

ANNUAL FINANCIAL REPORT
THIRTEENTH JUDICIAL DISTRICT
DRUG TASK FORCE



FOR THE YEAR ENDED JUNE 30, 2004

COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF COUNTY AUDIT
NASHVILLE, TENNESSEE

**ANNUAL FINANCIAL REPORT
THIRTEENTH JUDICIAL DISTRICT
DRUG TASK FORCE
FOR THE YEAR ENDED JUNE 30, 2004**

***DEPARTMENT OF AUDIT:
JOHN G. MORGAN
Comptroller of the Treasury***

***DIVISION OF COUNTY AUDIT:
RICHARD V. NORMENT
Assistant to the Comptroller***

***ARTHUR L. ALEXANDER
Director***

***GREG WORLEY, CPA, CGFM
Audit Manager***

***ANITA SCARLETT, CPA
Auditor 4***

***JAMES D. HODGES
AMY HEWITT
State Auditors***

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Audit Highlights

Annual Financial Report
Thirteenth Judicial District Drug Task Force
For the Year Ended June 30, 2004

Scope

We have audited the financial statements of the Thirteenth Judicial District Drug Task Force as of and for the year ended June 30, 2004.

Results

Our report on the Drug Task Force's financial statements expresses an adverse opinion because government-wide financial statements are not presented in accordance with Governmental Accounting Standards Board Statement No. 34.

Our audit resulted in five findings and recommendations, which we have reviewed with the Drug task Force management. Detailed findings, recommendations, and management's responses are included in the Single Audit section of this report.

The following are summaries of the audit findings:

- ◆ Government-wide financial statements were not presented in accordance with generally accepted accounting principles, resulting in an adverse opinion.
- ◆ In some instances, purchase orders were not issued when required or were not issued properly. Also, in several instances, copies of invoices were provided to the County Executive's Office as supporting documentation for purchases. In addition, late charges were paid on certain invoices. These late charges of \$505 are included as questioned costs. Furthermore, we noted expenditures that did not appear to be in accordance with grant guidelines. These expenditures of \$1,477 are included as questioned costs.
- ◆ Travel reimbursements were not made in compliance with the state travel policy, as required by grant guidelines. Travel reimbursements of \$338.34 are included as questioned costs. Also, proper documentation was not included on all travel reimbursement claims.
- ◆ Several assets were noted that were not tagged or clearly marked as office property, and two portable radios could not be located that were listed on the equipment inventory.
- ◆ The Drug Task Force did not monitor a subrecipient of grant funds to ensure that the federal funds were used in accordance with grant guidelines. The \$25,000 passed-through to the subrecipient is reported as a questioned cost.

*State of Tennessee
Comptroller of the Treasury
Department of Audit
Division of County Audit*

INTRODUCTORY SECTION

Drug Task Force Officials
June 30, 2004

Officials:

William E. Gibson, District Attorney General
Steve Randall, Director

Members of the Board of Directors:

Bob Terry, Chief of Police - Cookeville Police Department, Chairman
William E. Gibson, District Attorney General
David Andrews, Sheriff - Putnam County

FINANCIAL SECTION



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF COUNTY AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0269
PHONE (615) 401-7841**

INDEPENDENT AUDITOR'S REPORT

March 22, 2005

District Attorney General for the Thirteenth Judicial District and
the Board of Directors of the Drug Task Force
Putnam County, Tennessee

To the District Attorney General for the Thirteenth Judicial District and the Board of
Directors of the Drug Task Force:

We have audited the accompanying financial statements of the Thirteenth Judicial District Drug Task Force, as of and for the year ended June 30, 2004, as shown on pages 9 through 17, which comprise a portion of the entity's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Drug Task Force's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the entity's governmental activities are not reasonably determinable.

As described in Note I, the Drug Task Force has prepared its financial statements on a prescribed basis of accounting that demonstrates compliance with financial reporting standards adopted by the Comptroller of the Treasury of the State of Tennessee. These standards require local governmental entities that do not present government-wide financial statements to present fund financial statements in conformity with all the accounting principles generally accepted in the United States of America that are applicable to fund financial statements, including the notes to the financial statements. These standards also require some additional disclosures to be included in the notes to the financial statements as described in Note I.

In our opinion, because of the effects of the matters discussed in the two preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Drug Task Force, as of June 30, 2004, or the changes in its financial position for the year then ended.

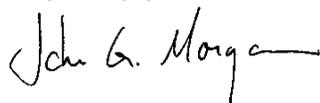
However, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Drug Task Force as of June 30, 2004, and the change in financial position for the year then ended in conformity with the basis of accounting prescribed by the Comptroller of the Treasury of the State of Tennessee.

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise the Thirteenth Judicial District Drug Task Force's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

As described in Note I, the Drug Task Force prepared its financial statements on a prescribed basis of accounting that demonstrates compliance with standards adopted by the Comptroller of the Treasury of the State of Tennessee. This results in a change in the format and content of the basic financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated March 22, 2005, on our consideration of the Drug Task Force's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Very truly yours,



John G. Morgan
Comptroller of the Treasury

JGM/yu

BASIC FINANCIAL STATEMENTS

Exhibit A

Thirteenth Judicial District Drug Task Force
Balance Sheet
June 30, 2004

	Drug Task Force Fund
<hr/>	
<u>ASSETS</u>	
Cash:	
Cash on Hand	\$ 108,202
Equity in Pooled Cash and Investments:	
Cash with Trustee	244,822
Cash with Clerks, Register, and Sheriff	<u>805</u>
Total Assets	<u>\$ 353,829</u>
 <u>LIABILITIES AND FUND BALANCES</u>	
<u>Liabilities</u>	
Accounts Payable	\$ 98,391
Due to Litigants, Heirs & Others	<u>106,626</u>
Total Liabilities	<u>\$ 205,017</u>
 <u>Fund Balances</u>	
Unreserved:	
Undesignated	<u>\$ 148,812</u>
Total Fund Balances	<u>\$ 148,812</u>
Total Liabilities and Fund Balances	<u>\$ 353,829</u>

Exhibit B

Thirteenth Judicial District Drug Task Force
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2004

	Drug Task Force Fund
<hr/>	
<u>Revenues</u>	
Fines	\$ 2,146
Drug Task Force Forfeitures and Seizures	7,263
Lease/Rentals	9,000
Miscellaneous Refunds	271
Law Enforcement Grants	<u>592,167</u>
Total Revenues	<u>\$ 610,847</u>
<u>Expenditures</u>	
Secretaries	\$ 90,989
In-Service Training	13,770
Other Fringe Benefits	27,287
Communications	16,093
Confidential Drug Enforcement Payments	4,478
Rentals	26,318
Travel	8,519
Gasoline	2,738
Office Supplies	36,287
Utilities	7,410
Other Supplies and Materials	759
Other Charges	85,310
Motor Vehicles	5,844
Other Equipment	<u>179,965</u>
Total Expenditures	<u>\$ 505,767</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 105,080</u>
Net Change in Fund Balance	\$ 105,080
Fund Balance, July 1, 2003	<u>43,732</u>
Fund Balance, June 30, 2004	<u><u>\$ 148,812</u></u>

**THIRTEENTH JUDICIAL DISTRICT
DRUG TASK FORCE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2004**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Thirteenth Judicial District Drug Task Force's financial statements are not presented in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments. In June 1999, the GASB unanimously approved Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments. Some of the significant changes in the statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of a government's overall financial position and results of operations
- Government-wide financial statements prepared using full accrual accounting for all of a government's activities

The Drug Task Force has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities. The two government-wide financial statements, the statement of net assets and the statement of activities, should be included in the basic financial statements to conform with the provisions of GASB Statement 34 and accounting principles generally accepted in the United States of America. The Drug Task Force has elected instead only to implement the provisions of the statement and other accounting principles generally accepted in the United States of America that relate to the fund financial statements. This departure from GAAP results in an incomplete presentation and has caused the Drug Task Force's auditor to issue an adverse opinion on the Drug Task Force's financial statements.

Although the Drug Task Force's financial statements are not presented in conformity with GAAP, the financial statements have been presented in conformity with financial reporting standards adopted by the Comptroller of the Treasury of the State of Tennessee. The Comptroller of the Treasury has adopted financial reporting standards for local governments in Tennessee that do not implement the provisions of GASB Statement 34. These standards require fund financial statements to be presented in conformity with all the provisions of GASB Statement 34 that are applicable to fund financial statements, including the notes to the financial statements. These standards also require the fund financial statements to be presented in conformity with all other accounting principles generally accepted in the United States of America that are applicable to fund financial statements, including the notes to the financial statements.

The following are the more significant accounting policies of the Drug Task Force:

A. Reporting Entity

The Thirteenth Judicial District Drug Task Force (the Drug Task Force) is a joint venture formed by an interlocal agreement between the district attorney general of the Thirteenth Judicial District, the City of Cookeville, and Putnam County. The purpose of the Drug Task Force is to provide multi-jurisdictional law enforcement to promote the investigation and prosecution of drug-related activities. Funds for the operations of the Drug Task Force come primarily from federal grants, drug fines, and the forfeiture of drug related assets to the Drug Task Force. The Drug Task Force is overseen by the district attorney general and is governed by a board of directors including the district attorney general, sheriffs, and police chiefs of participating law enforcement agencies within the judicial district.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Drug Task Force funds are deposited with the Putnam County Trustee in a separate Judicial District Drug Fund under the administration of the Putnam County Executive. All nonconfidential financial operations are expended through the Judicial District Drug Fund. The Drug Task Force's director submits requisitions to the county executive for goods and services, which are then obtained through the county's purchasing system. Cash transactions for confidential funds are requisitioned and disbursed under the supervision of the Drug Task Force Director and Chairman.

The Drug Task Force operations are accounted for in a single governmental fund with a set of self-balancing accounts that comprise its assets, liabilities, and fund equity, revenues, and expenditures. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Drug Task Force considers revenues other than grants to be available if they are collected within 30 days after year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and the revenues are available. The Drug Task Force considers grant and similar revenues to be available if they are collected within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

C. **Assets, Liabilities, and Net Assets or Equity**

1. **Deposits and Investments**

Cash includes cash on hand and cash on deposit with the county trustee.

State statutes authorize the county trustee to make direct investments in bonds, notes, or treasury bills of the U.S. government, and obligations guaranteed by the U.S. government or any of its agencies; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; the county's own legally issued bonds or notes; the State Treasurer's Investment Pool; and repurchase agreements.

The county trustee maintains a cash and internal investment pool that is used by all county offices of Putnam County, including the County Executive's Office. The Drug Task Force's portion of this pool is displayed on the balance sheet as Equity in Pooled Cash and Investments. Putnam County has adopted a policy of reporting U.S. Treasury obligations, U.S. agency obligations, and repurchase agreements with maturities of one year or less when purchased on the balance sheet at amortized cost. Certificates of deposit and investments in the State Treasurer's Investment Pool are reported at cost. The State Treasurer's Investment Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows SEC-registered mutual funds to use amortized cost rather than fair value to report net assets to compute share prices if certain conditions are met. State statutes require the state treasurer to administer the pool under the same terms and conditions, including collateral requirements, as prescribed for other funds invested by the state treasurer. All other investments are reported at fair value. No investments required to be reported at fair value were held by the trustee for the Drug Task Force at the balance sheet date.

2. **Capital Assets**

Governmental funds do not capitalize the cost of capital outlays; these funds report capital outlays as expenditures upon acquisition. The Drug Task Force does not maintain capital assets records, as required by generally accepted accounting principles. Capital assets should be reported in the government-wide statement of net assets; however, as previously noted, The Drug Task Force does not present government-wide statements.

II. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Total cash is as follows for the Drug Task Force:

	<u>Drug Task Force Funds</u>
Cash	\$ 108,202
Equity in Pooled Cash and Investments	<u>245,627</u>
Total	<u>\$ 353,829</u>

The Drug Task Force participates in an internal cash and investment pool through the Office of Putnam County Trustee. The Drug Task Force meets the criteria for a joint venture, and is administered by the Putnam County Executive's Office as an agency fund. The county trustee is the treasurer of the county and in this capacity is responsible for receiving, disbursing, depositing, and investing most county funds. The Drug Task Force's portion of this pool is displayed on the balance sheet as Equity in Pooled Cash and Investments.

Cash on the balance sheet consists entirely of cash on hand held by the Drug Task Force. The majority of the cash on hand relates to seizures and/or evidence related to pending cases.

Deposits – All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Participating banks determine the aggregate balance of their public fund accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must equal at least 105 percent of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the state treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured

amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the county.

Separate disclosures concerning carrying amounts and bank balances of pooled deposits cannot be made for Putnam County, including the Judicial District Drug Task Force Fund, and the Putnam County School Department since both pool their deposits and investments through the county trustee. The carrying amount of Putnam County's and the Putnam County School Department's deposits with financial institutions was \$15,212,302, and the bank balance was \$16,044,985. These deposits are categorized as follows to give an indication of the level of risk assumed at year-end. Category 1 includes deposits insured or collateralized with securities held by the entity or its agent in the entity's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's agent or trust department in the entity's name. Category 3 includes deposits uncollateralized or collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the entity's name. Category 1 deposits were \$16,044,985.

Investments – Counties are authorized to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; and the county's own legally issued bonds or notes. These investments may not have a maturity greater than two years. The county may make investments with longer maturities if various restrictions set out in state law are followed. Counties are also authorized to make investments in the State Treasurer's Investment Pool and in repurchase agreements. Repurchase agreements must be approved by the state director of Local Finance and executed in accordance with procedures established by the State Funding Board. Securities purchased under a repurchase agreement must be obligations of the U.S. government or obligations guaranteed by the U.S. government or any of its agencies. When repurchase agreements are executed, the purchase of the securities must be priced at least two percent below the market value of the securities on the day of purchase.

Pooled investments are separately categorized as follows to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the entity or its agent in the entity's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the entity's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the entity's name. Funds invested in the State Treasurer's Investment Pool are not required to be categorized by generally accepted accounting principles. Separate disclosures for internally pooled investments cannot be made for Putnam County, including the Judicial District Drug Task Force Fund, and the Putnam County School Department, as noted for deposits. Pooled

investments with a reported amount and fair value of \$11,046,496 consisted entirely of funds deposited with the State Treasurer's Investment Pool.

III. OTHER INFORMATION

A. Risk Management

The Drug Task Force purchases commercial insurance for the risks of losses related to property. The risk of loss for automobile liability is covered by the State of Tennessee Division of Claims Administration under Section 9-8-307, Tennessee Code Annotated. Settled claims have not exceeded coverage in any of the past three fiscal years.

B. Subsequent Events

On August 14, 2004, the Putnam County Sheriff's Department employees assigned to the Drug Task Force were reassigned to the Sheriff's Department, and on October 11, 2004, the Putnam County Sheriff notified the Drug Task Force that they would no longer participate in the Drug Task Force.

The Tennessee Tech Police Department joined the Drug Task Force in November 2004, and its Chief of Police was placed on the Drug Task Force's Board of Directors.

C. Retirement Commitments

Plan Description

Employees of Putnam County, including employees of the Drug Task Force, are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service, or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service, and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of Tennessee Code Annotated. State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Putnam County participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan.

Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us.

Since the Drug Task Force participates in Putnam County's plan, retirement information for the Drug Task Force is not available separately from the retirement information provided for the county. Complete disclosure for Putnam County's participation in the TCRS is described in footnotes of the Annual Financial Report of Putnam County, Tennessee.

D. Purchasing Laws

Purchases for the Drug Task Force are governed by the purchasing laws applicable to the Putnam County Executive's Office, the financial administrator for the Drug Task Force. Purchasing procedures for the County Executive's Office are governed by provisions of Chapter 63, Private Acts of 1981. This act provides for the county executive to serve as the purchasing agent and for all purchases exceeding \$5,000 (excluding emergency purchases) to be made based on competitive bids solicited through newspaper advertisement.

SINGLE AUDIT SECTION



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

March 22, 2005

District Attorney General for the Thirteenth Judicial District and
the Board of Directors of the Drug Task Force
Putnam County, Tennessee

To the District Attorney General for the Thirteenth Judicial District and
the Board of Directors of the Drug Task Force:

We have audited the financial statements of Thirteenth Judicial District Drug Task Force as of and for the year ended June 30, 2004, and have issued our report thereon dated March 22, 2005. Our report on the financial statements of the Thirteenth Judicial District Drug Task Force expresses an adverse opinion because the government-wide financial statements are not presented in accordance with Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with the auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Drug Task Force's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed two material instances of noncompliance that are required to be reported under Government Auditing Standards and are described in the accompanying Schedule of Findings and Questioned Costs as items 04.01 and 04.05. We have also noted certain other, less significant instances of noncompliance that we have reported to management in separate communications.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Drug Task Force's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Drug Task Force's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 04.02, 04.03, and 04.04.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management in separate communications.

This report is intended solely for the information and use of the Board of Directors of the Drug Task Force, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Very truly yours,



John G. Morgan
Comptroller of the Treasury

JGM/yu



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF COUNTY AUDIT
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

March 22, 2005

District Attorney General for the Thirteenth Judicial District
and Board of Directors of the Drug Task Force
Putnam County, Tennessee

To the District Attorney General and Board of Directors:

Compliance

We have audited the compliance of the Thirteenth Judicial District Drug Task Force with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. The Thirteenth Judicial District Drug Task Force's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Thirteenth Judicial District Drug Task Force's management. Our responsibility is to express an opinion on the Thirteenth Judicial District Drug Task Force's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Thirteenth Judicial District Drug Task Force's compliance with those requirements and performing such other procedures as we considered necessary

in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Thirteenth Judicial District Drug Task Force's compliance with those requirements.

As described in items 04.05 and 04.12 in the accompanying schedule of findings and questioned costs, the Thirteenth Judicial District Drug Task Force did not comply with requirements regarding subrecipient monitoring that are applicable to its Public Safety Partnership and Community Policing Grant (CFDA No. 16.710). Compliance with such requirements is necessary, in our opinion, for the Thirteenth Judicial District Drug Task Force to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Thirteenth Judicial District Drug Task Force complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the Thirteenth Judicial District Drug Task Force is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Thirteenth Judicial District Drug Task Force's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Thirteenth Judicial District Drug Task Force's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04.02, 04.03, 04.04, 04.06, 04.07, 04.08, 04.09, 04.10, and 04.11.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Schedule of Federal Awards

We have audited the financial statements of the Thirteenth Judicial District Drug Task Force as of and for the year ended June 30, 2004, and have issued our report thereon dated March 22, 2005. Our report on the Financial Statements of the Drug Task Force expresses an adverse opinion because the government-wide financial statements are not presented in accordance with Governmental Accounting Standards Board Statement No. 34. Our audit was performed for the purpose of forming opinions on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards and state grants is presented for purposes of additional analysis, as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors of the Drug Task Force, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "John G. Morgan". The signature is written in a cursive style with a long horizontal stroke at the end.

John G. Morgan
Comptroller of the Treasury

JGM/yu

District Attorney General
Thirteenth Judicial District
Schedule of Expenditures of Federal Awards (1)
For the Year Ended June 30, 2004

<u>Federal/Pass-through Agency/State Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. Department of Justice:			
Direct Program:			
Public Safety Partnership and Community Policing Grants	16.710	N/A	\$ 410,767
Passed-through the State Office of Criminal Justice Programs:			
Byrne Formula Grant Program	16.579	Z-99-088358-00	<u>95,000</u>
Total U.S. Department of Justice			<u>\$ 505,767</u>
Total Federal Awards			<u><u>\$ 505,767</u></u>

CFDA - Catalog of Federal Domestic Assistance

(1) - Presented in conformity with generally accepted accounting principles using the modified accrual basis of accounting.

District Attorney General
Thirteenth Judicial District
Schedule of Audit Findings Not Corrected
June 30, 2004

Government Auditing Standards require auditors to report the status of uncorrected findings from prior audits. This is the first year that the Thirteenth Judicial District Drug Task Force Funds have been audited. However, there are no findings on the Drug Task Force from the Review of Funds Administered by District Attorneys General and Judicial District Drug Task Force Funds for the year ended June 30, 2003, which have not been corrected.

**THIRTEENTH JUDICIAL DISTRICT DRUG TASK FORCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2004**

PART I, SUMMARY OF AUDITOR'S RESULTS

1. An adverse opinion was issued on the financial statements of the Thirteenth Judicial District Drug Task Force.
2. Reportable conditions in internal control were disclosed by the audit of the financial statements of the Drug Task Force. None of these conditions were considered to be material weaknesses.
3. The audit disclosed two instances of noncompliance which were material to the financial statements of the Drug Task Force.
4. Reportable conditions in internal control over major programs were disclosed by the audit. None of these conditions were considered to be material weaknesses.
5. A qualified opinion was issued on compliance for major programs.
6. The audit disclosed audit findings which are required to be reported under Section 510(a) of OMB Circular A-133.
7. The Public Safety Partnership and Community Policing Grant (CFDA No. 16.579) was determined to be a major program.
8. A threshold of \$300,000 was used to distinguish between Type A and Type B federal programs.
9. The Drug Task Force did not qualify as a low-risk auditee.

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 joint response submitted by the District Attorney General, Chairman of the Board of Directors of the Drug Task Force, and Director of the Drug Task Force is included in this report. These officials offered oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

THIRTEENTH JUDICIAL DISTRICT DRUG TASK FORCE

FINDING 04.01 **GOVERNMENT-WIDE FINANCIAL STATEMENTS WERE NOT PRESENTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**
(Material Noncompliance Under Government Auditing Standards)

The Thirteenth Judicial District Drug Task Force did not identify and determine the historical value of its capital assets, and the related depreciation amounts of these assets. Therefore, the Drug Task Force was unable to provide the information necessary to prepare government-wide financial statements for all of its activities, as required by Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. GASB is the standard-setting body for accounting principles that state and local governments are required to follow. As a result of this omission, the Drug Task Force’s financial statements are not presented in accordance with generally accepted accounting principles; thus, we have issued adverse opinions on its financial statements.

The Office of the Comptroller of the Treasury, State of Tennessee, requires governments that do not implement GASB Statement 34 to issue a financial report in compliance with Financial Reporting Standards for County Governments, Component Units of County Governments, and Special School Districts That Do Not Implement Governmental Accounting Standards Board Statement 34, established by the Comptroller of the Treasury. The Drug Task Force’s financial statements are presented in compliance with these requirements.

RECOMMENDATION

The Thirteenth Judicial District Drug Task Force should present government-wide financial statements in conformity with generally accepted accounting principles, and should compile and maintain records that properly account for their capital assets. These records should document the historical cost of their capital assets and the related depreciation amounts of its assets. This information is necessary to present the financial statements in accordance with generally accepted accounting principles.

MANAGEMENT’S RESPONSE – (Direct Quote)

We are now in the process of evaluating the steps necessary to implement the recommendation in Finding 04.01 including the documentation of historical costs of Drug

Task Force capital assets and depreciation and other elements to bring us in compliance with generally accepted accounting principles as required.

FINDING 04.02 **DEFICIENCIES WERE NOTED IN THE DRUG TASK FORCE'S PURCHASING PROCEDURES**
(Internal Control-Reportable Condition Under Government Auditing Standards and OMB Circular A-133)

The Putnam County Executive administers purchasing for the Judicial District Drug Task Fund; therefore, the purchasing procedures are the procedures implemented by Putnam County, Tennessee. We noted the following deficiencies in purchasing procedures during our examination of the Drug Task Force:

- A. In several instances, purchase orders were either not issued when required or were not issued properly. The failure to issue purchase orders properly results in the loss of control over who has purchasing authority and the ability to document purchasing commitments.
- B. In several instances, only copies of invoices were provided to the County Executive's Office as supporting documentation of purchases. The failure to provide original documentation for purchases results in the loss of assurance that goods and services were actually received. However, we extended our audit procedures and were able to determine that goods had been received and services had been rendered.
- C. We noted that the Drug Task Force did not process payments in a timely manner resulting in late charges on several invoices. Late fees on a copier payment plan totaled \$122 and late charges on the purchase of computers from Methamphetamine Initiative Grant funds totaled \$505. The payment of late charges increases the costs of the goods and services to the Drug Task Force unnecessarily. Because the computers were purchased with federal grant monies, the \$505 in late charges is listed as a questioned cost in this audit report.
- D. Drug Task Force personnel did not properly monitor Drug Task Force expenditures relating to the Public Safety Partnership and Community Policing Grant (CFDA No. 16.710) to determine that the expenditures were accordance with grant guidelines. As a result, the Drug Task Force purchased meals and refreshments totaling \$1,162 for meetings and training seminars that were prohibited by the grant guidelines. Also, the Drug Task Force purchased name plates (\$315) for all of the offices located at the Drug Task Force building. Grant guidelines do not allow for miscellaneous costs that do not directly lead to the implementation or enhancement of the program. Because these expenditures involved federal grant monies, the purchases totaling \$1,477 are listed as a questioned cost.

RECOMMENDATION

Purchase orders should be issued properly for all applicable expenditures. Original documentation should be maintained for all expenditures. Also, invoices should be paid in a timely manner so that late charges are not incurred. Furthermore, officials should make sure that all purchases are allowable within the program guidelines.

MANAGEMENT'S RESPONSE – (Direct Quote)

- A. Properly issued purchase orders will be used for all future transactions.
- B. Only original invoices will be provided to the County Executive's Office as documentation of all future purchases.
- C. Late charges are initiated when the processing of payments takes longer than thirty (30) days. We will make every effort to see that invoices are processed and bills paid in a timely manner to avoid all future late charges.
- D. We have reviewed the spending guidelines for the particular grant money addressed and will make no further expenditures not in full compliance with the requirements of that grant including meals for training sessions or items such as nameplates for office doors. All purchases made will be those that directly lead to the implementation or enhancement of the grant program.

FINDING 04.03 **DEFICIENCIES WERE NOTED IN THE DRUG TASK FORCE'S TRAVEL DISBURSEMENTS** (Internal Control - Reportable Condition Under Government Auditing Standards and OMB Circular A-133)

According to grant guidelines, the Drug Task Force is to follow the uniform travel policy for the State of Tennessee. In general, this policy allows for the reimbursement of meals when overnight travel is required at a per diem rate with the employee receiving 75 percent of the per diem rate on the day of arrival and the day of departure. The policy also establishes limits on lodging based upon the location. We noted the following instances in which management did not adequately review the travel payment requests for compliance with the travel guidelines:

- A. The Drug Task Force director, agents, a prosecutor, and two secretaries were reimbursed at 100 percent of the per diem travel rate for meals on the day of departure when they should have received only 75 percent of the daily per diem for meals for this day. These reimbursements resulted in total overpayments of \$79.
- B. The Drug Task Force computer specialist was improperly reimbursed at 100 percent of the per diem travel rate for meals when no overnight stay was required, resulting in a \$30 overpayment.

- C. In some instances, lodging reimbursement rates were made in excess of the amounts allowed by the state regulations, resulting in overpayments of \$210.
- D. In two different instances, phone calls from hotels totaling \$19.34 were reimbursed by the Drug Task Force; however, the per diem established by the state travel policy includes meals and incidentals such as phone calls.
- E. Proper documentation was not included on all travel reimbursement claims. In one instance, a per diem rate for out-of-state travel was not included with the travel reimbursement claim, and in other instance, travel reimbursement claims did not include original invoices for lodging.

As a result of these deficiencies, we have identified \$338.34 in questioned costs resulting from travel related deficiencies.

RECOMMENDATION

Travel expenditures should be properly reviewed before payment to ensure that they are made in accordance with the state travel policies as required by the grant guidelines.

MANAGEMENT'S RESPONSE – (Direct Quote)

- A. We understand that on arrival and departure dates, travel is reimbursed at seventy-five percent (75%) of the full per diem. These inadvertent overpayments are being recovered from the employees involved and re-deposited.
- B. No per diem payment is available when required travel does not mandate an overnight stay. This amount is being refunded by the Computer Specialist and re-deposited.
- C. The two hundred ten dollars (\$210.00) overpayment is being refunded by the employees involved and re-deposited.
- D. The phone calls involved have not been documented as government business, and the nineteen dollars and thirty-four cents (\$19.34) is being refunded by the employee involved and re-deposited.
- E. Proper documentation will be included with all travel reimbursement claims including original hotel bills.

The state travel regulations and policies of the Drug Task Force have been reviewed with all parties involved to insure future compliance.

FINDING 04.04 EQUIPMENT WAS NOT TAGGED OR MARKED AS PROPERTY OF THE DRUG TASK FORCE AND CERTAIN EQUIPMENT COULD NOT BE LOCATED
(Internal Control - Reportable Condition Under Government Auditing Standards and OMB Circular A-133)

The Drug Task Force maintained an equipment inventory; however, we noted the following deficiencies related to inventory:

- A. The Drug Task Force did not maintain adequate controls over assets purchased with grant monies. We noted several sensitive assets in the nonconfidential operations of the Drug Task Force that were not tagged or clearly marked as office property. Failure to properly tag or mark assets as office property weakens control over assets.

- B. Also, we could not locate two GTX portable radios listed on the equipment inventory.

RECOMMENDATION

Internal controls over equipment should be strengthened.

MANAGEMENTS' RESPONSE – (Direct Quote)

Internal control over equipment and inventory will be strengthened. All Task Force equipment and office property will be properly tagged.

FINDING 04.05 THE DRUG TASK FORCE DID NOT MONITOR A SUBRECIPIENT OF FEDERAL AWARDS
(Material Noncompliance Under Government Auditing Standards and OMB Circular A-133)

The Methamphetamine Initiative Grant's approved application budget included a pass-through amount of \$25,000 for the Upper Cumberland Child Advocacy Center, a subrecipient of the grant. As part of the Drug Task Force's responsibilities for providing these funds to a subrecipient, they were responsible for monitoring the use of the grant funds. However, the Drug Task Force did not ensure that federal awards were used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals were achieved as required by OMB Circular A-133, Subpart D, Section .400(d)(3). Since the Drug Task Force did not comply with the monitoring requirements of OMB Circular A-133, the entire pass-through amount of \$25,000 is listed as a questioned cost in this report.

RECOMMENDATION

The Drug Task Force should monitor subrecipients to ensure that federal awards were used for authorized purposes as required by federal grant regulations.

MANAGEMENT'S RESPONSE – (Direct Quote)

At the beginning of this grant period, we did not understand the requirement to monitor sub-recipients to insure that federal awards were used for authorized purposes. In compliance with grant requirements, we are now in the process of performing that monitoring with the Child Advocacy Center to insure that those funds were spent appropriately and will document those findings for our file.

**PART III, FINDINGS AND QUESTIONED
COSTS FOR FEDERAL AWARDS**

Federal Agency	Finding Number	Federal CFDA Number	Criteria	Explanation	Amount Questioned
U.S. Department of Justice	04.06	16.710	OMB <u>Circular A-133</u> Section 300 (b).	Internal Control - Reportable Condition <u>Under OMB Circular A-133</u> . Purchase orders Were not issued in all instances or were not issued properly, see finding 04.02 (A).	\$ 0
U.S. Department of Justice	04.07	16.710	OMB <u>Circular A-133</u> Section 300 (b).	Internal Control - Reportable Condition <u>Under OMB Circular A-133</u> . Copies of Invoices were provided to the County Executive's Office as Documentation of purchases, see finding 04.02 (B).	0
U.S. Department of Justice	04.08	16.710	OMB <u>Circular A-133</u> Section 300 (b), and <u>Circular A-122</u> Common Rule.	Internal Control - Reportable Condition <u>Under OMB Circular A-133</u> . Late charges were paid on invoices for Computer purchases, see finding 04.02 (C).	505

Federal Agency	Finding Number	Federal CFDA Number	Criteria	Explanation	Amount Questioned
U.S. Department of Justice	04.09	16.710	OMB <u>Circular A-133</u> Section 300 (b), and the grant contract.	Internal Control - Reportable Condition <u>Under OMB Circular A-133</u> , and the grant contract. Meals and refreshments and other purchases were made with grant funds that were prohibited by the grant contract, see finding 04.02 (D).	\$ 1,477
U.S. Department of Justice	04.10	16.710	OMB <u>Circular A-133</u> Section 300 (b), and <u>Circular A-122</u> Common Rule.	Internal Control - Reportable Condition under <u>OMB Circular A-133</u> . Travel reimbursements were not made in compliance with the travel policy . See findings 04.03 (A, B, C, D, and E).	338
U.S. Department of Justice	04.11	16.710	OMB <u>Circular A-133</u> Section 300 (b).	Internal Control - Reportable Condition under <u>OMB Circular A-133</u> . Several assets were not tagged or clearly marked as office property. Also, two radios could not be located. See finding 04.04.	0

<u>Federal Agency</u>	<u>Finding Number</u>	<u>Federal CFDA Number</u>	<u>Criteria</u>	<u>Explanation</u>	<u>Amount Questioned</u>
U.S. Department of Justice	04.12	16.710	OMB <u>Circular A-133</u> Section 400 (d)(3),	Noncompliance with <u>OMB Circular A-133</u> . A subrecipient of grant funds was not monitored to ensure that federal awards were used for authorized purposes, see finding 04.05.	\$ 25,000

PUTNAM COUNTY, TENNESSEE
AUDITEE REPORTING RESPONSIBILITIES
For the Year Ended June 30, 2004

This is the first year a single audit has been required for this entity; therefore, there is no prior year Schedule of Findings and Questioned Costs.

District Attorney General, Drug Task Force Director, and Chairman of the Board of Directors of the Drug Task Force – Corrective Action Plan for Current-year Findings

FINDING 04.02 (A) and 04.06

Properly issued purchase orders will be used for all future transactions.

FINDING 04.02 (B) and 04.07

Only original invoices will be provided to the County Executive's Office as documentation of all future purchases.

FINDING 04.02 (C) and 04.08

Late charges are initiated when the processing of payments takes longer than thirty (30) days. We will make every effort to see that invoices are processed and bills paid in a timely manner to avoid all future late charges.

FINDING 04.02 (D) and 04.09

We have reviewed the spending guidelines for the particular grant money addressed and will make no further expenditures not in full compliance with the requirements of that grant including meals for training sessions or items such as nameplates for office doors. All purchases made will be those that directly lead to the implementation or enhancement of the grant program.

FINDING 04.03 and 04.10

- A. We understand that on arrival and departure dates, travel is reimbursed at seventy-five percent (75%) of the full per diem. These inadvertent overpayments are being recovered from the employees involved and re-deposited.
- B. No per diem payment is available when required travel does not mandate an overnight stay. This amount is being refunded by the Computer Specialist and re-deposited.
- C. The two hundred ten dollars (\$210.00) overpayment is being refunded by the employees involved and re-deposited.

- D. The phone calls involved have not been documented as government business, and the nineteen dollars and thirty-four cents (\$19.34) is being refunded by the employee involved and re-deposited.
- E. Proper documentation will be included with all travel reimbursement claims including original hotel bills.

The state travel regulations and policies of the Drug Task Force have been reviewed with all parties involved to insure future compliance.

FINDING 04.04 and 04.11

Internal control over equipment and inventory will be strengthened. All Task Force equipment and office property will be properly tagged.

FINDING 04.05 and 04.12

At the beginning of this grant period, we did not understand the requirement to monitor sub-recipients to insure that federal awards were used for authorized purposes. In compliance with grant requirements, we are now in the process of performing that monitoring with the Child Advocacy Center to insure that those funds were spent appropriately and will document those findings for our file.