



**A Report to the
Audit Committee**

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Metropolitan
Nashville
Office of
Internal Audit

**Davidson County Soil Conservation
District**

October 30, 2013



Why We Did This Audit

The audit was initiated based on the number of years that have elapsed since the last audit was conducted by this office.

What We Recommend

The Davidson County Soil and Conservation District should enhance controls over financial transactions, board oversight, and leave time. Restructuring the organizational structure of the District is also recommended.

For more information on this or any of our reports, email
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Davidson County Soil Conservation District

BACKGROUND

The United States Department of Agriculture works through the Davidson County Conservation District, a subdivision of the State of Tennessee, to deliver conservation services and programs and offers a variety of financial incentives to producers and landowners who are interested in conservation programs. The District also receives funding from the Tennessee Department of Agriculture for conservation projects. The Metropolitan Nashville Government provides funding for the staffing of a single District employee and a small amount of expenses. Projects funded by the United States Department of Agriculture passed \$3.8 million to landowners in fiscal years 2011 and 2012 inclusive. Projects funded by the Tennessee Department of Agriculture are sent to the District who, in turn, pays the landowner.

OBJECTIVES AND SCOPE

The primary objectives of the audit were to determine:

- Expenditures were aligned with Davidson County Soil Conservation District service delivery objectives.
- Expenditures were sensible and processed in a manner congruent with generally acceptable financial policies and procedures for governmental financing.

The audit scope included July 1, 2010, through June 30, 2012. During this period, the District assisted in administering \$89,442 in state funds.

Davidson County Soil Conservation District Expenses

Fiscal Year	2012	2011
Payroll	\$ 54,175	\$ 49,473
Internal Service Fees	9,473	10,825
Miscellaneous	7,907	6,925
Total	\$ 71,555	\$ 67,223

WHAT WE FOUND

In general, internal controls over financial transactions, board oversight, and employee leave procedures require improvement. Most of the internal control weaknesses originated from a one-person sized department. All soil conservation mission oriented work was accomplished by knowledgeable and motivated persons.

GOVERNANCE

The Davidson County Soil Conservation District is governed by a five member Board of Supervisors. Three of the members are elected every three years. Two of the members are appointed by the Board of Supervisors.

Projects are funded by the Tennessee Department of Agriculture and the United States Department of Agriculture through a cost-share arrangement. All applications must be reviewed and approved by the Davidson County Soil Conservation District Board of Supervisors and the Tennessee Department of Agriculture or for federally funded projects, the United States Department of Agriculture. A similar review and approval process exists for inspecting and submitting payment for completed projects. The Board of Supervisors oversees one Metropolitan Nashville Government employee who aids in the administration of these projects.

OBJECTIVES AND CONCLUSIONS

1. *Were expenditures aligned with service delivery objectives of the Davidson County Soil Conservation District?*

Yes. The District assisted in the facilitation of various projects related to its core mission. The District has implemented and executes a very rigorous review, inspection, and approval process. Staff was very knowledgeable and dedicated to the mission of the program.

2. *Were expenditures processed in a manner congruent with generally acceptable financial policies and procedures?*

Generally no. The District requires enhancement of controls over financial transactions and board oversight. The District does not have formal, written policies and procedures in place related to financial transactions. Absent such policies, the audit utilized those policies and procedures set forth by the Metropolitan Nashville Government. Financial practices of the District did not, in many instances, conform to these guidelines. More importantly, the current organizational structure of the program greatly increases the fraud risks for the agency and should be modified. (See Observations A, B, D, and E.)

3. *Were payroll expenditures for work actually performed?*

Generally yes. The District consists of one full time, salaried employee. Payroll reports generated appeared consistent and reasonable, with the exception of leave accrual and usage data. Processes and controls over leave time such as vacation and sick leave should be enhanced. Specifically, the office lacks any system to record, track, and monitor leave time accrued or taken; thus, they were unable to ascertain the amount of current leave balances (sick and vacation) with any verifiable data. (See Observation C.)

AUDIT OBSERVATIONS

Observation A: Current Organization Structure Limits Financial Control Response Options

Segregation of financial duties is not feasible with one full time employee and a Board of Supervisors which meets once a month. Not properly segregating incompatible functions as well as having an organizational structure that leaves only one employee with no direct supervisor for day to day functions and business processes greatly enhances the risk of error or inappropriate or fraudulent actions.

The one employee administers federal, state, and local funds along with making credit card purchases, writing checks for expenses and for reimbursement of cost-share projects, collecting various revenue streams, preparing bank deposits, bank reconciliations, and accounting entries. The State of Tennessee provides cost share amounts directly to the District's bank account but have no oversight of the eventual reimbursement to landowners, technical assistance providers, or other various expense payments which are all performed by the single employee. Interviews confirmed that the Board of Supervisor Treasurer had little knowledge about whom the checks were being written to or about the receipt of revenues. It should be noted that payments made against the District bank account are approved by the Tennessee Department of Agriculture and are reconciled by the Tennessee Department of Agriculture at fiscal year's end.

A review of other Soil Conservation Districts in Tennessee indicates that several ongoing frauds have recently been discovered by the Tennessee Comptroller of the Treasury due to similar lack of segregation issues.

Recommendation for management of the Davidson County Soil Conservation District to:

Explore changes to the organizational structure of this program. Specifically, consideration should be made to the following possibilities:

- Implement an arrangement whereby the District employee reports functionally to the District Board and in an administrative capacity to another Metropolitan Nashville Government Department.
- Entering into a Memorandum of Agreement (MOA) with the Metropolitan Nashville Government Finance Department to provide accounting support for the District, similar to the present arrangement with the Industrial Development Board.
- Transfer the District employee from the Metropolitan Nashville Government Department to the District itself. The Metropolitan Government Nashville Government can establish an agreement with the District in which a flat fee allotment is provided to assist funding the position.

Observation B: Management Financial Oversight and Review

Prevalent business practice as well as the Tennessee Comptroller of the Treasury's Internal Control and Compliance Manual recommends diligent management review and oversight of critical control activities. The District lacks a robust management review and approval processes. The check book is retained at the employee's desk. Although, checks must be signed by the Treasurer of the Board of Supervisors, blank checks are pre-signed for near-term expenses (30 to 40 days) and left with the employee who

locks them in their desk. Bank reconciliations are prepared on a monthly basis by the employee and presented to the Board of Supervisors for approval. In form, these reconciliations as well as all expenditures and deposits are reviewed and approved on a monthly basis. In substance, the review process is not being performed at a detailed level. Interviews confirmed that the Board of Supervisor Treasurer was unaware of significant disbursements made against the account or the fact that the employee had written checks to themselves for payment of technical assistance fees.

Additionally, disbursements made for miscellaneous expenditures such as mileage and meals were approved by the Board of Supervisors without sufficient documentation to detail and support the expenditures. Critical details such as the specific addresses traveled to and from were not included, or an individual participating in meals and the business purpose of the meeting was not always documented. Due to the lack of documentation the appropriateness of expenditures could not always be determined.

Recommendations for management of the Davidson County Soil Conservation District to:

1. Eliminate pre-signed checks. All checks should be written by and signed by the Treasurer after a thorough review of supporting documentation to quantify and validate the purchase or reimbursement.
2. Establish formal, written policies and procedures related to the procurement, revenue, payroll, and operating cycles and periodically review them.

Observation C: Employee Leave Balances Are Not Tracked

Prevalent business practice as well as the Tennessee Comptroller of the Treasury's Internal Control and Compliance Manual recommends a process that accurately approves, tracks, and monitors leave time accrued and taken by an employee. The one District employee stated they keep track of their own comp time on a handwritten paper, increasing or decreasing the balance as needed. Due to the nature of being a single employee not located within another reporting group, there is no one to verify if you are present, late, or absent. Documentation and data regarding how much leave time has been accrued and taken could not be found and no year-end balances are turned in to Metropolitan Nashville Human Resources Department. Consequently, it is not possible to determine or ascertain the number of sick, vacation, or comp time the employee is entitled to at the present time, resulting in an unknown liability to Metropolitan Nashville Government and the Metropolitan Nashville Employee's Pension Fund.

Recommendations for management of the Davidson County Soil Conservation District to:

1. Establish a process whereby all leave time taken is requested to management, approved, recorded, and monitored.
2. Work with the Metropolitan Nashville Finance – Payroll Division to determine current leave balances.
3. Submit to the Metropolitan Nashville Finance – Payroll Division leave usage or notations that none was taken. All leave, including comp time should be entered in the EnterpriseOne financial system.
4. At the beginning of each fiscal year, document leave balances agreed to and signed by the employee. A copy of this documentation should be kept by the Board of Supervisors and submitted to Metropolitan Nashville Human Resources Department.

Observation D: Technical Assistance Fees Paid to Employee

The Tennessee Department of Agriculture regularly pays a technical assistance fee equal to ten percent of the reimbursed project amount for assistance overseeing the project compliance and reimbursement. Historically, this fee has been paid to the Soil Conservation District employee (also a Metropolitan Nashville full-time employee), who performs the technical assistance. The total amount the employee received from technical assistance payments during the two year audit scope was \$7,454.

All 95 Tennessee counties have a Soil Conservation District and have an employee to administer the program. Many of these counties have limited resources and only employ a part-time employee, thus the technical assistance fees provide reimbursement for additional time in the field. Board of Supervisors in the districts must apply and be approved to receive such payments. Once approved, the payments continue indefinitely. However, over time, as board members change, they may be unaware of the practice. During this audit, the Treasurer, responsible for issuing the payment checks to the employee was unaware of the practice and did not know the employee had written checks to themselves (that the Treasurer had pre-signed) for this type reimbursement. This situation presents several issues:

- In this particular district, the employee already receives a salary for a full-time position and the case could be made that such work should be performed during the eight hour shift, even if it requires the employee to start at an earlier or later hour.
- The Metropolitan Nashville Finance Department was unaware of the payments and likely would not handle them in this way. They would accept them as revenue and disburse them through the normal system as they deemed appropriate.
- During the audit scope, the payments were made to the employee by the same employee completing a pre-signed check (incompatible duties). It should be noted that the Tennessee Department of Agriculture did approve each payment.
- Payments of technical assistance fees and project cost-shares made by the Tennessee Department of Agriculture were often lumped together so that a precise accounting of each project was difficult to perform; making the reimbursement amounts questionable without rigorous research and explanations (no inflated or improper payments were noted).
- The legal environment related to work hours, comp time, and other factors inherent to any payroll cycle enhances the risk such payments do not conform to changing employment laws and regulations.

Recommendation for management of the Davidson County Soil Conservation District to:

Collaborate on the nature, methodology, and appropriateness of technical assistance fee payments. Review this practice with the Metropolitan Nashville Department of Law to determine if these fee payments are compatible with Metropolitan Nashville Code of Laws § 2.222.020, Employees Standards of Conduct.

Observation E: Staff Involved in Revenue Cycle Not Bonded

Prevalent business practice as well as the Tennessee Comptroller of the Treasury's Internal Control and Compliance Manual requires employees who handle revenue collections should have adequate surety

bond coverage. The audit revealed that the Soil Conservation District does not execute surety bonds on its employees.

Recommendation for management of the Davidson County Soil Conservation District to:

Ensure that staff involved in the revenue cycle is properly bonded.

Observation F: Election of the Board of Supervisors

Prevalent business practice as well as the Tennessee Comptroller of the Treasury's Internal Control and Compliance Manual recommends proper governance. The current method of election of the governing body does not ensure that the largest number of available candidates and voters are aware of and involved in the process. Solicitation of candidates as well as communication of the actual election is provided at a limited number of co-ops and other miscellaneous locations. When elections are not communicated to the widest audience possible the risk exist that relatively few citizens are aware of the services offered and the opportunity to serve as a member of the Board of Supervisors will be unknown by many.

Recommendation for management of the Davidson County Soil Conservation District to:

The District should ensure that elections are communicated to the largest audience possible so that the best candidates and the majority of the citizenry are able to participate in the process. Consideration should be given to requesting assistance from the Davidson County Election Commission to assist the District in conducting the elections.

GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

METHODOLOGY

To accomplish our audit objectives, we performed the following steps:

- Interviewed key personnel within Davidson County Soil Conservation District.
- Evaluated internal controls currently in place.
- Reviewed sample selections to determine the effectiveness of internal controls.
- Reviewed financial transactions.
- Considered risk of fraud, waste, and abuse.
- Considered information technology risks.

AUDIT TEAM

Carlos Holt, CPA, CFF, CIA, CGAP, CFE, Audit Manager

Bill Walker, CPA, CIA, Auditor-in-Charge



Davidson County Soil and Water Conservation District
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October 30, 2013

Office of Internal Audit
Mr. Mark Swann, Metropolitan Auditor
222 3rd Avenue North, Suite 401
Nashville, TN 37201

RE: Audit of the Soil & Water Conservation; Metropolitan Government of Nashville & Davidson County

Dear Mr. Swann:

This is to acknowledge the audit report for the Soil & Water Conservation Department. The board has reviewed the comments and recommendations. The majority of the recommendations have been implemented and we will use the recommendations and comments to improve the District.

It was a pleasure to work with your staff, Bill Walker & Carlos Holt. Our department is unique as a subdivision of the state government under code (TCA 43-14-216) and was established in 1946. The District will continue to provide services and implement conservation practices to improve the quality of the Natural Resources to the visitors and residents of Davidson County.

Please note that the 2 years examined included: the 2010 Historic Flood; Host County for State, Southeast and National Convention meetings; and Regional "Land & Wildlife Expo".

Davidson Soil & Water Conservation

A handwritten signature in black ink, appearing to read 'John T. Leeman', with a long horizontal flourish extending to the right.

John T. Leeman, Chairman

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

We believe that operational management is in a unique position to best understand their operations and may be able to identify more innovative and effective approaches and we encourage them to do so when providing their response to our recommendations.

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
<i>Recommendations for management of the Davidson County Soil Conservation District to:</i>		
<p>A.1 Explore changes to the organizational structure of this program. Specifically, consideration should be made to the following possibilities:</p> <ul style="list-style-type: none"> Implement an arrangement whereby the District employee report functionally to the District Board and in an administrative capacity to another Metro Nashville department. Entering into a Memorandum of Agreement (MOA) with the Metro Nashville Finance Department to provide accounting support for the District, similar to the present arrangement with the Industrial Development Board. Transfer the District employee from the Metropolitan Nashville Government Department to the District itself. The Metropolitan Government Nashville Government can establish an agreement with the District in which a flat fee allotment is provided to assist funding the position. 	<p>Accept Risk</p> <p>Memorandum of Agreement (MOA) Cooperative Working Agreement with USDA/NRCS policy in force</p> <p>Not clear, need specifics” (regarding the MOA with Metro Nashville Finance)</p> <p>No board member is a Metro Paid Employee (all volunteer time) and current arrangement has functioned since 1946</p>	10/30/2013
<p>B.1 Eliminate pre-signed checks. All checks should be written by and signed by the Treasurer after a thorough review of supporting documentation to quantify and validate the purchase or reimbursement.</p>	Agree	10/13/2013
<p>B.2 Establish formal, written policies and procedures related to the procurement, revenue, payroll, and operating cycles and periodically review them.</p>	Agree	10/30/2013

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
C.1 Establish a process whereby all leave time taken is requested to management, approved, recorded, and monitored.	Agree	12/30/2013
C.2 Work with the Metropolitan Nashville Finance – Payroll Division to determine current leave balances.	Agree	12/30/2013
C.3 Submit to the Metropolitan Nashville Finance – Payroll Division leave usage or notations that none was taken. All leave, including comp time should be entered in the EnterpriseOne financial system.	Agree	12/30/2013
C.4 At the beginning of each fiscal year, document leave balances agreed to and signed by the employee. A copy of this documentation should be kept by the Board of Supervisors and submitted to Metropolitan Nashville Human Resources Department.	Agree	12/30/2013
D. Collaborate on the nature, methodology, and appropriateness of technical assistance fee payments. Review this practice with the Metropolitan Nashville Department of Law to determine if these fee payments are compatible with Metropolitan Nashville Code of Laws § 2.222.020, Employees Standards of Conduct.	Partially Agree. Memorandum of Agreement with the Metro Nashville Finance Department and TN Department of Agriculture	10/30/2013
E. Ensure that staff involved in the revenue cycle is properly bonded.	Accept Risks. Unless Metro will pay for the employee to be bonded	10/30/2013
F. The District should ensure that elections are communicated to the largest audience possible so that the best candidates and the majority of the citizenry are able to participate in the process. Consideration should be given to requesting assistance from the Davidson County Election Commission to assist the District in conducting the elections.	Partially Agree. The state has to change policy for all 95 counties. The State Soils Committee sets the policy for elections of board members. As far as the legal notices of elections: notification appears in newspapers two weeks and on webpage prior to election.	10/30/2013