements.

Lack of Segregation of Duties

In many small cities, the city recorder is the only full-time office employee. There is no separation of duties. All the risk is on their shoulders.

Well, we do have insurance and personal bonding but they have limits.

When they come to investigate, the State determines the amount missing and the annual time frame of those losses.

Lack of Segregation of Duties

Most insurance plans will only go back 2 years on thefts. We have had on-going thefts for longer than that.

The bonding companies like to wait until court proceedings are complete before they disburse funds.

The court system generally requires convicted thieves to reimburse the city/county over time – a long time.
Expenditures Exceeding Budget Appropriation

State statutes, your municipal charters, and other local ordinances assign the responsibility of the budgeting process.

To avoid possible legal conflict, municipal officials should authorize all expenditures either in the original budget, or through amendments to the original budget.

Expenditures Exceeding Budget Appropriation

There really is no good reason for expenditures to exceed your budget since you can amend the budget anytime during the year.

Expenditures Exceeding Budget Appropriation

Under-budgeting problems often arises from year-end accruals such as recording accounts payable.

Monitoring your outstanding purchase orders should help minimize exceeding your budget.

Monitor your budget to actual results monthly and make timely budget amendments.

Budget requirements are covered in TCA Section 6-56-201 et seq.
Expenditures Exceeding Budget Appropriation

Your budget ordinance should be by fund and department.

Even though line-items make up the departmental budget, any line-item budget account may be exceeded without harm as long as the total departmental budget is not exceeded.

Unless fund balance is a limiting factor, there is no problem with over-budgeting.

Bank Reconciliations Not Performed Timely

Bank statements should be reconciled with the cash balances presented in the general ledger.

Bank reconciliations should be prepared monthly.

Bank Reconciliations Not Performed Timely

Timely bank reconciliations are critical to internal control. A lack of timely bank reconciliations often accompanies theft.
Bank Reconciliations Not Performed Timely

Municipal officials should ensure that a management level employee, or elected official, periodically reviews bank statements and the related reconciliations to determine that they are accurate, and all activity is authorized and properly documented.

Since this can be an early warning sign of financial distress or theft, the reviewer needs to know what they are doing.

A review of the bank reconciliations must be documented (typically a signature of the reviewer and dated).

Bank reconciliations may be shared with other city elected officials along with other financial data.

I believe that bank reconciliations are a critical internal control item.

There is no viable excuse for not performing this basic accounting task.

I do recognize that it is more difficult today with all the electronic transfers. Delays only make the task harder.
Inadequate Support for Disbursements

- Purchase orders dated after the invoice date.
- Supporting documentation for travel expenses not retained.
- Missing invoices and receipts
- Failure to obtain bids

Purchase orders can be a very effective internal control. For instance, many retailers will not sell to a city without a purchase order. This helps reduce fraud. However, creating a P.O. after the fact is a waste of internal control time.

Supporting documentation for travel expenses not retained.
A travel expense or reimbursement must be treated like any other expense and that means there must be documentation. For travel, you should have a written policy concerning receipts which must be attached to any expense or reimbursement.
Inadequate Support for Disbursements

Missing invoices and receipts.
Nobody should be paying bills based on a vendor statement only.
Proper receipts and invoices substantiate the amount owed and who received the order.
Without this documentation, the implication is that the payment is improper and that it could be for personal gain.

Inadequate Support for Disbursements

Failing to obtain bids.
Every city has a dollar limit, created by ordinance, whereby purchases must be done through a bidding process.
Larger cities may have up to $25,000 as their bid requirement where small cities have a lesser amount of up to $10,000.
Your city’s could be less.

Material Journal Entry Errors and Audit Adjustments

Journal entries are very powerful accounting tools.
A journal entry can hide a cash shortage, change a liabilities balance, change revenues, or move expenditures from one fund or department to another.
This can have the effect of misrepresenting the City or County financial statements to the casual reader.
Material Journal Entry Errors and Audit Adjustments

Journal entries are a necessary part of accounting. Elected officials should ensure that a management level employee reviews all journal entries.

Elected officials should ensure that a management level employee reviews the cash receipts journal, cash disbursements journal, general ledger, and subsidiary ledgers to ensure that they are in balance and don't require additional adjustments.

Clearly, some cities are not monitoring their general ledger "control" accounts leaving large material adjustments to the auditors.

The auditor is not there to perform a City or County's accounting. It compromises their professional independence.

Further, normal monthly monitoring might not be occurring. This may allow errors or theft to go unabated and undiscovered for some time.
TCA Section 9-2-102(b) states, “It is the duty of all local governments that are subject to the audit requirements of the comptroller of the treasury and that handle public funds to close their official accounting records and to have those records available for audit no later than two months after the close of their fiscal year.”

For purposes of implementing the requirement of this statute, “closing the books” refers to making those journal entries necessary to close an accounting cycle and prepare the records for a new accounting cycle.

Have competent, trained accounting personnel who can ensure financial records, reports, statements, and supporting schedules are ready for audit in a timely manner. This may mean bringing in a part-time accountant to help the city/county staff close the year.
Books not Closed Within 60 Days

With the 60 day availability rule, it is hard to close out the year within 60 days of June 30.

Violation of Three-day Bank Deposit Law

TCA Section 6-56-111 states that every municipal official handling public funds is required to deposit those funds as soon as practical, but no later than three working days after the receipt of those funds.

Violation of Three-day Bank Deposit Law

This is straightforward for larger entities but not in the smaller cities that do not receive daily receipts.
Violation of Three-day Bank Deposit Law

Since the law requires deposits within 3 banking days, it should be easy to select two weekdays for depositing funds and be in compliance with the law.

Un-deposited cash can accumulate quickly and perhaps draw unwanted attention or theft. Un-deposited cash may get “borrowed”.

It may be easier to manipulate general ledger balances when cash is not deposited timely.

Failure to Receive Authorization for the Issuance of Debt

Municipalities are statutorily required to request reviews, approvals, or reports for certain types of debt and finance transactions from the Comptroller’s Office of State and Local Finance.

Failure to Receive Authorization for the Issuance of Debt

All municipalities are required to have a debt management policy in compliance with the State Funding Board’s statement on debt management prior to authorizing the issuance of debt.

TCA Section 9-21-151(b).
Failure to Receive Authorization for the Issuance of Debt

After debt is issued, a report on debt obligation (form CT-0253) must be completed by the municipality's governing body and a copy filed with the Office of State and Local Finance.

City, and I suspect County, Mayors often get caught up with a “good deal” or a strong need for acquiring something that will need financing.

These leaders are often business owners who often act without knowing some of the State laws.

No money may be borrowed without City approval and then approved by State and Local Finance, first.

Municipal Utilities Noncompliance

In 1987, the state legislature passed the Wastewater Facilities Act. T.C.A. § 68-221-1001 to 1015.

This law provides a method for the State to intervene in the financial affairs of any financially distressed, publicly owned wastewater and/or water facility.

There are three financial violations of this law.
VIOLATIONS of the WFA

If a city’s Wastewater and/or Water fund losses money for two consecutive years, it is considered financially distressed.

VIOLATIONS of the WFA

Having a negative net position is a violation of this act. This indicates that the City has lost more money than it has made since inception.

VIOLATIONS of the WFA

Defaulting on debt is also violations of the Act.
Wastewater Facilities Act of 1987

Any city in violation of the Act would have to come before the WWFB and agree to a plan that would get their Wastewater Fund profitable within two years.

Water Loss

The WWFB investigates water systems with excessive losses (as defined in State law) and requires them to come up with a plan to reduce water losses to acceptable levels.

For 2019 and beyond, the limit to non-revenue water loss is 19%. City water systems with excessive annual losses (over 19%) must come up with a plan to reduce those losses.

This is the annual average unaccounted-for water losses that your water system has.
Water Loss

A validity score and the excessive non-revenue water percentage are reported on a water loss schedule and reproduced in the financial audit report. Those numbers should meet certain thresholds established by the WWFB.

The validity score is an evaluation of the accuracy of each number entered in the water loss schedule.

Inadequate Capital Assets Records

An annual physical inventory should be performed, documented, and reconciled to the property records. Capital assets acquired with grant funds should be adequately identified to ensure that they are maintained, accounted for and disposed of in accordance with the terms of the grant.

What Are Capital Assets?

Assets are:
• resources owned by the City or County with current service capacity.

Capital assets are:
• assets with some future service capacity or useful life.
• are used in operations and has an initial useful life in excess of 1 year.
What Are Capital Assets?

Only those assets with a cost that exceeds a threshold established by the city are to be capitalized. Cities and Counties may have different capitalization thresholds for different classes of capital assets.

What Are The Classes Of Capital Assets?

- Land
- Buildings
- Improvements Other Than Buildings
- Equipment
- Construction Work In Progress
- Infrastructure

Capital Asset Accounting System

1. Assign one person responsible to maintain the capital asset records.
2. Take initial physical inventory of all capital assets by completing a capital asset record.
Capital Asset Accounting System

3. Establish actual historical cost or value for all capital assets. If cost is not available, the value is to be estimated.
4. Complete an individual property record for each capital asset.
5. Label or tag all capital assets and mark as “city property” with a unique number.