

Purchasing Integrity: Safeguarding Public Funds with Strong Internal Controls

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Local Government Audit

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TENNESSEE COMPTROLLER OF THE TREASURY



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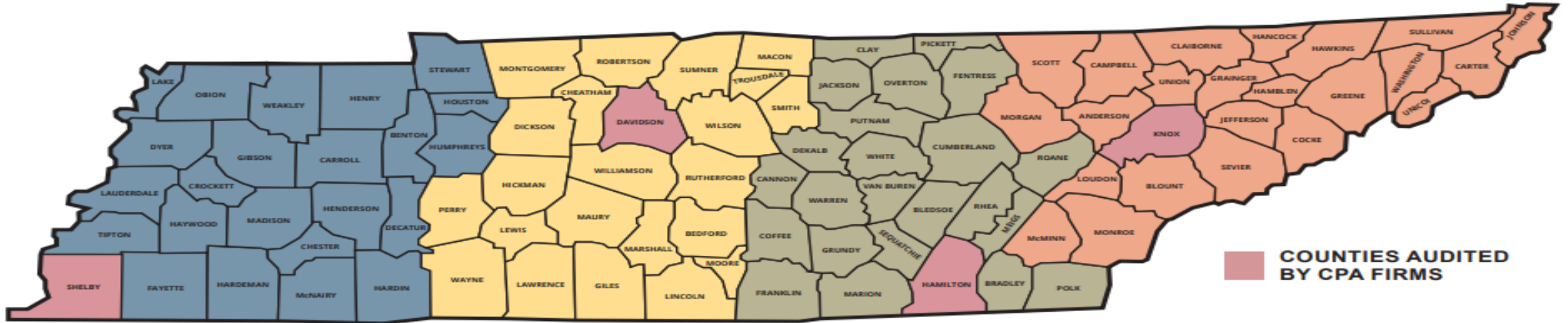
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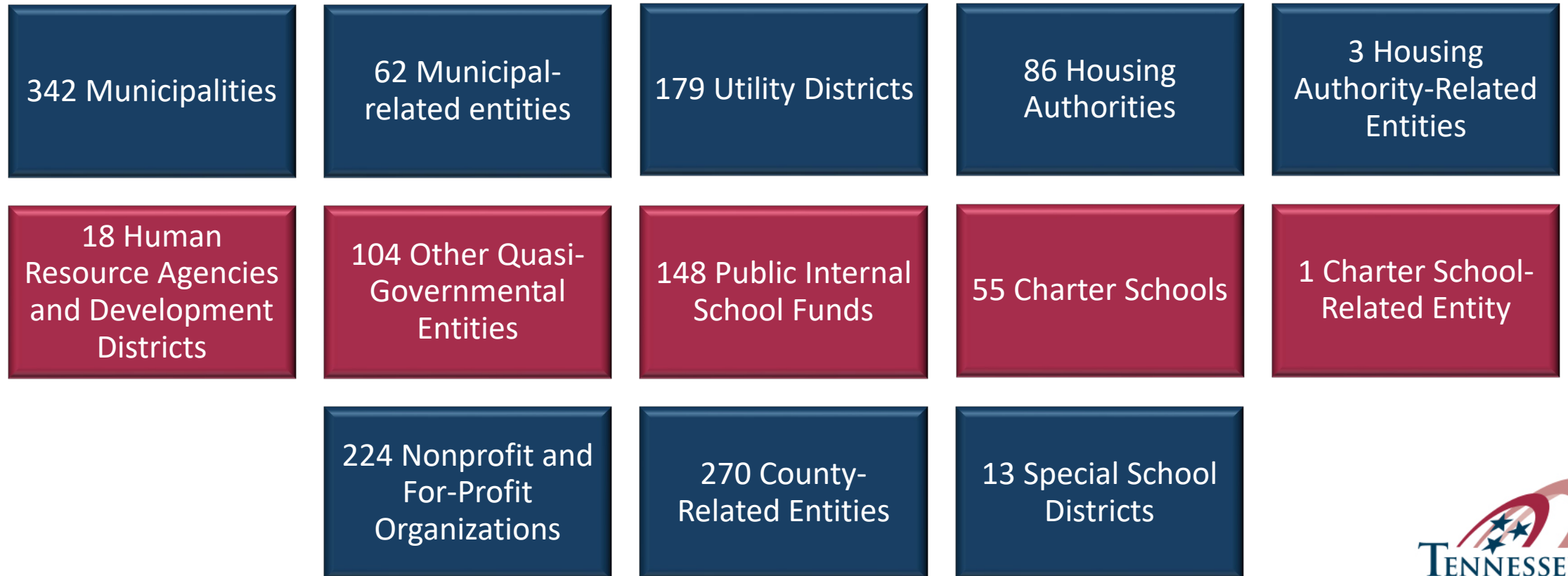
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Disclaimer

- The opinions expressed during this presentation are our own. They do not necessarily represent the views of the Tennessee Comptroller of the Treasury, his representatives, or the Tennessee Department of Audit.
- Our discussions today will draw from our experiences with the county governments.
- This is not intended to be all inclusive.

Agenda

- What are internal controls?
- Why do we need internal controls?
- Overview of the Five Components of an Internal Control System
- Internal Controls within the Purchasing Process
- Tennessee Comptroller of the Treasury Resources

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What are internal controls?

- **Merriam-Webster** – a system or plan of accounting and financial organization within a business comprising all the methods and measures necessary for safeguarding its assets, checking the accuracy of its accounting data or otherwise substantiating its financial statements, and policing previously adopted rules, procedures, and policies as to compliance and effectiveness.

Why do we need internal controls?

- Required by law
 - Tenn. Code Ann. 9-18-102(a) Each agency of state government and institution of higher education along with each county, municipal, and metropolitan government shall establish and maintain internal controls...

Why do we need internal controls?

- Required by law
- To maintain public trust
- To help detect errors and provide reasonable assurance that financial information is accurate

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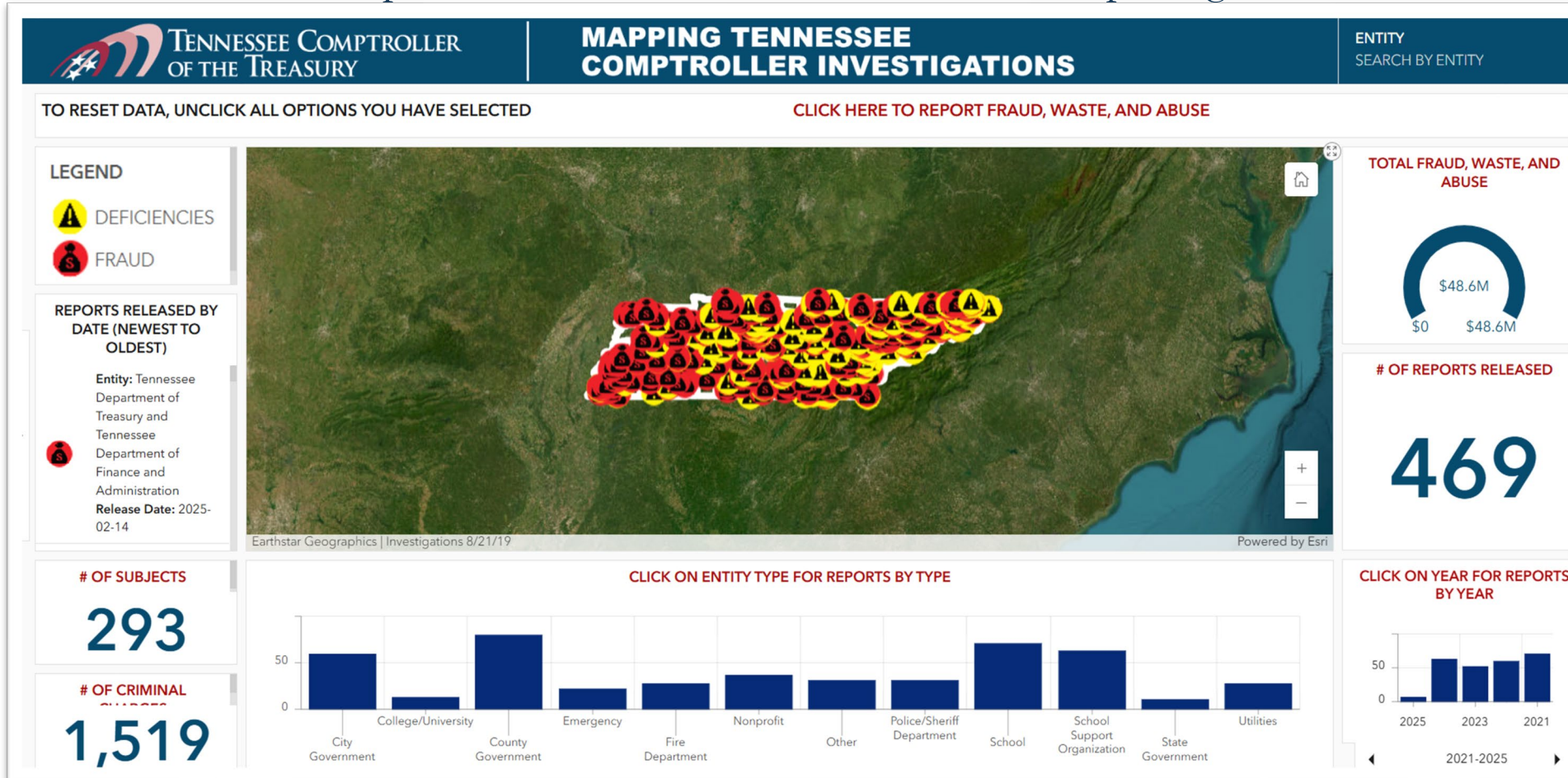


Why do we need internal controls?

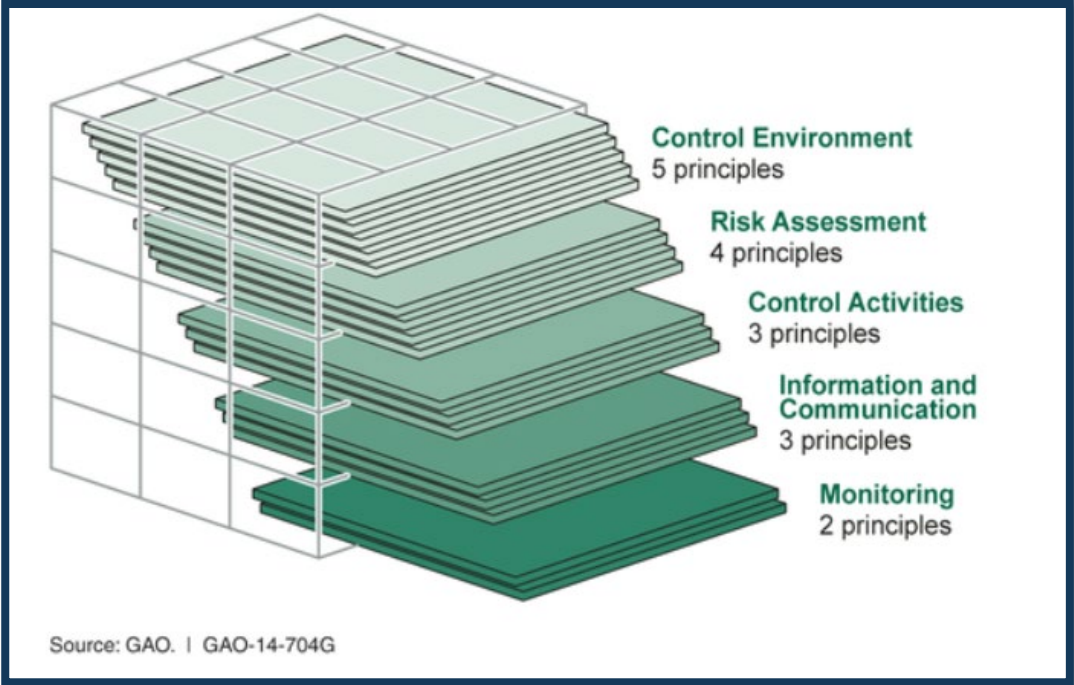
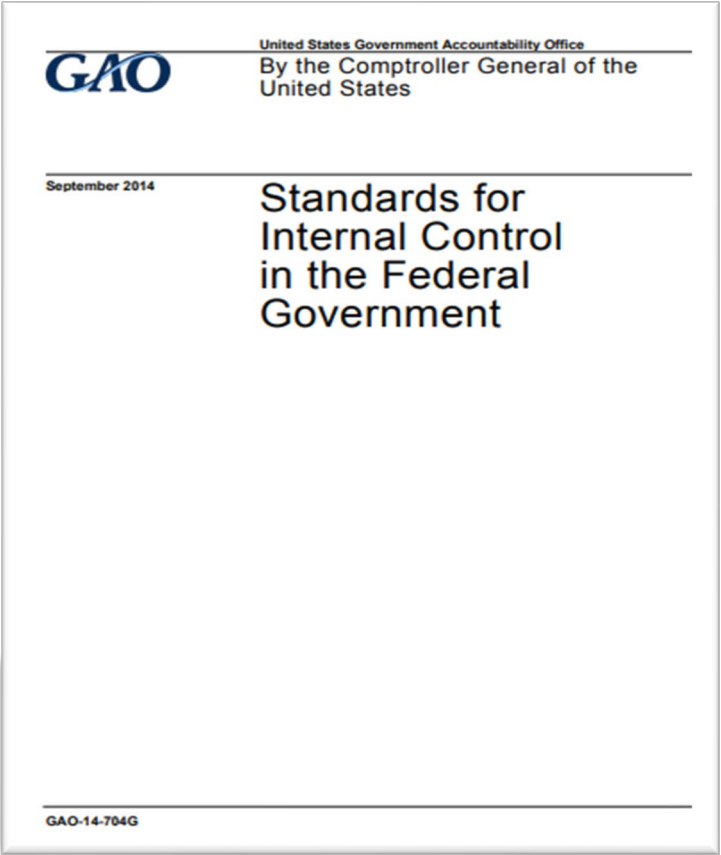
- Required by law
- To maintain public trust
- To help detect errors and provide reasonable assurance that financial information is accurate
- To maintain effective and efficient operations
- Help detect and limit fraud, waste, and abuse and to help safeguard assets

Why do we need internal controls?

Help detect fraud, waste, and abuse and to help safeguard assets



Five Components of Internal Controls



Control Environment

- Foundation of the system
- Sets the tone
- Governing body is ultimately responsible
- Management should be involved in developing, implementing, and monitoring



Risk Assessment

- Internal and external risks
- Analyze the potential impact
- Plan to respond/mitigate



Control Activities



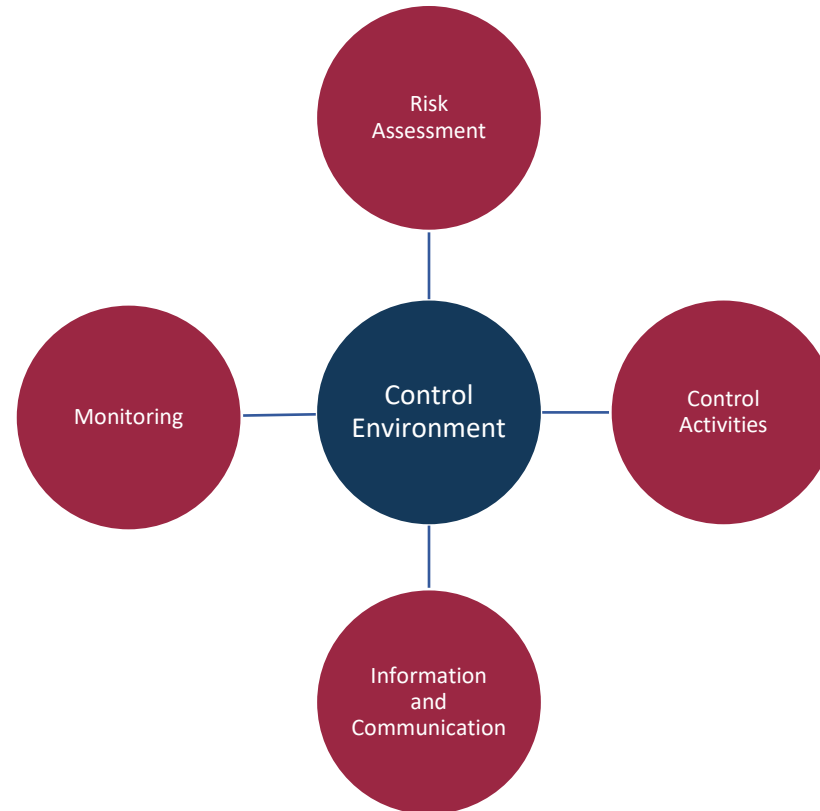
- Putting everything into action
- Ensures objectives are met and helps mitigate identified risks

Monitoring

- Address any changes that effect the entity
- Helps with identifying and addressing deficiencies in the internal control system
- Perform on a regular basis



Internal Controls within the Purchasing Process – How does it apply?



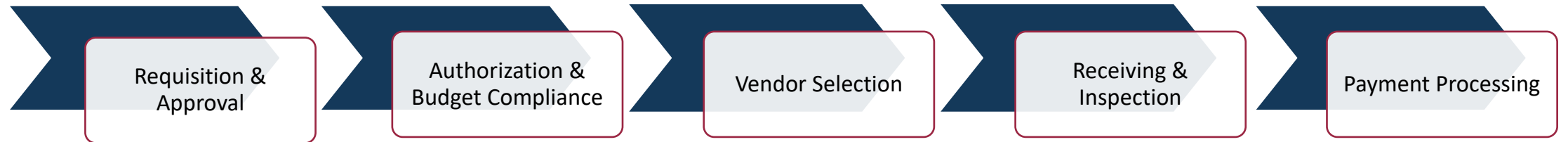
Potential Risks in Purchasing

- Inaccurate reporting
- Lack of transparency
- Budget overspending
- Non-compliance with laws, regulations, grant contracts, policies, etc.
- Inefficiencies in the process
- Problems with vendors
- Natural disasters
- Unauthorized transactions
- Fraud/corruption/collusion
- Data breaches/cybersecurity
- Conflicts of interest

Purchasing Segregation of Duties

Segregation of duties in county purchasing is a key internal control designed to prevent fraud, errors, and conflicts of interest. It ensures that no single individual has control over the entire purchasing process, reducing the risk of mismanagement or abuse. The fundamental principle is to divide responsibilities among multiple people to create checks and balances.

Purchasing Process



Requisition and Approval

- Identification of Need
Department or office determines the need for goods, services, or equipment.
- Preparation of a Requisition Form
Formal request is submitted by a department to procure goods or services.
- Department Head Approval
Once approved, the requisition is converted to a purchase order.

Authorization and Budget Compliance

- Finance or Budget Office Review/Purchasing Agent Approval
Verifies budget allocation and fund availability.
- Purchasing Agent Approval
Ensures compliance with the entity's purchasing regulations and proper bidding procedures (if required) are followed.
- County Commission or Board Approval
Larger amounts above a certain threshold may require commission/board approval.

Vendor Selection

- Vendor Eligibility Requirements

These requirements may vary based on the entity's regulations.

- Maintain Lists of Approved Vendors

These would be vendors who meet pre-established criteria.

- Conflict of Interest

Certain individuals cannot have financial ties to the vendor.

- Segregation of Duties

Designed to ensure transparency, fairness, and compliance with purchasing laws.

Receiving and Inspection

- Receipt of Goods/Verify Accuracy
 - Ensure the right item and quantity were delivered.
- Services
 - Verify that the service was completed as specified.
- Approval of Payment
 - After inspection, payment is approved.
- Segregation of Duties
 - The person receiving goods should not be approving invoices/payment.

Payment Processing

- Authorization
 - Confirm the purchase was authorized before approving payment.
- Payment Methods
 - Checks, EFT/ACH, or P-Cards/Credit Cards
- Accounting and Reconciliation
 - Payment is recorded in financial system and reconciled with accounting records.
- Segregation of Duties
 - Ensures no single individual has complete control over the authorization, recording, custody, and review of financial transactions.

Internal Controls – Procurement/Credit Cards

- Authorized Users
- Spending Limits
- Purchase Approval
- Reconciliation and Payment Processing



Procurement/Credit Cards

Authorized Users

- Segregate card issuance and authorization
- Require approval from multiple individuals
- Limit cardholder authority
- Training and acknowledgment

Spending Limits

- Define spending limits to maintain financial control and accountability
- Transaction limits
- Assess department needs and policy documentation

Procurement/Credit Cards

Purchase Approval

- Establish policies outlining allowable and unallowable purchases
- Authorization and oversight
- Purchase approval before use

Reconciliation and Payment Processing

- Transaction documentation and reconciliation
- Separate duties for reconciling, processing, and payment
- Review by supervisory personnel and compliance monitoring



Internal Controls – Travel

- Formal and Documented Travel Policies
- Approval and Authorization
- Expense Submission and Approval of Reimbursement
- Disbursement of Funds

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Internal Controls – Travel

- Travel policies must outline allowable expenses, per diem rates, mileage reimbursement, and approval processes.
- Employees should obtain prior approval for official travel.
- Employees must submit detailed expense reports with original receipts for all expenditures.
- Reimbursement approval and disbursement should be conducted by someone other than the person who authorized the travel or processed the expense report.

Key Points in Purchasing Related Policies

Purchasing	Travel	Capital Asset/Inventory	Job Descriptions	Code of Ethics
<input type="checkbox"/> Applicable Purchasing Laws	<input type="checkbox"/> Responsibilities	<input type="checkbox"/> Responsibilities	<input type="checkbox"/> Job Summary	<input type="checkbox"/> Compliance with laws, regulations, etc.
<input type="checkbox"/> Responsibilities	<input type="checkbox"/> Advances	<input type="checkbox"/> Classifications	<input type="checkbox"/> Responsibilities	<input type="checkbox"/> Personal/Conflicts of Interests
<input type="checkbox"/> Limitations	<input type="checkbox"/> Official Station	<input type="checkbox"/> Thresholds	<input type="checkbox"/> Qualifications	<input type="checkbox"/> Workplace Conduct
<input type="checkbox"/> Rentals and Leases	<input type="checkbox"/> Air Travel	<input type="checkbox"/> Depreciation Schedule	<input type="checkbox"/> Reporting Structure	<input type="checkbox"/> Gifts or Items of Value
<input type="checkbox"/> Budgeting Requirements	<input type="checkbox"/> Rental Vehicles	<input type="checkbox"/> Recording/Tracking	<input type="checkbox"/> Work Environment	<input type="checkbox"/> Private Use of Public Property
<input type="checkbox"/> Purchase Order Requirements	<input type="checkbox"/> Mileage	<input type="checkbox"/> Theft/Misuse		<input type="checkbox"/> Crime or Official Misconduct
<input type="checkbox"/> Procurement/Credit Card Purchases	<input type="checkbox"/> Meal and Incidentals	<input type="checkbox"/> Surplus		<input type="checkbox"/> Bribery/Kickbacks
<input type="checkbox"/> Bid Procedures	<input type="checkbox"/> Lodging	<input type="checkbox"/> Required Documentation		<input type="checkbox"/> Confidentiality/Data Protection
<input type="checkbox"/> Emergency Purchases	<input type="checkbox"/> Parking			<input type="checkbox"/> Whistleblower Protections and Reporting
<input type="checkbox"/> Secondhand Purchases	<input type="checkbox"/> Spouse/Family Travel			<input type="checkbox"/> Consequences
<input type="checkbox"/> Cooperative Purchases	<input type="checkbox"/> Reimbursement Procedures			
<input type="checkbox"/> Record Keeping				

Common Internal Control Deficiencies

- Duties not adequately segregated
- Purchase orders not issued or not issued properly
- Unauthorized purchases
- Noncompliance with budgetary controls
- Weak inventory/asset controls
- Lack of supporting documentation
- Noncompliance with bidding, purchasing cooperative and state contract laws

Resources

Division of Local Government Audit Internal Control and Compliance Manual



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Resources

Division of Local Government Audit Additional Resources



[County Audit Reports](#)

[Special Reports and Letters](#)

[Find Other Audits](#)

[Department of Audit Annual Report](#)

[External Peer Review Report](#)

[County Commissioner Reports](#)



[Certified Finance Officer Programs](#)

[Contract And Report System \(CARS\)](#)

[Confirmations](#)

[Local Government Joint Venture Form](#)

[Report Fraud](#)

[TAG - Where The Money Goes](#)

[Volunteer Fire Departments Reporting](#)

[Charter Management Organization Annual Reporting](#)



[COT Cyber Aware](#)

[Information Systems Best Practices](#)

[Accounting & Auditing Information](#)

[Area Contacts](#)

[Chart of Accounts](#)

[Manuals](#)

[Official Statutory Bonds](#)

[Training Opportunities](#)

[Agencies Assisting Local Governments](#)

[Audit Glossary](#)

Resources

Division of Local Government Finance Budgeting and Debt Guidance



Municipalities, Counties, Metros, and Utilities

Helpful Links

Annual Certificates

County Privilege Tax Verification Form

Contacts



Debt Guidance

Debt Report

Debt Default Reporting

Debt Management Policies

Industrial Development Boards

Tourism Development Zones

Contacts



Tennessee Board of Utility Regulation

Annual Utility Reporting

Online Training

Board Orders

Submit an Inquiry

Contacts



Guidance

Seven Keys to a Fiscally Well-Managed Government

County Fiscal Metric Infographics

Investments

Finance Glossary

Broadband

Pension and OPEB

LGF Letters

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Resources

Division of Investigations
Report Fraud, Waste and Abuse



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