TENNESSEE COMPTROLLER OF THE TREASURY

PERFORMANCE AUDIT REPORT

River Basin Agencies

September 2019

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Comptroller of the Treasury

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TENNESSEE COMPTROLLER OF THE TREASURY

JUSTIN P. WILSON
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September 3, 2019

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The Honorable Cameron Sexton
Speaker of the House of Representatives
The Honorable Kerry Roberts, Chair
Senate Committee on Government Operations
The Honorable Martin Daniel, Chair
House Committee on Government Operations
and
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Nashville, TN 37243
and
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Mayor Ed Mitchell, Chairman
Tellico Reservoir Development Agency
Mr. Thomas Peebles, Chairman
Tennessee Duck River Development Agency
Mr. Larry Riggsbee, Secretary
West Fork Drakes Creek Dam and Reservoir Interstate Authority
Mayor Brent Greer, Chairman
West Tennessee River Basin Authority

Ladies and Gentlemen:

We have conducted a performance audit of selected programs and activities of the nine river basin agencies for the period July 1, 2016, through May 28, 2019. The audit of eight of these agencies was conducted pursuant to the requirements of the Tennessee Governmental Entity Review Law, Section 4-29-111, *Tennessee Code Annotated.* The audit of the remaining agency, which was not included in the sunset statute, was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*.

Our audit disclosed certain findings, which are detailed in the Audit Conclusions section of this report. Management of the river basin agencies have responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

This report is intended to aid the Joint Government Operations Committee in its review to determine whether the agencies should be continued, restructured, or terminated.

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA, Director
Division of State Audit

DVL/szs
19/046

RIVER BASIN AGENCIES PERFORMANCE AUDIT REPORT: NOTE TO THE READER REGARDING REPORT ORGANIZATION AND AGENCY OVERVIEW

Title 64, Chapter 1, *Tennessee Code Annotated*, creates nine river basin agencies:

- Beech River Watershed Development Authority
- Carroll County Watershed Authority
- Chickasaw Basin Authority
- Sequatchie Valley Planning and Development Agency
- Tellico Reservoir Development Agency
- Tennessee Duck River Development Agency
- West Fork Drakes Creek Dam and Reservoir Interstate Authority
- West Tennessee River Basin Authority
- Bledsoe Regional Water Authority



AUDIT AUTHORITY AND REPORT ORGANIZATION

We audited eight of the entities listed above pursuant to the Tennessee Governmental Entity Review Law, Section 4-29-111, *Tennessee Code Annotated*. We conducted our audit of Bledsoe Regional Water Authority pursuant to Section 4-3-304.

To aid the Joint Government Operations Committee in its purpose to evaluate and determine whether to continue, restructure, or terminate the eight river basin agencies subject to the Governmental Entity Review Law, we have presented our audits of all the river basin agencies in a unified report. We present general background for all river basin agencies (pages 2 through 15) followed by separate sections by agency highlighting key conclusions, findings, and observations specific to each agency.

RIVER BASIN AGENCIES OVERVIEW

STATUTORY STRUCTURE

Statute provides a broad structure for river basin agencies under Title 61, Chapter 1; however, the statute further establishes each specific river basin agency and defines the powers, duties, and functions of each. Statute also provides for separate boards of directors to oversee each river basin agency. Eight boards of directors are active; they meet regularly, have adopted their agency mission, and have established the organizational structure and the funding sources to carry out their activities. Bledsoe Authority, created in 2001, has yet to establish its board of directors and is currently nonoperational. The river basin agencies operate independently and are not unified or governed by any organization for the purpose of achieving common goals.

STAFF AND GEOGRAPHIC COVERAGE

The river basin agencies vary in staff size and geographic coverage. For example, Chickasaw has no employees and relies on the staff of a local government participating in the agency to carry out agency business. Other agencies operate with just a few employees, while Sequatchie Valley employs over 130

staff. Some of the river basin agencies cover a small geographic area, while West Tennessee Authority covers 20 counties.

FUNDING SOURCES

The river basin agencies are also unique in sources of funding. West Tennessee Authority receives state appropriations while other agencies collect fees from the public, receive federal grants, and/or receive local tax and fee revenue. For more information about each river basin agency's funding sources, see Table 1.

UNIQUE ACTIVITIES

The river basin agencies were created to plan, develop, and manage water and land resources. However, the law also authorizes these agencies to provide a variety of services from soil erosion control to childcare. While the eight active agencies are operating within the statute, the agencies' missions and activities are fundamentally different.

For instance, some agencies have chosen to perform activities based on a narrow focus, such as early child education and care, while others have elected to pursue water resource project activities, including flood control, restoration, and conservation. See Table 2 for information on statutory authority and related activities by river basin agency.

Comment on Scope of Activities and Statutory Intent

As we have noted in our report, we believe it is possible that agencies that have chosen a narrow focus may not be meeting broader objectives anticipated for river basin agencies. Furthermore, in some instances, the activities performed by the river basin agencies may overlap with activities performed through other quasi-governmental or nonprofit agencies, raising the question of whether these agencies are continuing to provide statutorily intended benefits to their communities. Our objectives did not include a focus on any potential overlap with other entities; however, during the course of the audit, the variation in the river basin agencies' activities became apparent. A more in-depth look at the river basin agencies' activities and functions in relation to other regional entities' activities and functions may be necessary to ensure that all river basin agencies are performing activities that meet the intent of the legislation that created them.

Table 1 - Funding Sources by River Basin Agency

Funding Source	Beech River	Carroll County Authority	Chickasaw	Sequatchie Valley	Tellico	Duck River	West Fork	West Tennessee Authority	Bledsoe Authority
Revenues from Agency Activities	$	$	$	$	$	$			
Local Government Appropriations	$	$						$	
State Government Appropriations or Grants								$	
Federal Grants				$	$				
Bonds*									

*Although some river basin agencies have issued bonds in the past, none of the agencies received revenue through the issuance of bonds during our audit period.

Table 2 - River Basin Agency Activities Compared to Activities Authorized in Statute

	Beech River		Carroll County Authority		Chickasaw		Sequatchie Valley		Tellico		Duck River		West Fork		West Tennessee Authority		Bledsoe Authority	
	Statute	Agency	Statute	Agency	Statute	Agency	Statute	Agency	Statute	Agency	Statute	Agency	Statute	Agency	Statute	Agency	Statute	Agency
Agricultural Development	✓	✗	✓	✗									✓	✗				
Economic or Industrial Development*	✓	✗	✓	✗			✓	✗	✓	✓	✓	✗	✓	✗				
Education	✓	✗	✓	✗			✓	✓										
Electric Power Utilization	✓	✗	✓	✗														
Fish and Wildlife	✗	✓			✓	✗									✓	✓		
Flood and/or Erosion Control	✓	✓	✓	✗	✓	✓					✓	✓			✓	✓		
Forestry	✓	✗	✓	✗														
Irrigation	✓	✗	✓	✗	✓	✗					✓	✓			✓	✓		
Land Reclamation	✓	✗	✓	✗											✓	✓		
Public Health	✓	✗	✓	✗			✓	✓										
Recreation	✓	✓	✓	✓	✓	✓	✓	✗	✓	✓	✓	✓	✓	✗				
Residential and/or Commercial Development	✓	✓							✓	✓			✓	✗				
Transportation							✓	✗										
Water Conservation	✓	✓	✓	✗	✓	✓	✓	✗			✓	✓			✓	✓		
Water Supply	✓	✓	✓	✗	✓	✓	✓	✗			✓	✓	✓	✗	✓	✓	✓	✗
Wastewater collection/discharge									✓	✓							✓	✗

Division of State Audit

River Basin Agencies

Performance Audit
September 2019

Our mission is to make government work better.

AUDIT HIGHLIGHTS

We have audited the following river basin agencies for the period July 1, 2016, through May 28, 2019:

Scheduled Termination Date:

June 30, 2020

- Beech River Watershed Development Authority,
- Carroll County Watershed Authority,
- Chickasaw Basin Authority,
- Sequatchie Valley Planning and Development Agency,
- Tellico Reservoir Development Agency,
- Tennessee Duck River Development Agency,
- West Fork Drakes Creek Dam and Reservoir Interstate Authority,
- West Tennessee River Basin Authority, and
- Bledsoe Regional Water Authority.[1]

Our audit scope included a review of internal controls and compliance with laws, regulations, policies, procedures, and provisions of contracts or grant agreements in the following areas:

- the agencies' efforts to meet their statutory missions;
- internal controls over revenue and expenditure processes;
- the risk assessment process;
- records management policies;
- boards of directors;
- staff turnover;

[1] Bledsoe Regional Water Authority was not included in the Tennessee Governmental Entity Review Law; therefore, it is not subject to the termination date shown.

- information systems internal controls;[2] and
- follow-up of four findings reported in the prior performance audit report.

KEY CONCLUSIONS

BEECH RIVER WATERSHED DEVELOPMENT AUTHORITY

Finding

- Beech River's management did not design and implement adequate internal controls over revenues and expenditures and did not properly safeguard sensitive information (page 28).

Observations

- Beech River's management did not fully resolve the board oversight issues included in the prior audit report (page 31).
- Beech River's board of directors had attendance issues, and conflict-of-interest forms were not available for all members during the audit period (page 32).
- Beech River's management did not prepare a risk assessment (page 33).
- Beech River's board of directors did not have a policy governing the retention and disposition of records (page 34).

CARROLL COUNTY WATERSHED AUTHORITY

Findings

- Carroll County Authority's management did not design and implement adequate internal controls over revenues and expenditures (page 36).
- Carroll County Authority's board of directors did not have a conflict-of-interest policy, and one board member did not consistently attend meetings during fiscal year 2018 (page 39).

Observations

- Carroll County Authority's management did not fully resolve the board oversight issues included in the prior audit report (page 40).
- Carroll County Authority's management did not prepare a risk assessment (page 41).
- Carroll County Authority's board of directors did not have a policy governing the retention and disposition of records (page 42).

[2] We performed work related to information systems internal controls at two river basin agencies. One agency is part of the state's network, and the other agency houses the public's confidential information in its system.

CHICKASAW BASIN AUTHORITY

Findings

- Chickasaw's management did not design and implement adequate internal controls over expenditures and did not obtain an independent financial statement audit as statutorily required (page 44).
- Chickasaw's management could not provide documentation showing that they submitted annual budgets to the Department of Environment and Conservation (page 46).
- Chickasaw's board of directors had vacancies, board attendance issues, quorum issues, and a county was participating that was not permitted by statute (page 47).

Observations

- Chickasaw's board of directors did not obtain all conflict-of-interest policy disclosure statements annually (page 52).
- Chickasaw's management did not prepare a risk assessment (page 52).
- Chickasaw's board of directors did not have a policy governing the retention and disposition of records (page 53).

SEQUATCHIE VALLEY PLANNING AND DEVELOPMENT AGENCY

Findings

- Sequatchie Valley's board of directors had 8 vacancies on its 16-member board for our entire audit scope and did not reach a quorum at most board meetings (page 56).
- Sequatchie Valley's management did not provide adequate internal controls in one area (page 58).

Observations

- Although no issues were noted in the prior audit, during the current audit period, Sequatchie Valley had a board oversight issue related to bank reconciliations (page 59).
- Several Sequatchie Valley board members had attendance issues, the board did not have conflict-of-interest forms on file for all members, and one board policy conflicts with state statute (page 60).
- Sequatchie Valley's management did not prepare a risk assessment (page 62).

TELLICO RESERVOIR DEVELOPMENT AGENCY

Finding

- Tellico's management did not design and implement adequate internal controls over revenues and expenditures (page 66).

Observations

- Tellico's management did not fully resolve the board oversight issues included in the prior audit report (page 69).
- Tellico's board members had attendance issues, and the board did not have annual conflict-of-interest forms on file for all members (page 70).
- Tellico's management did not prepare a risk assessment (page 71).
- Tellico's board of directors did not have a policy governing the retention and disposition of records (page 71).

TENNESSEE DUCK RIVER DEVELOPMENT AGENCY

Observations

- Duck River's management did not fully resolve the board oversight issues included in the prior audit report (page 74).
- Duck River's board of directors had one vacant seat, board members had attendance issues, and the board did not have a conflict-of-interest policy until 2019 (page 75).
- Duck River's management did not prepare a risk assessment (page 76).
- Duck River's board of directors did not have a policy governing the retention and disposition of records (page 77).

WEST FORK DRAKES CREEK DAM AND RESERVOIR INTERSTATE AUTHORITY

Observation

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WEST TENNESSEE RIVER BASIN AUTHORITY

Finding

- West Tennessee Authority's board of directors had attendance issues (page 83).

Observations

- West Tennessee Authority's board policies were unreasonable and inconsistent (page 84).
- West Tennessee Authority did not provide adequate internal controls in one area (page 85).
- West Tennessee Authority did not have financial statement audits (page 86).

BLEDSOE REGIONAL WATER AUTHORITY

Finding

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Observation

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INTRODUCTION

AUDIT AUTHORITY

State law creates nine river basin agencies. Eight of these agencies were included in the Tennessee Governmental Entity Review Law, Title 4, Chapter 29, *Tennessee Code* Annotated. Bledsoe Regional Water Authority is not included in the Tennessee Governmental Entity Review Law and does not have a scheduled termination date; however, we included it in the scope of the audit due to its statutory similarity to the other river basin agencies. As such, the performance audit of eight river basin agencies was conducted pursuant to the Tennessee Governmental Entity Review Law, Title 4, Chapter 29, *Tennessee Code Annotated*, which includes

- Beech River Watershed Development Authority,
- Carroll County Watershed Authority,
- Chickasaw Basin Authority,
- Sequatchie Valley Planning and Development Agency,
- Tellico Reservoir Development Agency,
- Tennessee Duck River Development Agency,
- West Fork Drakes Creek Dam and Reservoir Interstate Authority, and
- West Tennessee River Basin Authority.

Under Section 4-29-241, these eight river basin agencies are scheduled to terminate June 30, 2020. The Comptroller of the Treasury is authorized under Section 4-29-111 to conduct a limited program review audit of the agencies and to report to the Joint Government Operations Committee of the General Assembly. This audit is intended to aid the committee in determining whether the eight river basin agencies should be continued, restructured, or terminated.

Furthermore, Section 8-4-109, *Tennessee Code Annotated,* states the following:

> The comptroller of the treasury is hereby authorized to audit any books and records of any governmental entity created under and by virtue of the statutes of the state of Tennessee which handles public funds when such audit is deemed necessary or appropriate by the comptroller of the treasury. The comptroller of the treasury shall have the full cooperation of officials of the governmental entity in the performance of such audit or audits.

The audit of Bledsoe Regional Water Authority was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which requires the Department of Audit to audit all accounts and financial records of any state department, institution, office, or agency in accordance with both generally accepted auditing standards and procedures established by the Comptroller. An audit

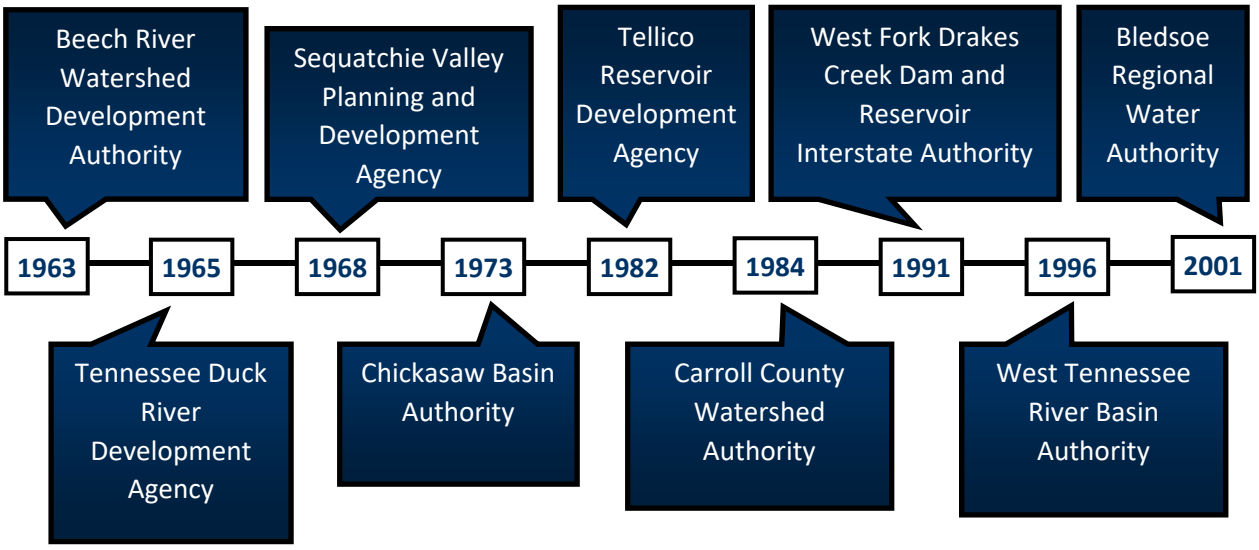
may include any or all of the following elements: financial, compliance, economy and efficiency, program results, and program evaluations.

BACKGROUND

The river basin agencies were created to plan, develop, and manage water and land resources in regions surrounding certain river basins in Tennessee. A chronological timeline of their creation is in Figure 1. The river basin agencies were authorized by statute to provide a variety of services; some emphasize erosion control while others provide for recreational, residential, and commercial development. A description of each river basin authority and its board of directors begins on page 3.

Board member listings for each river basin agency can be found in Appendix 2, beginning on page 107.

Figure 1
Timeline of the Creation of the River Basin Agencies



Beech River Watershed Development Authority

Statutory Responsibilities and Agency Activities

The Beech River Watershed Development Authority (Beech River) was established in 1963 under Section 64-1-101, *Tennessee Code Annotated*, for the development of the Beech River watershed, which includes the counties of Decatur and Henderson. The authority operates and maintains a system of six lakes and flood control facilities. Beech River has a contract with the Tennessee Valley Authority (TVA) that permits Beech River to develop and sell the land owned by TVA. TVA constructed the lakes and related structures for recreation and flood control and is responsible for the safety inspections of the dams on the lakes.

The Executive Secretary and Administrative Assistant are the only staff that work from the authority's main office in Lexington, Tennessee; however, the Executive Secretary often visits to monitor activity at the lakes. Staff use Sage 50 accounting software to record the authority's financial transactions, including payroll.

Beech River operates several locations that collect revenue—the main office in Lexington, the Beech River Recreation Area, and the Pine Lake Recreation Area. Additionally, recreational permits are sold at seven retail locations.

Beech River Watershed Development Authority Board of Directors

Section 64-1-101, *Tennessee Code Annotated*, creates a board of directors to govern the authority. The eight-member board includes three ex-officio members—the Commissioner of the

Tennessee Department of Environment and Conservation (serving in an advisory, non-voting role), the Decatur County mayor, and the Henderson County mayor. It also includes five Governor-appointed members, serving nine-year terms.[3] These five members must include three Henderson County residents and two Decatur County residents.

BEECH RIVER STAFF (AS OF JULY 11, 2019)

- Executive Secretary
- Administrative Assistant
- Grounds Foreman
- 2 Grounds Crew Members
- 9 seasonal workers

BEECH RIVER REVENUE SOURCES

- land leases for agricultural purposes
- campground and concessions operations
- sale of residential lots
- leases of marina boat slips
- sale of water to the City of Lexington, TN
- recreational permits for lakes (boating and swimming)
- Redneck Island fees
- duck blind registration
- office rental

Board Member Emeritus

In 2011, the statute was amended to create the position of board member emeritus, a non-voting, advisory position, considered to be a member of the board for purposes of notice of meetings, board discussion, and planning. To qualify for the position, the board member emeritus must have the following:

- at least 25 years of service as a member of the Beech River board of directors (does not have to be consecutive);
- at least 15 years of service as board chairman;
- at least 10 years of service in the Tennessee General Assembly; and
- at least 4 years of service as speaker of either house of the Tennessee General Assembly.

This position is currently vacant.

Quorum: 4 of 7 voting members (bylaws)

Frequency of Meetings: Quarterly (bylaws)

Board Conflict-of-Interest Policy: Board policy requires annual statement.

[3] Section 64-1-101, *Tennessee Code Annotated*, states that the board should include persons active in municipal, industrial, agricultural, and commercial groups concerned with the development of the Beech River watershed.

Carroll County Watershed Authority

Statutory Responsibilities and Agency Activities

The Carroll County Watershed Authority (Carroll County Authority) was established in 1984 under Section 64-1-801, *Tennessee Code Annotated*, to develop the resources of Carroll County, including agriculture, forestry, drainage and flood control, land reclamation, electric power utilization, irrigation, and water conservation. In March 2013, the authority constructed and opened the Carroll County Thousand Acre Recreation Lake. Long-range plans include a hotel and conference center. The authority owns the lake as well as a 50-foot perimeter around the lake. Several subdivisions with community docks are being developed around the lake; however, if individual homeowners wish to build docks, they must pay a $5,000 dock fee to the authority. In 2016, the authority opened a 30-slip marina at the lake; individuals can lease the slips for $1,500 annually. In September 2017, it also opened a Recreational Vehicle (RV) park at the lake.

CARROLL COUNTY AUTHORITY STAFF (AS OF JULY 11, 2019)

- Part-time Manager
- Part-time On-site Manager
- 2 part-time maintenance positions
- 6 seasonal positions

Town of Huntingdon employees also work on authority business.

CARROLL COUNTY AUTHORITY REVENUE SOURCES

- wheel tax
- real and personal property tax
- licenses and permits
- marina slip leases
- residential boat dock fees
- RV park rentals
- interest income
- fuel, bait, and fishing supply sales
- concessions

Carroll County Authority's offices are in Huntingdon, Tennessee, and the Town of Huntingdon's Department of Finance and Administration also provides free administrative services to the authority as part of the agreement between Huntingdon and the authority. Carroll County Authority uses the Town of Huntingdon's accounting software, purchased from Local Government Corporation, to account for the authority's funds; however, the authority's funds are separate from the Town of Huntingdon's finances. The following Huntingdon employees work on the authority's activities:

- the Mayor of Huntingdon, who serves as the board of directors' Secretary-Treasurer and acts as the Executive Director of the authority;
- the Town Recorder, who serves as the board's Recording Secretary and performs accounting and other authority work as needed; and
- the Accounting Clerk, who also serves as the authority's Accounting Clerk.

The authority operates two locations that collect revenue—the lake headquarters (the authority's office is located at the lake) and Huntingdon City Hall.

Carroll County Watershed Authority Board of Directors

Section 64-1-802, *Tennessee Code Annotated*, establishes a six-member board of directors to govern the authority. The board is composed of six Carroll County residents that are appointed by the Governor for six-year terms.

Quorum: 4 of 6 members (statute)

Frequency of Meetings: Quarterly, at minimum (statute)

Board Conflict-of-Interest Policy: None

Chickasaw Basin Authority

Statutory Responsibilities and Agency Activities

The Chickasaw Basin Authority (Chickasaw) was authorized in 1973 under Section 64-1-201, *Tennessee Code Annotated*, for water resources planning and recreational and conservation development of the Chickasaw River Basin and includes programs for the development of the water and land resources in the drainage area of the Wolf and Loosahatchie Rivers and the Nonconnah and Horn Lake Creeks. Chickasaw's office is located in Memphis and it maintains and operates the Wolf River restoration area, maintains the North Fork Creek flood control dam located near Millington, and is partnering with Shelby County on a flood protection project for the Big Creek Basin in Millington. In conjunction with the U.S. Corps of Engineers, Chickasaw is working on a groundwater management study of the Upper Mississippi Embayment area. The authority is partnering with the Shelby County Soil Conservation Service to provide a 15% cost share for new area detention structures that serve as soil conservation elements and assist in the control of area runoff and downstream flooding.

Chickasaw does not have any staff; Shelby County Public Works employees run the authority.

CHICKASAW REVENUE SOURCES

- U.S. Department of Housing and Community Development grant (Community Development Block Grant – National Disaster Resilience)
- state and local funding
- rental income
- interest income

Relationship with Shelby County Government

Chickasaw is closely related to Shelby County Government. The authority is staffed by Shelby County Public Works employees, who spend a portion of their work hours on authority business. Shelby County Finance and Administration staff maintain and account for Chickasaw funds in the Shelby County accounting system, Harris MSGovern.

Chickasaw Basin Authority Board of Directors

Section 64-1-203, *Tennessee Code Annotated*, establishes the Chickasaw Basin Authority Board of Directors. The board[4] is composed of the following:

- the presiding officer of the county legislative body or his or her representative and one other member from the county legislative body in each county that is a member of the authority;
- the chair or his or her representative and one member of the Memphis City Council;
- one member at large, appointed by the Governor;
- the Shelby County mayor or the mayor's authorized representative;
- one member from each county soil conservation district board of supervisors from each county that is a member of the authority; and
- the mayor or the mayor's representative of each incorporated municipality within the counties that are members of the authority.

The statute also states that no person "who has an interest, either indirect ownership or through a trustee, in real property that is to be acquired by the Chickasaw basin authority" shall be appointed to the board. If a public official on the board by virtue of office is not eligible to serve because of this, "the legislative body of the respective county or municipality shall elect an authorized representative to serve in the place of the public officials."

Quorum: At least one-half of the members (statute)

Frequency of Meetings: Board discretion

Board Conflict-of-Interest Policy: Uses Shelby County's statement.

Sequatchie Valley Planning and Development Agency

Statutory Responsibilities and Agency Activities

The Sequatchie Valley Planning and Development Agency (Sequatchie Valley) was authorized in 1968 under Section 64-1-501, *Tennessee Code Annotated*, for planning and developing the resources of Bledsoe, Marion, Rhea, Grundy, and Sequatchie counties. Also, the statute authorizes a broad range of work and activities. Specifically, it states,

[4] The number of board members is determined by the number of counties participating in the authority and the number of incorporated municipalities in each of those participating counties.

The scope of the agency's interests, work, and activities shall include programs in the fields of education, public health, industrial development, highways, water resources and recreation and in such other fields as the agency's board of directors finds that it can provide planning and development services for the five-county region efficiently and economically.

Sequatchie Valley's activities are focused in the area of early childhood education. With offices in South Pittsburg, Tennessee, the agency operates Head Start and Early Head Start Programs in 11 locations, including the central office and 10 daycare centers, which operate 29 classrooms.

SEQUATCHIE VALLEY STAFF (AS OF JULY 10, 2019)

- Chief Operating Officer
- Deputy Director
- Assistant Director of Program Operation
- Fiscal Director
- Human Resources Specialist
- approximately 104 full-time employees
- 30 part-time employees

SEQUATCHIE VALLEY REVENUE SOURCES

- U.S. Department of Human Services grants (Head Start and Early Head Start)
- U.S. Department of Agriculture grant (Child and Adult Care Food Program)
- interest and cash donations

Sequatchie Valley staff use NextGen accounting software to maintain and account for agency funds, and ADP Workforce Now for payroll and human resources functions.

Sequatchie Valley Planning and Development Agency Board of Directors

According to Section 64-1-502, *Tennessee Code Annotated*, Sequatchie Valley is governed by a 16-member board of directors, which includes the mayors of Bledsoe, Marion, Rhea, Grundy, and Sequatchie Counties, or their designees. Additionally, the mayors of the incorporated cities and towns in each of the five counties designate one director by majority vote to serve six-year terms. The Governor appoints a person active in county, municipal, or other public or business, labor, or agricultural affairs, from each of the counties to serve six-year terms. The Governor also designates a member of the Governor's staff or cabinet to serve as director.

Quorum: A majority of active directors in office (bylaws)

Frequency of Meetings: At least annually (bylaws)

Board Conflict-of-Interest Policy: Board policy requires annual disclosure.

Tellico Reservoir Development Agency

Statutory Responsibilities and Agency Activities

The Tellico Reservoir Development Agency (Tellico), authorized in 1982 under Section 64-1-701, *Tennessee Code Annotated*, is responsible for the development of the Tennessee Valley Authority Tellico Reservoir project area. Located in Vonore, Tennessee, the agency sells and leases land for industrial and residential development and operates three campgrounds—Toqua, Lotterdale Cove, and Notchy Creek. Along with operating a wastewater treatment plant, which serves Tellico West Industrial Park businesses and the Rarity Bay subdivision, it maintains ten boat ramps.

TELLICO STAFF (AS OF JULY 10, 2019)

- Executive Director
- Transition Chief Executive Officer
- 3 Campground Managers
- 3 Campground Assistants
- Office Manager
- Building Inspector
- Administrative Assistant
- Administrative Specialist
- 3 maintenance staff
- 1 maintenance position – vacant

TELLICO REVENUE SOURCES

- campground fees
- wastewater treatment plant fees
- building permits
- agricultural leases
- monthly cell tower leases
- Tellico Barge Terminal leases
- Tellico Village common property lease
- East Coast Tellico Parkway Sewer Tap fees
- land sales – industrial, residential, and commercial recreation
- federal, state, and local grants

The agency also works to recruit new industries for the Tellico West Industrial Park and acts as a liaison between Cleveland State Community College and Tellico businesses to tailor the college's programs to meet the requirements of Tellico industries. The Executive Director stated that businesses in the Tellico West Industrial Park employ approximately 4,500 people.

Tellico staff use the Sage Business Works accounting system to maintain and account for agency funds. Additionally, revenues are collected at the main office in Vonore, Tennessee, and at all three campground locations.

Tellico Reservoir Development Agency Board of Directors

Section 64-1-702, *Tennessee Code Annotated*, establishes a board of directors to govern the agency. The nine-member board includes the county mayors of Monroe, Loudon, and Blount

Quorum: A majority of the directors (bylaws)

Frequency of Meetings: At least once every three months (bylaws)

Board Conflict-of-Interest Policy: Board discretion

counties. Each county mayor also appoints, upon approval from their respective county commissions, two directors.[5] These directors serve six-year terms.

Tennessee Duck River Development Agency

DUCK RIVER STAFF (AS OF JULY 11, 2019)

- Executive Director
- Director of Finance and Administration

DUCK RIVER REVENUE SOURCES

- Contributions from the seven water systems

Statutory Responsibilities and Agency Activities

The Tennessee Duck River Development Agency (Duck River) was authorized in 1965 under Section 64-1-601, *Tennessee Code Annotated*, for the control and development of the water resources of the Upper Duck River watershed in Bedford, Coffee, Hickman, Marshall, and Maury counties. Its office is located in Shelbyville, Tennessee, and the agency has an agreement with seven water systems in the region[6] to fund operations by the systems voluntarily contributing five cents for every 1,000 gallons of water sold. Duck River staff use Sage 50 accounting software to maintain and account for the agency's funding.

In March 2011, the agency contracted with outside consultants to develop the Duck River Comprehensive Regional Water Supply Plan to address the management of the area's water resources. The plan consists of five components—three non-structural components and two structural components. We discussed with the Executive Director the status of the plan and its components, which is outlined below.

Status of the Duck River Comprehensive Regional Water Supply Plan

Non-structural Components

- Drought Management Plan – This plan calls for a reduction in the amount of water that can be withdrawn from the river and released from Normandy Reservoir during droughts, which would impact the river flow. The Tennessee Valley Authority (TVA) is currently conducting a National Environmental Protection Act (NEPA) review to support the Drought Management Plan. According to the Executive Director, this review is expected to conclude in early 2020.
- Water Management Program – This program, which allows the agency to gather data and use computer models to analyze the Duck River water usage and project future needs, has been in use since 2014.

[5] Section 64-1-702, *Tennessee Code Annotated,* states that when selecting nominees for the board of directors, "due consideration shall be given to persons active in municipal, industrial, agricultural, community, commercial and citizen organizations."

[6] The seven water systems are Bedford County Utility District; Columbia Power and Water Systems; Lewisburg Water and Wastewater; Manchester Water Department; Shelbyville Power, Water and Sewerage System; Spring Hill Water Department; and Tullahoma Utilities Authority.

- Optimize Normandy Reservoir Releases – The Executive Director stated that this plan, which is meant to optimize releases from the Normandy Reservoir when they are most needed, is included in TVA's NEPA review.

DUCK RIVER ADVISORY COMMITTEES

Tennessee Duck River Development Agency Technical Advisory Committee (DRATAC)

DRATAC is composed of managers and engineers from the seven water systems that obtain water from Duck River; the committee meets quarterly, has a chairman and seven voting members, and provides guidance and advice to the agency concerning water projects and other activities.

Water Resources Council (WRC)

The WRC is composed of representatives from the seven water systems as well as representatives from regional utility districts, state and federal agencies, plus non-governmental organizations. The council's goal is to develop and maintain a comprehensive water resources plan for the watershed.

Structural Components

- Normandy Reservoir Capacity Improvements – This plan is to increase the winter/spring pool elevation by five feet without increasing the summer/fall pool elevation. Modifications will be needed to Normandy Dam for loss of flood storage. According to the Executive Director, discussions with the Tennessee Valley Authority are being conducted and early investigations are in process that will support this project.
- New Maury County Intake – The plan is for the Columbia Power and Water Systems (CPWS) to build a new intake approximately 25 miles downstream, near Williamsport, for an additional water source, to address Maury County's projected needs during droughts. Duck River Development Agency provided the city of Columbia with feasibility and site selection studies to help with selecting a location for the new intake. CPWS has started the preliminary site investigations and permitting process.

Tennessee Duck River Development Agency Board of Directors

Section 64-1-602, *Tennessee Code Annotated*, establishes a board of directors to govern the agency. The 12-member board is fully appointed by the Governor, and the composition of the board is as follows:

- one director from Coffee, Bedford, Hickman, Marshall, and Maury counties, chosen from a list of three candidates nominated by the county legislative bodies of each county,[7] and serving six-year terms;
- one member of the Governor's staff or cabinet;
- two county mayors from the area, serving two-year terms;

[7] Statute requires that candidates are active in municipal, industrial, agricultural, commercial, and citizen organizations, such as the Upper Duck River development association, and active in promoting comprehensive unified development of the resources and economic growth of the Upper Duck River watershed.

- two mayors of incorporated cities or towns of the area, serving two-year terms; and
- two additional Tennessee citizens, chosen from a list of six at-large candidates nominated by the board of directors, serving four-year terms.

Quorum: A majority of the directors in office (bylaws)

Frequency of Meetings: Quarterly (bylaws)

Board Conflict-of-Interest Policy: As of February 2019, board policy requires annual disclosure.

West Fork Drakes Creek Dam and Reservoir Interstate Authority

Statutory Responsibilities and Agency Activities

The West Fork Drakes Creek Dam and Reservoir Interstate Authority (West Fork) was created by Section 64-1-901, *Tennessee Code Annotated*, in 1991 for the purposes of securing additional water supply from Drakes Creek for the cities of Portland, Tennessee, and Franklin, Kentucky; creating a water plan; and developing alternative water supplies for Simpson County, Kentucky, and Sumner County, Tennessee. Although the original plan was to construct a dam and reservoir on the West Fork Drakes Creek, neither a dam nor a reservoir has been constructed. Simpson County and Franklin, Kentucky, opted out of the authority in 1992, when they found an alternative water supply; however, Portland has not secured an alternative water supply.

Current Status of Activities

West Fork Drakes Creek Dam and Reservoir Interstate Authority does not have employees and has no revenue.

As noted in the 2013 prior audit report, the lack of a sufficient water supply continues to be a concern for Portland, Tennessee. The authority's last attempt to obtain a permit to build a dam was in September 2007. Based on our discussions with Tennessee Wildlife Resources Agency and Tennessee Department of Environment and Conservation staff, the city is unlikely to obtain a permit to build a dam at the desired site because of the environmental impact. The board has taken no further action to address the water supply issues.

West Fork Drakes Creek Dam and Reservoir Interstate Authority Board of Directors

Section 64-1-902, *Tennessee Code Annotated*, establishes a board of directors to govern the authority. The 10-member board includes

- a member of the county legislative body of Sumner County, Tennessee, and Simpson County, Kentucky, chosen by their respective legislative bodies to serve four-year terms;
- mayors of the cities of Portland, Tennessee, and Franklin, Kentucky;
- a member of each of the city legislative bodies of the cities of Portland, Tennessee, and Franklin, Kentucky, chosen by the respective legislative bodies to serve four-year terms;
- a member of an industrial foundation board or equivalent, if one exists, from Portland, Tennessee, and Franklin, Kentucky, as appointed by the respective boards to serve four-year terms;
- a commissioner or designee chosen by the board of the commissioners of the Simpson County water district to serve a four-year term; and
- a commissioner or designee chosen by the board of commissioners of the Sumner County water authority to serve a four-year term.

Quorum: 50% of the board membership (statute)

Frequency of Meetings: At least annually (statute)

Board Conflict-of-Interest Policy: None

West Tennessee River Basin Authority

Statutory Responsibilities and Agency Activities

The West Tennessee River Basin Authority (West Tennessee Authority) was established in 1996 under Section 64-1-1101, *Tennessee Code Annotated,* to preserve the natural flow and function of the Hatchie, Loosahatchie, Obion, and Forked Deer river basins. To provide for the operation of the authority, statute permits county members of the authority to either levy a tax or appropriate general funds. West Tennessee Authority maintains earthen dams and conducts stream restoration and stabilization through projects such as the Reelfoot Bayou Flood Reduction Study; the Channel Instability and Public Roadway damages in the Hatchie, Obion, and Forked Deer river basins; and the North Fork Obion River Stream Restoration. In 2016, the authority announced a project to restore floodplains and wetlands in Madison County to help protect public roads and private properties from flooding. The project also includes recreational components, such as hiking and biking trails, areas for viewing wildlife, and waterway access. In 2017, the authority proposed a project in Fayette County to mitigate damage to Cypress Creek, including severe erosion, damage to infrastructure, and loss of aquatic habitat caused by channelization, which at one time was a preferred flood control method. West Tennessee Authority also facilitates a Beaver Damage Management Program, which addresses the safety of county roads and authority flood structures. West Tennessee Authority participates in this program by working with the U.S.

Department of Agriculture's Wildlife Services Division to prevent beaver dams from blocking culverts and bridge openings. Additionally, West Tennessee Authority monitors flood control structures to ensure beaver dams are not affecting the structural components that prevent flooding.

The authority is under the administrative control of the Tennessee Department of Environment and Conservation, and its office is in Humboldt, Tennessee. The Tennessee Department of Environment and Conservation's administrative staff, including fiscal and human resources, provide administrative support to the authority. West Tennessee Authority funds are accounted for in Edison, the state's accounting system.

WEST TENNESSEE AUTHORITY STAFF (AS OF JULY 11, 2019)

- Executive Director
- Civil Engineering Manager
- 2 Administrative Assistants
- Project Coordinator
- Environmental Protection Specialist
- 3 Environmental Consultants
- CADD Technician
- 3 Equipment Operator Supervisors
- 8 Equipment Operators

WEST TENNESSEE AUTHORITY REVENUE SOURCES

- state appropriations
- voluntary contributions from participating counties and municipalities
- beaver management services

West Tennessee River Basin Authority Board of Directors

Section 64-1-1102, *Tennessee Code Annotated*, establishes a board of directors to govern the authority. The board[8] is composed of the following:

- the county mayor of each county electing to participate in the authority[9] (up to 20);
- the Tennessee Department of Agriculture Commissioner or a designee;
- the Tennessee Department of Environment and Conservation Commissioner or a designee;
- the Executive Director of the Tennessee Wildlife Resources Agency or a designee;
- a supervisor of a soil conservation district in the participating counties, appointed by the Governor;[10]
- two members of the House of Representatives, from different political parties, representing a part of the geographical area, appointed by the Speaker of the House;
- two members of the Senate, from different political parties, representing a part of the geographical area, appointed by the Speaker of the Senate;

[8] The size of the board is dependent upon the number of counties electing to participate in the authority.
[9] If the county mayor recommends, the county legislative body may select a member of the county legislative body or another citizen of the county to serve instead of the mayor.
[10] This member is appointed from a list of nominees submitted by interested soil conservation groups including, but not limited to, the Tennessee Association of Soil Conservation Districts.

- a resident of a participating county appointed by the Governor from a list of nominees submitted by interested forestry groups including, but not limited to, the Tennessee Forestry Association;
- a resident of a participating county appointed by the Governor from a list of nominees submitted by interested conservation groups including, but not limited to, the Tennessee Wildlife Federation; and
- a resident of a participating county appointed by the Governor from a list of nominees submitted by interested farm business groups including, but not limited to, the Tennessee Farm Bureau.

Quorum: Those directors present (bylaws)

Frequency of Meetings: Quarterly (bylaws)

Board Conflict-of-Interest Policy: Board discretion

Bledsoe Regional Water Authority (Inactive)

Statutory Responsibilities and Agency Activities

The Bledsoe Regional Water Authority was established in 2001 under Section 64-1-1201, *Tennessee Code Annotated*, for the purpose of planning and developing the water resources of the geographic region and providing necessary wastewater collection and treatment. Additionally, the authority's purpose is to provide environmental services and to secure economic benefits to the geographic region it encompasses and serves.

Bledsoe Regional Water Authority Board of Directors

Section 64-1-1203, *Tennessee Code Annotated*, also established a six-member Bledsoe Regional Water Authority Board of Directors, which should include the Bledsoe County mayor or his or her designee; one director appointed by the each of the governing bodies of the Pikeville Utility District, North Bledsoe Utility District, Fall Creek Falls Utility District, and Summer City Utility District to serve four-year terms; and one additional director appointed by the City of Pikeville's municipal governing body and serving terms concurrent with the chief executive of the City of Pikeville.

Additionally, statute states that "upon execution of an agreement between any other municipality and the authority . . . the governing body of the municipality shall appoint one (1) person to serve as an additional director on the board of directors."

Board Status

The Bledsoe Regional Water Authority has not been activated, the authorities described in statute have not appointed directors to the board, and neither the authority nor the board is conducting business. See the Bledsoe Regional Water Authority section on page 87 for more information.

AUDIT SCOPE

We have audited the nine river basin agencies for the period July 1, 2016, through May 28, 2019. Our audit scope included a review of internal controls and compliance with laws, regulations, policies, procedures, and provisions of contracts or grant agreements in the following areas:

- the agencies' efforts to meet their statutory missions;
- internal controls over revenue and expenditure processes;
- the risk assessment process;
- records management policies;
- boards of directors;
- staff turnover;
- information systems internal controls;[11] and
- follow-up of four findings reported in the prior performance audit report.

The river basin agencies' management is responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, policies, procedures, and provisions of contracts and grant agreements.

For our sample design, we used nonstatistical audit sampling, which was the most appropriate and cost-effective method for concluding on our audit objectives. Based on our professional judgment, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that nonstatistical sampling provides sufficient, appropriate audit evidence to support the conclusions in our report. Although our sample results provide reasonable bases for drawing conclusions, the errors identified in these samples cannot be used to make statistically valid projections to the original populations. We present more detailed information about our methodologies in the individual sections of this report.

We conducted our 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

[11] We performed work related to information systems internal controls at two river basin agencies. One agency is part of the state's network, and the other agency houses the public's confidential information in its system.

audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

PRIOR AUDIT FINDINGS

REPORT OF ACTIONS TAKEN ON PRIOR AUDIT FINDINGS

Section 8-4-109(c), *Tennessee Code Annotated,* requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The prior audit report was dated July 2013 and contained four findings. The river basin agencies filed their reports, due six months after the release of the audit report, with the Comptroller of the Treasury on the following dates:

- Beech River Watershed Development Authority, on February 25, 2014;
- Carroll County Watershed Authority, on February 4, 2014;
- Chickasaw Basin Authority, on February 12, 2014;
- Sequatchie Valley Planning and Development Agency, on February 20, 2014;
- Tellico Reservoir Development Agency, on February 25, 2014;
- Tennessee Duck River Development Agency, February 4, 2014; and
- West Fork Drakes Creek Dam and Reservoir Interstate Authority, January 30, 2014.

We conducted a follow-up of the prior audit findings as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that in response to the previous audit finding concerning the legal status of six river basin agencies regarding sovereign immunity, legislators proposed legislation to clarify the river basin agencies' status as state agencies for liability purposes; however, the legislation did not pass. Additionally, Sequatchie Valley Planning and Development Agency and Tellico Reservoir Development Agency resolved the previous audit finding concerning board oversight of independent audit contracts.

REPEATED AUDIT FINDINGS

Repeated Findings

The prior audit report contained findings stating that Chickasaw Basin Authority did not submit a budget to the Tennessee Department of Environment and Conservation (TDEC) each year.

The current audit disclosed that although the Chickasaw Executive Director stated that he submitted the budget to TDEC, he did not maintain documentation of his submission, and TDEC staff could not find any documentation that they had received Chickasaw's budget.

This finding is repeated in the applicable section of this report.

Partially Resolved Findings

The prior audit report also contained findings stating that

- Beech River Watershed Development Authority and Carroll County Watershed Authority did not have sufficient board oversight of their independent audit contracts;
- Beech River Watershed Development Authority, Carroll County Watershed Authority, Tellico Reservoir Development Agency, and Tennessee Duck River Development Agency board chairs did not receive bank reconciliations from the agencies and bank statements directly from the bank; and
- West Fork Drakes Creek Dam and Reservoir Interstate Authority did not have a board, was not operating as statutorily established, and had not resolved the City of Portland's water supply issues.

The current audit disclosed that

- although the Beech River Watershed Development Authority board voted on the independent audit contract, the Executive Director signed the contract instead of the board chair;
- while the Carroll County Watershed Authority board voted on the independent audit, the board Secretary-Treasurer signed the contract instead of the board chair;
- Beech River Watershed Development Authority, Carroll County Watershed Authority, Tellico Reservoir Development Agency and Tennessee Duck River Development Agency sent their respective board chairs bank reconciliations as recommended; however, the agencies sent the board chairs copies of their bank statements rather than the bank sending them directly; and
- while West Fork has established a board of directors, which meets once a year, the board had attendance issues, had a vacant seat, and did not have a conflict-of-interest policy.

We reported these continuing issues as observations in the applicable sections of this report.

AUDIT OBJECTIVES AND CONCLUSIONS

Details of the audit conclusions for each river basin agency can be found in their respective sections beginning on page 27. A summary table of the audit conclusions can be found on page 26.

Methodologies to achieve these objectives are in Appendix 1 beginning on page 91.

AUDIT OBJECTIVES

Mission: Is each river basin agency operating and conducting activities to meet its statutory mission, as prescribed in *Tennessee Code Annotated*?

Conclusions

Beech River:	No issues.
Carroll County Authority:	No issues.
Chickasaw:	No issues.
Sequatchie Valley:	See **Matter for Legislative Consideration** on page 63.
Tellico:	No issues.
Duck River:	No issues.
West Fork:	See **Matter for Legislative Consideration** on page 81.
West Tennessee Authority:	No issues.
Bledsoe Authority:	See **Finding 11** on page 88, **Observation 26** on page 87, and **Matter for Legislative Consideration** on page 90.

Internal Controls

Expenditures: Did each river basin agency maintain sufficient internal controls over the expenditure process, including ensuring expenditures were allowable and appropriate given the statutory purpose of the agency?

Conclusions

Beech River:	See **Finding 1** on page 28.
Carroll County Authority:	See **Finding 2** on page 36.
Chickasaw:	See **Finding 4** on page 44.
Sequatchie Valley:	No issues.

Tellico:	See **Finding 9** on page 66.
Duck River:	No issues.
West Fork:	See **Matter for Legislative Consideration** on page 81.
West Tennessee Authority:	No issues.
Bledsoe Authority:	See **Finding 11** on page 88.

Revenues: Did Beech River Watershed Development Authority, Carroll County Watershed Authority, and Tellico Reservoir Development Agency[12] maintain sufficient internal controls over the revenue process, including cash receipting?

Conclusions

Beech River:	See **Finding 1** on page 28.
Carroll County Authority:	See **Finding 2** on page 36.
Tellico:	See **Finding 9** on page 66.

Independent Audit: Did each river basin agency obtain an independent financial audit as statutorily required?

Conclusions

Beech River:	No issues.
Carroll County Authority:	No issues.
Chickasaw:	See **Finding 4** on page 44.
Sequatchie Valley:	No issues.
Tellico:	No issues.
Duck River:	No issues.
West Fork:	See **Matter for Legislative Consideration** on page 81.
West Tennessee Authority:	See **Observation 25** on page 86.
Bledsoe Authority:	See **Finding 11** on page 88.

Board of Directors

Members: Does the board have the statutorily required number of board members?

Conclusions

Beech River:	No issues.
Carroll County Authority:	No issues.
Chickasaw:	See **Finding 6** on page 47.
Sequatchie Valley:	See **Finding 7** on page 56.

[12] We identified these three river basin agencies as high risk because they collect cash payments; therefore, we performed procedures related to revenues.

Tellico:	No issues.
Duck River:	See **Observation 19** on page 75.
West Fork:	See **Observation 22** on page 80.
West Tennessee Authority:	No issues.
Bledsoe Authority:	See **Finding 11** on page 88.

Quorum: Did the board meet and achieve the quorum standards promulgated by statute or bylaws?

Conclusions

Beech River:	No issues.
Carroll County Authority:	No issues.
Chickasaw:	See **Finding 6** on page 47.
Sequatchie Valley:	See **Finding 7** on page 56.
Tellico:	No issues.
Duck River:	No issues.
West Fork:	No issues.
West Tennessee Authority:	See **Observation 23** on page 84.
Bledsoe Authority:	See **Finding 11** on page 88.

Attendance: Did board members consistently attend meetings?

Conclusions

Beech River:	See **Observation 2** on page 32.
Carroll County Authority:	See **Finding 3** on page 39.
Chickasaw:	See **Finding 6** on page 47.
Sequatchie Valley:	See **Observation 12** on page 60.
Tellico:	See **Observation 15** on page 70.
Duck River:	See **Observation 19** on page 75.
West Fork:	See **Observation 22** on page 80.
West Tennessee Authority:	See **Finding 10** on page 83.
Bledsoe Authority:	See **Finding 11** on page 88.

Conflict-of-Interest Policies: Did the board have policies and procedures in place to disclose conflicts of interests of board members?

Conclusions

Beech River:	No issues.
Carroll County Authority:	See **Finding 3** on page 39.
Chickasaw:	No issues.
Sequatchie Valley:	No issues.
Tellico:	See **Observation 15** on page 70.
Duck River:	See **Observation 19** on page 75.
West Fork:	See **Observation 22** on page 80.

West Tennessee Authority:	See **Observation 23** on page 84.
Bledsoe Authority:	See **Finding 11** on page 88.

Conflict-of-Interest Forms: Did board members annually sign a conflict-of-interest disclosure form?

Conclusions

Beech River:	See **Observation 2** on page 32.
Carroll County Authority:	See **Finding 3** on page 39.
Chickasaw:	See **Observation 8** on page 52.
Sequatchie Valley:	See **Observation 12** on page 60.
Tellico:	See **Observation 15** on page 70.
Duck River:	See **Observation 19** on page 75.
West Fork:	See **Observation 22** on page 80.
West Tennessee Authority:	See **Observation 23** on page 84.
Bledsoe Authority:	See **Finding 11** on page 88.

Risk Assessment: Did management at each river basin agency prepare an annual risk assessment to identify and document the agency risks and controls so that management can effectively mitigate the risks of error, noncompliance, fraud, waste, and abuse?

Conclusions

Beech River:	See **Observation 3** on page 33.
Carroll County Authority:	See **Observation 6** on page 41.
Chickasaw:	See **Observation 9** on page 52.
Sequatchie Valley:	See **Observation 13** on page 62.
Tellico:	See **Observation 16** on page 71.
Duck River:	See **Observation 20** on page 76.
West Fork:	See **Matter for Legislative Consideration** on page 81.
West Tennessee Authority:	No issues.
Bledsoe Authority:	See **Finding 11** on page 88.

Records Management: Are the river basin agencies subject to State of Tennessee Records Disposition Authorizations (RDAs), and if not, have they adopted their own official records management policies?

Conclusions

Beech River:	See **Observation 4** on page 34.
Carroll County Authority:	See **Observation 7** on page 42.
Chickasaw:	See **Observation 10** on page 53.

Sequatchie Valley:	No issues.
Tellico:	See **Observation 17** on page 71.
Duck River:	See **Observation 21** on page 77.
West Fork:	See **Matter for Legislative Consideration** on page 81.
West Tennessee Authority:	No issues.
Bledsoe Authority:	See **Finding 11** on page 88.

Staff Turnover: Has staffing turnover created problems with the river basin agencies' operations or management's ability to meet the agencies' mission?

Conclusions

Beech River: Based on our analysis of the authority's separations from July 1, 2016, through June 30, 2018, the authority did not experience non-seasonal employee turnover; therefore, staff turnover did not negatively affect the authority's operations or impede its ability to meet its mission.

Carroll County Authority: Based on our analysis of the authority's non-seasonal separations from July 1, 2016, through June 30, 2017, the authority experienced 22% turnover from one separation out of five average employees and no separations or turnover from July 1, 2017, through June 30, 2018. Based on our discussions with management, staff turnover did not negatively affect the authority's operations or impede its ability to meet its mission.

Chickasaw: Chickasaw Basin Authority has no employees; therefore, it has no turnover. Staff from the Shelby County government carries out all business for the authority.

Sequatchie Valley: Based on our analysis of the agency's separations from July 1, 2016, through June 30, 2017, the authority experienced 11% turnover from 12 separations out of 108 average number of employees and 18% turnover from 22 separations out of 124 average employees from July 1, 2017, through June 30, 2018. Based on information provided, staff turnover did not negatively affect the authority's operations or impede its ability to meet its mission.

Tellico: Based on our analysis of the agency's separations from July 1, 2016, through June 30, 2018, the authority did not experience employee turnover; therefore, staff turnover did not negatively affect the authority's operations or impede its ability to meet its mission.

Duck River: Based on our analysis of the agency's separations from July 1, 2016, through June 30, 2018, the authority did not experience employee turnover; therefore, staff turnover did not negatively affect the authority's operations or impede its ability to meet its mission.

West Fork: West Fork Drakes Creek Dam and Reservoir Interstate Authority does not have any employees; therefore, it has no turnover.

West Tennessee Authority: Based on our analysis of the authority's non-seasonal separations from July 1, 2016, through June 30, 2017, the authority experienced 17% turnover from 3 separations out of an average of 18 employees and 5% turnover from 1 separation out of an average of 19 employees from July 1, 2017, through June 30, 2018. Based on information provided, staff turnover did not negatively affect the authority's operations or impede its ability to meet its mission.

Bledsoe Authority: See **Finding 11** on page 88.

Information Systems: Did West Tennessee River Basin Authority and Sequatchie Valley Planning and Development Agency have adequate internal controls over information systems?

Conclusions

Sequatchie Valley:	See **Finding 8** on page 58.
West Tennessee Authority:	See **Observation 24** on page 85.

Prior Audit Finding Follow-up

Board Oversight: Did Beech River Watershed Development Authority, Carroll County Watershed Authority, Sequatchie Valley Planning and Development Agency, Tellico Reservoir Development Agency, and Tennessee Duck River Development Agency resolve the board oversight issues reported in the 2013 audit report?

Conclusions

Beech River:	See **Observation 1** on page 31.
Carroll County Authority:	See **Observation 5** on page 40.
Sequatchie Valley:	See **Observation 11** on page 59.
Tellico:	See **Observation 14** on page 69.
Duck River:	See **Observation 18** on page 74.

Sovereign Immunity:	Did the legislature update statute to clarify the legal status of Beech River Watershed Development Authority, Carroll County Watershed Authority, Chickasaw Basin Authority, Sequatchie Valley Planning and Development Agency, Tellico Reservoir Development Agency, and Tennessee Duck River Development Agency for liability purposes, as recommended in the 2013 audit?
Conclusion:	To address the issue of sovereign immunity raised in the prior audit finding, legislators introduced House Bill 1521 and Senate Bill 1694 to clarify the river basin agencies' status as state agencies for liability purposes; however, the legislation did not pass.
West Fork Board/Mission:	Did West Fork Drakes Creek Dam and Reservoir Interstate Authority resolve the prior audit finding concerning its board of directors and efforts to resolve the water supply issues for the City of Portland?
Conclusion:	See **Matter for Legislative Consideration** on page 81.
Chickasaw Budget:	Did Chickasaw Basin Authority resolve the prior audit finding so that it is now operating as statutorily established, including submitting a budget to the Department of Environment and Conservation?
Conclusion:	See **Finding 5** on page 46.

Table 3
Summary of Audit Conclusions by River Basin Agency

KEY ● = Finding ■ = Observation ❖ = Matter for Legislative Consideration	*Page 27* Beech River Watershed Development Authority	*Page 35* Carroll County Watershed Authority	*Page 43* Chickasaw Basin Authority	*Page 55* Sequatchie Valley Planning and Development Agency	*Page 65* Tellico Reservoir Development Agency	*Page 73* Tennessee Duck River Development Agency	*Page 79* West Fork Drakes Creek Dam and Reservoir Interstate Authority	*Page 83* West Tennessee River Basin Authority	*Page 87* Bledsoe Regional Water Authority
Mission				❖			❖		● ■ ❖
Internal Controls	●	●	●		●		❖	■	●
Board of Directors	■	●	● ■	● ■	■	■	■	● ■	●
Risk Assessment	■	■	■	■	■	■	❖		●
Records Management	■	■	■		■	■	❖		●
Employee Turnover									
Information Systems				●				■	
Prior Finding – Board Oversight	■	■		■	■	■			
Prior Finding – Sovereign Immunity									
Prior Finding – West Fork Board/Mission							❖		
Prior Finding – Chickasaw Budget			●						

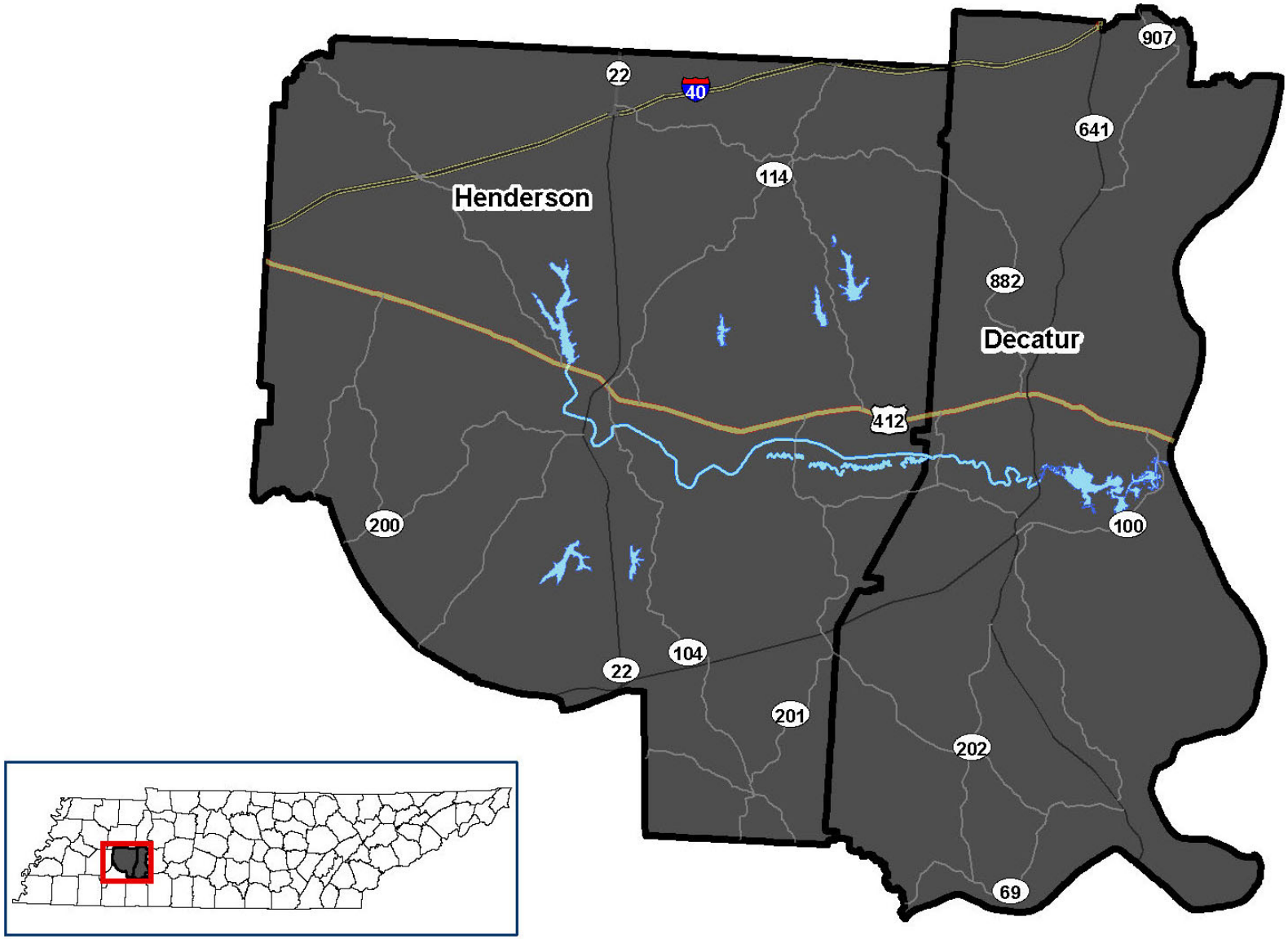


Signage for the campground at Beech Lake.
Source: Auditor photo.



Attractions at Redneck Island, a small amusement area at Beech Lake.
Source: http://www.brwdalakes.com/redneck-island.html.

Beech River Watershed Development Authority



BEECH RIVER WATERSHED DEVELOPMENT AUTHORITY

KEY CONCLUSIONS

Our audit work related to the Beech River Watershed Development Authority (Beech River) resulted in the following key conclusions:

PARTIALLY RESOLVED FINDING

The prior audit report contained a finding stating that Beech River

- did not have sufficient board oversight of their independent audit contracts and finances, and
- the board chair did not receive bank reconciliation from the authority and bank statements directly from the bank.

The current audit disclosed that

- although the Beech River Watershed Development Authority board voted on the independent audit contract, the Executive Director signed the contract instead of the board chair, and
- the authority sent the board chair copies of their bank statements rather than the bank sending them directly.

For more information, see **Observation 1**.

FINDING

Finding 1 –Beech River's management did not design and implement adequate internal controls over revenues and expenditures and did not properly safeguard sensitive information

OBSERVATIONS

Observation 1 – Beech River's management did not fully resolve the board oversight issues included in the prior audit report

Observation 2 – Beech River's board of directors had attendance issues, and conflict-of-interest forms were not available for all members during the audit period

Observation 3 – Beech River's management did not prepare a risk assessment

Observation 4 – Beech River's board of directors did not have a policy governing the retention and disposition of records

Finding 1 – Beech River's management did not design and implement adequate internal controls over revenues and expenditures and did not properly safeguard sensitive information

Conditions and Cause

Expenditure Support Criteria

We used Tennessee Department of Finance and Administration (F&A) Policy 4, "Recognition of Revenues and Expenditures," as a best practice to determine if payment for the expenditure was proper. According to F&A Policy 4: "An improper payment means any payment . . . where insufficient or lack of documentation prevents a reviewer from discerning whether a payment was proper."

The Beech River Watershed Development Authority's (Beech River) board and management have a responsibility to establish internal controls to ensure the proper safeguarding and accounting for assets and compliance with laws. Section 9-18-102, *Tennessee Code Annotated*, requires each state agency and local government to establish and maintain internal controls to provide reasonable assurance that obligations and costs are in compliance with laws; assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly accounted for and recorded. Based on our discussions with staff and testwork, we identified several internal control deficiencies over the cash and expenditure processes.

Unsupported Expenditures

We found that staff did not obtain documentation to support some expenditures. Specifically, we found that for 2 of the 25 expenditure items tested (8%), the Administrative Assistant reimbursed retired employees for their health insurance premiums without obtaining any documentation showing the retirees paid these premiums.

Since retirees are eligible to receive benefits under the State of Tennessee's health insurance plan, the Administrative Assistant paid these retirees based on health insurance premium rates available on the State of Tennessee website. The Administrative Assistant stated that these retirees' health insurance premiums are deducted from the pension payments they receive from the Tennessee Consolidated Retirement System (TCRS) and that TCRS would not provide her documentation supporting the payments because it would constitute a violation under the Health Insurance Protection Privacy Act of 1996.

Segregation of Duties

Cash Receipts

We found that the authority did not implement compensating controls to reduce risks associated with its inability to segregate duties for the cash receipting process. The Executive Secretary and a part-time Administrative Assistant are the only employees that perform administrative functions. Most of the time, the Administrative Assistant receives payments, prepares deposits, posts payments to the accounting records, and reconciles the bank statements. The Executive Secretary takes the deposits to the bank. Because the Administrative Assistant frequently performs all of these functions, the risk of undetected errors, noncompliance, fraud, waste, and abuse increases.

According to Beech River's independent audit report, the authority received fees from the public totaling $221,836 in fiscal year 2017.[13] The authority's independent audit report for 2018 was not complete by the end of our audit period.

Funds Not Deposited Timely

Based on our testwork, we found that for 2 of the 25 revenue items tested (8%), the Executive Secretary did not promptly deposit funds collected into the bank in accordance with best practices. The Executive Secretary agreed that funds collected should be promptly deposited and stated that, if needed, he could complete deposit slips when the Administrative Assistant is absent to ensure cash is deposited in accordance with best practices.

Segregation of Duties Criteria

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book) provides a comprehensive framework for internal control practices in federal agencies and serves as a best practice for other government agencies.

Section 10.03 states,

> Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Redneck Island Agreement

Redneck Island is a small amusement area at Beech Lake with a variety of attractions, such as inflatable water slides, jet ski and boat rentals, a playground, and concessions. According to the contract Beech River has with Redneck Island, the amusement area will pay the authority $1 per entrance fee collected as well as a percentage of sales[14] based on the total amount Redneck Island management reports to the Tennessee Department of Revenue. Although the authority received a sales summary, the authority did not request a sales tax report, which the operator submits to the Tennessee Department of Revenue, or any other documentation to ensure the sales summary was correct.

Redneck Island Agreement Criteria

Green Book Principle 5.05 states, "Management holds service organizations accountable."

Additionally, Principle 15.02 states, "Management communicates with, and obtains quality information from, external parties using established reporting lines."

The Administrative Assistant stated that Redneck Island's operators have also operated a campground for the authority since 2013, and she obtains and reviews documentation supporting the campground's revenue. The Administrative Assistant explained that she did not request documentation for Redneck Island because she trusts the operator due to their prior business dealings. The Executive Secretary stated that in the future, staff will request the sales tax report that the operator submits to the Tennessee Department of Revenue.

[13] The authority's fiscal year is October 1 through September 30.

[14] The operator was required to remit 3% of sales to the authority in calendar year 2016, 4% in calendar year 2017, and 5% in calendar year 2018.

Unsecured Personal Information

During our site visit to Beech River's office, we found that their personnel files were stored in an unlocked filing cabinet in a general use room of the agency. The Executive Director stated that he was not aware the files needed to be stored in a more secure manner. After making him aware, he informed us that the files have since been moved to a fire-proof and locked cabinet in an office.

Effect

It is important to note that during our audit of the authority, we did not find any indication that fraudulent activity had occurred. However, without strong internal controls in place, the risk of fraud, such as misappropriation of funds, increases. For example, if management does not segregate duties as much as possible or establish compensating controls, an employee could easily commit and conceal fraud. It also increases the risk that errors will go undetected. Furthermore, if the authority does not verify Redneck Island sales, it cannot ensure that it is receiving the percentage of sales the operator agreed to remit. And if the authority does not secure records containing sensitive information, personally identifiable information could be stolen and misused.

Recommendation

Management should establish compensating controls for inadequate segregation of duties to the extent possible at a smaller office. Also, if possible, the same individual should not be responsible for collecting cash, preparing deposits, posting the amounts to the accounting records, and reconciling the bank statements. Furthermore, expenditures should be reviewed by a member of management or a member of the board, and this review and approval should be documented.

Management should ensure that staff promptly deposit cash in accordance with best practices and that staff obtain adequate documentation before reimbursing retirees for their health insurance premiums.

To ensure the authority receives the correct amount from the Redneck Island operator, management should obtain a copy of the sales tax report or other documentation supporting the amounts on the sales summary.

Management should ensure that records containing sensitive information are properly secured with access only available to those with a legitimate need.

Management's Comment

We concur.

A. Unsupported expenditures:

Due to the unlikelihood of the two employees in question canceling Medigap insurance, we felt that the state premiums as posted on the state website were sufficient record for reimbursement. When this was brought to our attention, a call was made to both retired employees

asking for verifying information from TCRS documents they might have. Neither of them had kept any record. A call was also made to TCRS requesting verification, but due to the HIPAA Law, information could not be released. Upon receiving updated TCRS information to begin July 2019, showing their Medigap deduction, both retired employees brought a copy to the BRWDA [Beech River Watershed Development Authority] office. This verification was immediately forwarded to the state auditors. We will request the same documentation from retired employees on an annual basis.

B. Segregation of duties:

Cash receipts – Due to the fact that BRWDA employs only one clerical person, segregation of duties concerning receiving cash, making deposits, reconciling bank statements, etc., presents a challenge. However, the Executive Secretary will become responsible for the bank statement reconciliation.

C. Funds not deposited timely:

Due to an occasional oversight and the fact that the Administrative Assistant works part-time, untimely deposits can occur. However, in the future efforts will be made to deposit receipts on a timely basis.

D. Redneck Island Agreement:

As previously stated, we had not asked for a sales tax report, but in the future BRWDA will ask for the report for verification of revenue at the end of each calendar year.

E. Unsecured personal information:

As of August 2019, BRWDA has moved all files to a secured locked location.

Observation 1 – Beech River's management did not fully resolve the board oversight issues included in the prior audit report

Results of Prior Audit

The river basin agencies' July 2013 performance audit report found that some river basin agencies had inconsistent and inadequate internal controls. The report recommended that the Beech River Watershed Development Authority board should vote on an independent financial statement audit contract; a board member should sign the audit contract; the audit results should be presented to the board; and the board should have duplicate bank statements and copies of bank reconciliations mailed to the board chair for review. Management stated they would implement the procedures we recommended.

Results of Current Audit – Independent Financial Audit Contract

Section 64-11-101, *Tennessee Code Annotated*, requires the authority to file an independent financial audit with the Comptroller of the Treasury. The prior audit recommended that the Beech River's board of directors approve the selection of the independent financial

auditors and that the board chair sign the audit contract so the independent auditors would report to the board rather than to management.

During the current audit period, we noted that although the board voted to select the independent financial auditors, the Executive Secretary signed the contract rather than the board chair. The Executive Secretary stated that he was unaware that the board chair should sign the contract and will ensure the chair signs the contract going forward.

Results of Current Audit – Bank Statements

The prior audit recommended that Beech River's board chair receive a copy of the bank statements directly from Beech River's bank, along with a copy of the bank reconciliation performed by management. This was recommended to ensure the board received independent financial information in order to provide an appropriate level of oversight. We learned, however, that the board chair was only provided copies of the authority's bank statements and reconciliations by management. He did not receive a copy of the bank statements directly from the bank, creating the risk that management could alter the bank statements provided to conceal any potential fraud.

The Executive Secretary stated that he was not aware this was the recommendation in the prior audit and he will be sure to have statements forwarded directly to the board going forward.

When the board does not provide direct oversight of the authority's audit and finances, management could conceal information from the board, limiting the effectiveness of the board's oversight capabilities. Therefore, the board should continue to vote to select the authority's independent financial auditors and receive the financial auditors' report. The board chair should sign the contract with the audit firm. Additionally, the board chair should receive bank statements directly from the authority's bank, along with copies of the bank reconciliation performed by staff.

Observation 2 – Beech River's board of directors had attendance issues, and conflict-of-interest forms were not available for all members during the audit period

During our audit of the Beech River Watershed Development Authority, we found the following concerning the board of directors:

- one of eight board members did not attend three of four board meetings held during fiscal year 2017; and
- one of eight board members did not have a signed conflict-of-interest form on file for fiscal years 2017 and 2018, and all eight board members did not have signed conflict-of-interest forms on file for fiscal year 2019.

Also, the Commissioner of the Tennessee Department of Environment and Conservation is to serve as a non-voting advisory member, we found that the Commissioner did not attend any board meetings held during our audit period of July 1, 2016, through March 28, 2019. When we addressed this issue with authority management, we learned that authority staff did not notify the Commissioner's office of scheduled board meetings.

According to the authority's Administrative Assistant, board members are notified of board meetings, and any reason for member absences are unknown. Authority staff made previous attempts to notify the TDEC Commissioner of board meeting dates; however, no notifications were submitted during the audit period. Additionally, board members are supposed to complete the conflict-of-interest forms annually in June; however, the forms were mistakenly not collected for fiscal year 2019.

While it is reasonable that members may have to miss meetings from time to time, if board members are frequently absent, the board cannot ensure that a quorum will be present at each meeting and that all eight members are participating and representing their constituents, as prescribed by *Tennessee Code Annotated*. The absence of completed and signed conflict-of-interest forms provides no formal attestation that the board members understand the conflict-of-interest policy and disclose any potential conflicts.

The board chair, in conjunction with the Executive Secretary, should emphasize to all board members the importance of meeting attendance to achieve a physical quorum so the board can conduct business. In addition, the board chair and the Executive Secretary should ensure that all board members review the conflict-of-interest policy, document potential issues, and sign the form acknowledging their review and understanding of the policy.

Observation 3 – Beech River's management did not prepare a risk assessment

Beech River's management has not prepared an annual risk assessment to document the agency's potential risks or the corresponding internal controls. The preparation of a risk assessment is intended to aid management and the board in identifying risks which could affect the agency's overall mission, financial resources, or compliance with state law or other regulatory requirements.

The Executive Director stated that management had not completed a risk assessment because they were unaware it was required but that they would complete one going forward.

Section 9-18-102, *Tennessee Code Annotated,* requires each state government agency to annually assess risks and corresponding internal controls. Additionally, the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book) provides a comprehensive framework for internal control practices in federal agencies and serves as a best practice for other government agencies. Section 7.01 states that "management should identify, analyze, and respond to risks related to achieving defined objectives." Section 2.09 also states that the oversight body, the authority's board of directors, "oversees management's design, implementation, and operation of the entity's internal control system," including the risk assessment. It also states that the oversight body should oversee "management's assessment of risks to the achievement of objectives."

Management should conduct an annual risk assessment to identify any risks that could prevent the authority from meeting its objectives, including those related to compliance with laws and financial matters such as fraud, waste, and abuse. For those risks deemed to be either a high likelihood of occurrence or a high impact if occurring, management should identify internal controls to prevent and detect the occurrence. Management should prepare this risk assessment in cooperation with the board, which should annually approve and update the risk assessment.

Observation 4 – Beech River's board of directors did not have a policy governing the retention and disposition of records

State law requires the Public Records Commission to determine and order the proper disposition of the state's public records[15] and to direct the Tennessee Department of State's Records Management Division to initiate any action necessary to establish the regulation of record holding and management in any state agency. In order to achieve efficient control and regulation of public records, the Records Management Division uses Records Disposition Authorizations (RDAs), which are retention schedules detailing how to maintain public records.

Based on our office's legal research, including past state Attorney General opinions, the river basin agencies possess qualities of state agencies for some purposes and qualities of independent, non-state agencies for other purposes. Based on inquiries with the Tennessee Secretary of State's office, the river basin agencies are not subject to the state's Public Records Commission's authority; therefore, they do not have to follow the state's RDAs. While the law is ambiguous about whether the river basin agencies are state agencies for purposes of the Tennessee Public Records Act, the statute includes provisions for state, county, and municipal governments; therefore, it is clearly the intent for all government entities to adopt appropriate record retention and disposition policies. Public officials are legally responsible for creating and maintaining records to provide evidence of government operations and accountability to citizens.

Management at Beech River Watershed Development Authority stated that the board of directors and management have not adopted a policy governing the retention and disposition of public records. While the authority claims to follow the independent auditor's recommendation to retain records for five years, the authority's board and management should adopt an official policy for the authority's records.

A records retention and disposition policy should include a retention schedule, details concerning how all types of records will be archived and safeguarded, and the method for proper disposal. The authority may wish to consult with the state's Public Records Commission or the municipal technical advisory service in accordance with Section 10-7-702, *Tennessee Code Annotated*, to determine best practices regarding retention schedules, the safeguarding of archived records, and the secure disposition of records.

[15] Section 10-7-301(6), *Tennessee Code Annotated*, defines public records as "all documents, papers, letters, maps, books, photographs, microfilms, electronic data processing files and output, films, sound recordings, or other material, regardless of physical form or characteristics made or received pursuant to law or ordinance or in connection with the transaction of official business by any governmental agency."

CARROLL COUNTY WATERSHED AUTHORITY

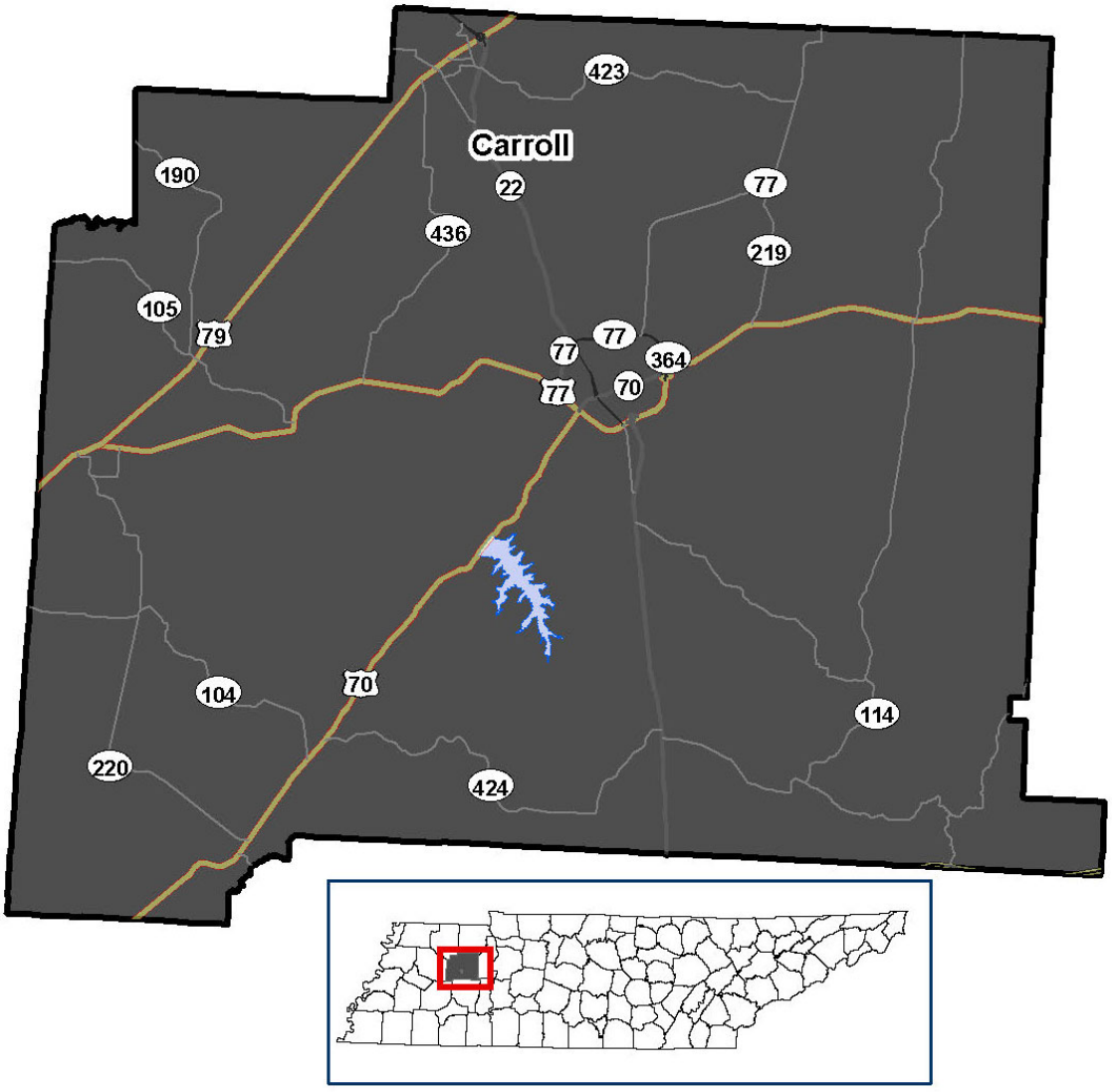


Boat ramp on the lake at the Carroll County Watershed Authority.
Source: Auditor photo.



Carroll County lake headquarters.
Source: Auditor photo.

Carroll County Watershed Authority



CARROLL COUNTY WATERSHED AUTHORITY

KEY CONCLUSIONS

Our audit work related to the Carroll County Watershed Authority (Carroll County Authority) resulted in the following key conclusions:

PARTIALLY RESOLVED FINDING

The prior audit report contained a finding stating that

- Carroll County Watershed Authority did not have sufficient board oversight of their independent audit contracts and finances, and
- the board chair did not receive bank reconciliations from the authority and bank statements directly from the bank.

The current audit disclosed that

- while the Carroll County Watershed Authority board voted on the independent audit, the board Secretary-Treasurer signed the contract instead of the board chair, and
- the authority sent the board chair bank reconciliations as recommended; however, the authority sent the board chair copies of their bank statements rather than the bank sending them directly.

For more information, see **Observation 5**.

FINDINGS

Finding 2 – Carroll County Authority's management did not design and implement adequate internal controls over revenues and expenditures

Finding 3 – Carroll County Authority's board of directors did not have a conflict-of-interest policy, and one board member did not consistently attend meetings during fiscal year 2018

OBSERVATIONS

Observation 5 – Carroll County Authority's management did not fully resolve the board oversight issues included in the prior audit report

Observation 6 – Carroll County Authority's management did not prepare a risk assessment

Observation 7 – Carroll County Authority's board of directors did not have a policy governing the retention and disposition of records

Finding 2 – Carroll County Authority's management did not design and implement adequate internal controls over revenues and expenditures

Conditions and Cause

Carroll County Watershed Authority's (Carroll County Authority) board of directors and management are responsible for establishing policies and procedures known as internal controls to ensure the proper safeguarding and accounting for assets and compliance with laws. Section 9-18-102, *Tennessee Code Annotated*, requires each state agency and local government to establish and maintain internal controls to provide reasonable assurance that obligations and costs are in compliance with laws; assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly accounted for and recorded. Based on our discussions with staff and our revenues and expenditures testwork, we identified several internal control deficiencies over the cash receipting and expenditure processes.

Segregation of Duties Criteria

The U.S. Government Accountability Office's Standards for Internal Control in the Federal Government (Green Book) provides a comprehensive framework for internal control practices in federal agencies and serves as a best practice for other government agencies.

Section 10.03 states,

> Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Segregation of Duties

Cash Receipts

We found that the authority's cash receipting process does not include an adequate segregation of duties. Specifically, in most cases, the Accounting Clerk receives payments, prepares deposits, posts the payments to the accounting records, and reconciles the bank statements. According to the authority's independent audit reports, it received fees from the public totaling $72,395 in fiscal year 2017 and $120,629 in fiscal year 2018.

While only three Town of Huntingdon staff members perform work on behalf of the authority, that is enough to allow for greater segregation of these duties or to introduce compensating controls. The Recording Secretary pointed out that she reviewed the bank reconciliations prepared by the Accounting Clerk; however, this alone is not enough to mitigate the risk of undetected errors, noncompliance, fraud, waste, and abuse.

Carroll County Thousand Acre Recreation Lake Lock Box

Carroll County Authority charges fees for recreational use of its lake. While employees are on-site to collect recreational use fees during business hours, visitors after hours are on an

"honor system" to place their fees in a lock box. Because there are no employees present after hours, it is impossible to verify that all visitors paid the fee. The following morning, the first authority employee arriving at work unlocks the box and retrieves the cash. There may not be another employee there to witness the process. Visitors pay their fees using sequentially numbered envelopes; however, visitors do not always use the envelopes in sequential order, making it impossible to determine if any envelopes are missing.

We discussed these issues with the board Secretary-Treasurer, and Recording Secretary, who stated that they would try to implement a process for two employees to open the lock box together; however, they noted that two employees were not always present at the lake each day and stated that it would be a greater risk to leave cash uncollected from the lock box until a second employee arrives. However, cash is already left there overnight from the previous evening and on any other days in which the lake offices are closed.

Expenditure Approval

Based on our inquiries and testwork, we noted that there is not always a documented independent review and approval of expenditures. Normally, the Accounting Clerk initiates the expenditure and the Recording Secretary approves the voucher. However, we found that for 4 of 25 expenditure items tested (16%), the Recording Secretary initiated the voucher and there was no documented independent review and approval of the expenditure.

The Recording Secretary stated that Carroll County Authority's purchasing policy does not require approval for any expenditures under $4,000. She also pointed out that she provided the board Secretary-Treasurer with all supporting documentation of expenditures when he signed checks; however, the board Secretary-Treasurer did not document his approval on the voucher. The board Secretary-Treasurer and Recording Secretary agreed that when the Recording Secretary initiates an expenditure, the board Secretary-Treasurer could record his approval on the voucher to ensure an adequate segregation of duties.

Sunset Grill Agreement

Carroll County Authority maintains a building used for the grill and concession stand at the lake. Authority management has an informal agreement with the grill operator to remit 5% of sales, up to $500 per month. The authority and the operator did not, however, sign an official agreement.

Sunset Grill Agreement Criteria

Green Book Section 5.05 states, "Management holds service organizations accountable."

Additionally, Carroll County Authority did not receive any documentation of sales to determine if the amounts it received were correct. The Accounting Clerk stated that management had considered requiring a copy of the sales tax report the operator submits to the Department of Revenue but had not yet done so.

Effect

It is important to note that during our audit of the Carroll County Authority, we did not find any of fraudulent activity. However, without strong internal controls in place, the risk of fraud, such as misappropriation of funds, increases. For example, if management does not either segregate duties as much as possible or establish compensating controls, an employee could easily commit and conceal fraud or errors could go undetected. Furthermore, if the authority does not verify the grill operator's sales, it cannot ensure that it is receiving the percentage of sales the operator agreed to remit.

Recommendation

The board Secretary-Treasurer and board chair should work with the Recording Secretary and Accounting Clerk to adequately segregate duties at an office of its size to the extent possible. If possible, the same individual should not be responsible for collecting cash, preparing deposits, posting the amounts to the accounting records, and reconciling the bank statements. The board Secretary-Treasurer and board chair should also consider the feasibility of creating a policy requiring two staff members to be present when collecting and counting cash from the lock drop box at the lake. In addition, a member of management or a member of the board should review and approve all expenditures.

Authority management should formalize the agreement with Sunset Grill's operator and seek to obtain supporting documentation from the operator of sales remitted to the authority.

Management's Comment

We concur that management has not established policies and procedures to ensure adequate internal controls over revenues and expenditures. The board will work to adequately segregate duties at an office of this size to the extent possible. The board will also consider creating a policy requiring two staff members to be present when collecting and counting cash from the lock drop box at the lake.

We concur that a member of management or a member of the board should review and approve all expenditures. We concur that authority management should formalize the agreement with Sunset Grill's operator and seek to obtain supporting documentation from the operator of sales remitted to the authority.

We concur that authority management should formalize the agreement with Sunset Grill's operator and seek to obtain supporting documentation from the operator of sales remitted to the authority.

Finding 3 – Carroll County Authority's board of directors did not have a conflict-of-interest policy, and one board member did not consistently attend meetings during fiscal year 2018

Condition and Cause

Based on our discussion with staff and testwork performed, we found that the Carroll County Watershed Authority's (Carroll County Authority) board of directors

- did not establish a conflict-of-interest policy and annual disclosure form for actual or potential conflicts, and
- had one member who did not attend six of nine board meetings (67%) held in fiscal year 2018.

The Secretary-Treasurer agreed that the lack of a conflict-of-interest policy and disclosure form is a problem and that the board should establish a policy. Additionally, according to the Secretary-Treasurer, the board member was absent due to other commitments and prior engagements.

Criteria

As a best practice, board members should annually review a conflict-of-interest policy, disclose potential conflicts, and sign a disclosure form to acknowledge that they reviewed the policy. Also, board members should attend at least half of the board meetings held each fiscal year during their tenure on the board to ensure that each member is actively participating in board business.

Effect

Without a conflict-of-interest policy and disclosure form for potential conflicts, board members do not have a documented method to acknowledge potential conflicts and the impact of those conflicts on the board and Carroll County Authority.

While it is reasonable that members may have to miss meetings from time to time, if board members are frequently absent, the board cannot ensure that a quorum will be present at each meeting and that all six members are participating and representing their counties, as prescribed by statute.

Recommendation

The board chair, in conjunction with the Secretary-Treasurer, should institute a conflict-of-interest policy and should have board members annually review the policy, document any conflicts of interest, and sign the form to show they acknowledge policy's requirements.

The board chair and the Secretary-Treasurer should emphasize to all board members the importance of attending meetings to achieve a physical quorum so that the board can conduct business and vote. Additionally, the board chair and the Secretary-Treasurer should implement

procedures to inform the appointing authority when a member is not attending meetings and actively participating in board business. They should also consider creating an attendance policy to encourage all members' attendance.

Management's Comment

We concur that the board should institute a conflict-of-interest policy and should have board members annually review the policy, document any conflicts of interest, and sign the form to show they acknowledge the policy's requirements.

We concur that the board chair should emphasize to all board members the importance of attending meetings to achieve a physical quorum so that the board can conduct business and vote. We concur that the board should also consider creating an attendance policy to encourage all members' attendance.

Observation 5 – Carroll County Authority's management did not fully resolve the board oversight issues included in the prior audit report

Results of Prior Audit

In the river basin agencies' July 2013 performance audit report, we found that some of the agencies had inconsistent and inadequate internal controls. The report recommended that Carroll County Watershed Authority board should continue to vote on an independent financial statement audit contract; the board chair should sign the audit contract; the audit results should be presented to the board; and the board should have duplicate bank statements and copies of bank reconciliations mailed to the board chair for review. Management stated they would implement the procedures we recommended.

Results of Current Audit – Independent Financial Audit Contract

Section 64-11-101, *Tennessee Code Annotated*, requires the authority to file an independent financial audit with the Comptroller of the Treasury. The prior audit recommended that Carroll County Authority's board of directors approve the selection of the independent financial auditors and that the board chair sign the audit contract so the independent auditors would report to the board rather than to management.

During the current audit period, we noted that although the board voted to select the independent financial auditors, the board Secretary-Treasurer signed the contract rather than the board chair. The board Secretary-Treasurer said that he had signed the contract since he was the one present in the office, but he would ensure the board chair signed the contract going forward.

Results of Current Audit – Bank Statements

The prior audit recommended that Carroll County Authority's board chair receive a copy of the authority's bank statements directly from Carroll County Authority's bank, along with a

copy of the bank reconciliation performed by management. This was recommended to ensure the board received independent financial information in order to provide an appropriate level of oversight. We learned, however, that the board chair was only provided copies of the bank statements and reconciliations by management. He did not receive a copy of the bank statements directly from the bank, creating the risk that management could alter the bank statements provided to conceal any potential fraud.

The Recording Secretary indicated that management did not realize this was the recommendation of the prior audit. Immediately after being informed, the Recording Secretary provided documentation that arrangements were made with their bank to send monthly statements directly to the chair.

When the board does not provide direct oversight of the authority's audit and finances, management could conceal information from the board, limiting the effectiveness of the board's oversight capabilities. Therefore, the board should also continue to vote to select the independent financial auditors and should receive the financial auditors' report. The board chair should sign the contract with the audit firm. The board chair should continue to receive bank statements directly from the authority's bank, along with copies of the bank reconciliation performed by staff.

Observation 6 – Carroll County Authority's management did not prepare a risk assessment

Carroll County Authority's management has not prepared a risk assessment to document the agency's potential risks or the corresponding internal controls. The preparation of a risk assessment is intended to aid management and the board in identifying risks which could affect the agency's overall mission, financial resources, or compliance with state law or other regulatory requirements.

The board Secretary-Treasurer and the Recording Secretary stated that management had not completed a risk assessment because they were unaware it was required but that they would complete one going forward.

Section 9-18-102, *Tennessee Code Annotated,* requires each state government agency to annually assess risks and corresponding internal controls. Additionally, the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book) provides a comprehensive framework for internal control practices in federal agencies and serves as a best practice for other government agencies. Section 7.01 states that "management should identify, analyze, and respond to risks related to achieving defined objectives." Section 2.09 also states that the oversight body, the authority's board of directors, "oversees management's design, implementation, and operation of the entity's internal control system," including the risk assessment. It also states that the oversight body should oversee "management's assessment of risks to the achievement of objectives."

Management should conduct an annual risk assessment to identify any risks that could prevent the authority from meeting its objectives, including those related to compliance with laws and financial matters such as fraud, waste, and abuse. For those risks deemed to be either a high

likelihood of occurrence or a high impact if occurring, management should identify internal controls to prevent and detect the occurrence. Management should prepare this risk assessment in cooperation with the board of directors, which should annually approve and update the risk assessment.

Observation 7 – Carroll County Authority's board of directors did not have a policy governing the retention and disposition of records

State law requires the Public Records Commission to determine and order the proper disposition of the state's public records[16] and to direct the Tennessee Department of State's Records Management Division to initiate any action necessary to establish the regulation of record holding and management in any state agency. In order to achieve efficient control and regulation of public records, the Records Management Division uses Records Disposition Authorizations (RDAs), which are retention schedules detailing how to maintain public records.

Based on our office's legal research, including past state Attorney General opinions, the river basin agencies possess qualities of state agencies for some purposes and qualities of independent, non-state agencies for other purposes. Based on our inquiries with the Tennessee Secretary of State's office, the river basin agencies are not subject to the state's Public Records Commission's authority; therefore, they do not have to follow the state's RDAs. While the law is ambiguous about whether the river basin agencies are state agencies for purposes of the Tennessee Public Records Act, the statute includes provisions for state, county, and municipal governments; therefore, it is clearly the intent for all government entities to adopt appropriate record retention and disposition policies. Public officials are legally responsible for creating and maintaining records to provide evidence of government operations and accountability to citizens.

The Secretary-Treasurer and Recording Secretary at Carroll County Authority stated that the board of directors and management have not adopted a policy governing the retention and disposition of public records; however, they explained that the authority follows the Town of Huntingdon's policy since the authority shares staff with the town. While the authority states that they follow the town's policy, the board and management should adopt an official policy.

The policy should include a retention schedule, details concerning how all types of records will be archived and safeguarded, and the method for proper disposal. The board's Secretary-Treasurer may wish to consult with the state's Public Records Commission or the municipal technical advisory service in accordance with Section 10-7-702, *Tennessee Code Annotated*, to determine best practices regarding retention schedules, the safeguarding of archived records, and the secure disposition of records.

[16] Section 10-7-301(6), *Tennessee Code Annotated*, defines public records as "all documents, papers, letters, maps, books, photographs, microfilms, electronic data processing files and output, films, sound recordings, or other material, regardless of physical form or characteristics made or received pursuant to law or ordinance or in connection with the transaction of official business by any governmental agency."

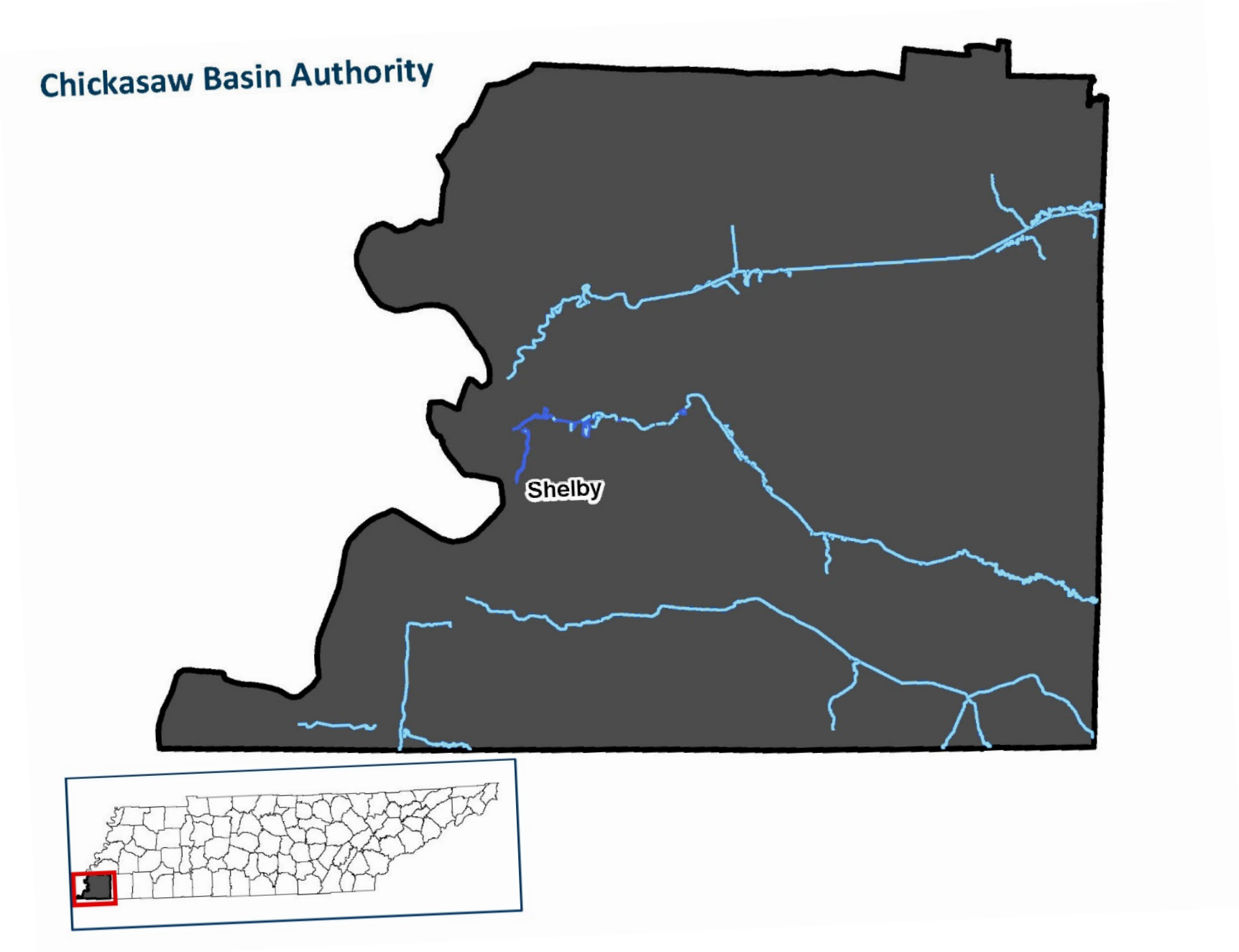
CHICKASAW BASIN AUTHORITY



Signage for the greenway trail system at the Chickasaw Basin Authority.
Source: Photo provided by auditee.



Dam repair at Chickasaw Lake in Shelby Farms Park.
Source: Photo provided by auditee.


Chickasaw Basin Authority
Shelby

CHICKASAW BASIN AUTHORITY

KEY CONCLUSIONS

Our audit work related to the Chickasaw Basin Authority (Chickasaw) resulted in the following key conclusions:

REPEAT FINDING

The prior audit report contained a finding stating that Chickasaw Basin Authority did not submit a budget to the Tennessee Department of Environment and Conservation (TDEC) each year.

The current audit disclosed that although the Chickasaw Executive Director stated that he submitted the budget to TDEC, he did not maintain documentation of his submission, and TDEC staff could not find any documentation that they had received Chickasaw's budget.

For more information, see **Finding 5**.

FINDINGS

Finding 4 – Chickasaw's management did not design and implement adequate internal controls over expenditures and did not obtain an independent financial statement audit as statutorily required

Finding 5 – Chickasaw's management could not provide documentation showing that they submitted annual budgets to the Department of Environment and Conservation

Finding 6 – Chickasaw's board of directors had vacancies, board attendance issues, quorum issues, and a county was participating that was not permitted by statute

OBSERVATIONS

Observation 8 – Chickasaw's board of directors did not obtain all conflict-of-interest policy disclosure statements annually

Observation 9 – Chickasaw's management did not prepare a risk assessment

Observation 10 – Chickasaw's board of directors did not have a policy governing the retention and disposition of records

Finding 4 – Chickasaw's management did not design and implement adequate internal controls over expenditures and did not obtain an independent financial statement audit as statutorily required

Conditions and Cause

The Chickasaw Basin Authority's (Chickasaw) board and management have a responsibility to establish policies and procedures known as internal controls to ensure the proper safeguarding and accounting for assets and compliance with laws. Section 9-18-102, *Tennessee Code Annotated*, requires each state agency and local government to establish and maintain internal controls to provide reasonable assurance that obligations and costs are in compliance with laws; assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly accounted for and recorded. Based on our discussions with staff, we identified two internal control deficiencies.

Insufficient expenditure documentation

As noted in the background section of this report, Chickasaw is closely related to Shelby County Government. Chickasaw is staffed by Shelby County Public Works employees who spend a portion of their work hours on authority business.

Insufficient Expenditure Documentation Criteria

Tennessee Department of Finance and Administration Policy 4, Section 7 states, "An improper payment means any payment...where insufficient or lack of documentation prevents a reviewer from discerning whether a payment was proper."

Based on our inquiries and testwork, we found that for 2 of 25 expenditure items tested (8%), management did not retain sufficient documentation of services performed for payment. Both items related to annual payments of $35,170 Chickasaw made to Shelby County Government for the authority work Shelby County Government employees performed. Supporting documentation for these payments, the journal entry detail sheet and the Chickasaw fund budget, only included the description, "County Staff aiding with CBA [Chickasaw Basin Authority]." The duties Shelby County Government employees performed or the number of hours they worked on authority business was not documented.

According to the Executive Director, there is no written agreement between Chickasaw and Shelby County Government to specify what authority-related work Shelby County Government employees will perform or the rate Chickasaw will pay Shelby County Government for the services. Rather, he stated that the $35,170 payments were included in annual budgets presented to the Chickasaw board. Therefore, the board was aware of the payments, although the board did not formally approve the budgets. According to The Executive Director, in approximately 2011, the $35,170 annual payment amount was agreed to by Chickasaw and Shelby County Government, but the agreement was never formalized in writing, and the annual payment amount has not been changed. He stated that he did not work for Chickasaw when the agreement was put in place.

No independent financial audits

Management did not ensure that annual independent financial audits were performed. The Executive Director stated that he believed that Shelby County Government's independent audits served as independent audits of Chickasaw funds because they are accounted for in Shelby County's accounting system; he was also unaware of the statutory requirement. Although Shelby County performs the accounting functions for the authority, based on our review of Shelby County's independent financial audit reports, we could not determine that Chickasaw funds were part of the scope of the audit.

Independent Audit Criteria

Section 64-11-101 *Tennessee Code Annotated*, states that each river basin agency "must file an annual financial audit with the comptroller of the treasury…"

Effect

During our audit, we did not find any indication that fraudulent activity had occurred at Chickasaw. Without strong internal controls in place, however, the risk of undetected errors, noncompliance, fraud, waste, and abuse increases.

Recommendation

Management should ensure that documentation for all expenditures, including payments to the Shelby County Government, contain sufficient documentation to ensure that payment amounts are reasonable and that services are allowable.

Management should ensure that an annual independent financial audit is performed of Chickasaw Basin's financial information.

Management's Comment

The Chickasaw Basin Authority concurs with **Finding 4**, and will take the corresponding action.

Action Taken Regarding Insufficient Expenditure Documentation:

In order to better design and implement internal controls over the expenditures of the Chickasaw Basin Authority (CBA), the Board of Directors will:

A. Hire an Executive Director through a formal request for proposals.

B. Execute a written agreement between the CBA and Shelby County Government for the authority work performed by Shelby County Government.

Either action will include documentation of the rate paid to CBA staff, their duties, hours and responsibilities. Subsequent management will ensure ongoing documentation for all expenditures including payments to Shelby County Government.

Action Taken Regarding No Independent Financial Audits:

In order to ensure that annual financial audits are performed in accordance with statutory requirements, the Board of Directors will:

A. Execute a contract for an independent financial audit.

Finding 5 – Chickasaw's management could not provide documentation showing that they submitted annual budgets to the Department of Environment and Conservation

Conditions and Cause

In the prior audit report, we found that the Chickasaw Basin Authority (Chickasaw) did not submit its annual budget to the Department of Environment and Conservation (TDEC) Commissioner as required by statute. In their response to the finding, management stated that they would comply.

Budget Submission Criteria

Section 64-1-205, *Tennessee Code Annotated*, states,

> By October 1 of each year, the authority [Chickasaw] shall transmit to the commissioner of environment and conservation an estimated budget . . . for the next fiscal year.

During the current audit, the Executive Director stated that he submitted annual estimated budgets to the TDEC Commissioner for every fiscal year beginning with 2015; however, the Executive Director stated that he sent the budgets by unregistered postal mail only, so he has no email records or documentation that the budgets were received. To see if the department received the budgets, we asked TDEC's Director of Internal Audit, who was unable to find any. As a result, we were unable to verify that he submitted annual estimated budgets for fiscal years 2017, 2018, and 2019.

Effect

By not ensuring that annual estimated budgets are received by TDEC staff, management failed to ensure that annual budget requests and corresponding appropriation justifications are properly reviewed by TDEC and included in the Governor's budget recommendations.

Recommendation

Chickasaw's management should ensure that annual estimated budget requests are submitted to, and received by, the Commissioner of the Tennessee Department of Environment and Conservation. Chickasaw's management should retain documentation showing that the budget was submitted as required.

Management's Comment

The Chickasaw Basin Authority concurs with **Finding 5**.

Action Taken Regarding Submission of Annual Budgets:

To improve budgeting processes and ensure documentation of annual submission to the Tennessee Department of Environment and Conservation, the Chickasaw Basin Authority (CBA) has established a budget committee and process for annual submission. The budget committee is tasked with preparing and presenting an annual budget for approval of the full CBA. Once approved by the full CBA, the Chairman will submit the annual budget request to the Commissioner of the Tennessee Department of Environment and Conservation via certified mail and electronic mail. CBA staff will retain documentation showing that the budget was submitted as required.

Finding 6 – Chickasaw's board of directors had vacancies, board attendance issues, quorum issues, and a county was participating that was not permitted by statute

Condition and Cause

During our audit of the Chickasaw Basin Authority, we found the following concerning the board of directors:

- 3 of 14 board seats were vacant as of the last board meeting during the audit period held on September 10, 2018, and were still vacant through the end of field work;
- 4 members did not attend the board meeting held in fiscal year 2017, 6 board members did not attend at least 50% of board meetings held during fiscal year 2018, and 7 members did not attend 50% of board meetings held in 2019; and
- due to vacant seats and lack of attendance, four of the five board meetings held during our audit period did not meet quorum requirements as established by statute.

Additionally, Fayette County has been participating in board meetings but is not listed as a participating county in Section 64-1-212, *Tennessee Code Annotated.*[17] The Executive Director

[17] Section 64-1-212, *Tennessee Code Annotated* authorizes Shelby and Tipton Counties to participate in the Chickasaw Basin Authority expressed by means of a resolution to that effect, passed by each or all of the respective legislative bodies of the counties involved. We found no evidence of Tipton County passing a resolution, and they are not actively participating.

stated that he is not aware of any votes conducted by the Fayette County legislature to join the authority. According to the Fayette County Mayor, a resolution to join the authority was passed in 1993 to participate in the authority; however, we do not believe Fayette County is statutorily permitted to participate.

According to the Executive Director, the three vacant board seats are an issue, and the appointing authorities for each respective vacancy have been contacted.

The Executive Director stated that he does not consider member absences to be an issue and does not know why members were absent. He added that members are notified of board meetings.

According to the Executive Director, a quorum is reached if half of the board members are in attendance, and the board attorney determines if a quorum has been reached. According to Shelby County staff, a quorum is reached when seven members are in attendance.

Criteria

Vacant board seats should be filled according to Section 64-1-203, *Tennessee Code Annotated* as follows:

> **(i)** The presiding officer of the county legislative body or the presiding officer's authorized representative and one (1) other member from the county legislative body in each county that is a member of the authority. The terms of such members shall coincide with their terms of office; but such membership may, at the discretion of the respective county legislative body, be rotated annually;
>
> **(ii)** The chair or the chair's authorized representative and one (1) member of the council of the city of Memphis. The terms of such members shall coincide with their terms of office, but such membership may, at the discretion of the council, be rotated annually;
>
> **(iii)** One (1) member at large, to be appointed by the governor to serve during the governor's term of office;
>
> **(iv)** The mayor of Shelby County or the mayor's authorized representative;
>
> **(v)** One (1) member from each county soil conservation district board of supervisors from each county that is a member of the authority, as established under title 43, chapter 14, part 2. The term of such member shall coincide with the member's term of office on the district board, but such membership may, at the discretion of the district board, be rotated annually; and
>
> **(vi)** The mayor, or the mayor's authorized representative, of each incorporated municipality within counties that are members of the authority.

As best practice, board members should attend at least half of the board meetings held each fiscal year during their tenure on the board to ensure that each member is actively participating in board business. The board should follow quorum policy established by Section 64-1-203, *Tennessee Code Annotated,* and if unable to reach a quorum, reschedule the meeting when enough members are able to participate. Chickasaw's board should follow county participation as outlined according to Section 64-1-212(a), *Tennessee Code Annotated*:

> **(a)** This part applies to Shelby and Tipton counties for the purpose of implementing the programs established in this part, and any or all of these counties are hereby expressly authorized by the general assembly to participate in the programs established. However, prior to participation in such programs, the county legislative bodies of Shelby and Tipton counties shall express their desire to participate in the programs, by means of a resolution to that effect, passed by each or all of the respective local legislative bodies of the counties involved.

Effect

Due to the vacant seats, the board does not have the statutorily required number of members as required by Section 64-1-203, *Tennessee Code Annotated*. Board meetings have been held, business has been conducted, and votes have been taken without reaching the quorum requirement as established by Section 64-1-203(c), *Tennessee Code Annotated*. Chickasaw's board is not properly composed of the counties listed in statute.

Recommendation

Chickasaw's board chair, in conjunction with the Executive Director, should work with the respective appointing authorities to fill the vacant board seats.

The board chair and Executive Director should emphasize to all board members the importance of attending board meetings to achieve a physical quorum and rescheduling meetings when a quorum is not reached.

The board chair, working in conjunction with the Executive Director, should work with Fayette County and the general assembly to determine if Fayette County can participate and the actions the authority would need to undertake for their inclusion as an appointing authority

Management's Comment

The Chickasaw Basin Authority concurs with **Finding 6**, with the exception of quorum issues (See **Exhibit A** regarding the inclusion of Fayette County board members).

Action Taken Regarding Vacancies:

The Chickasaw Basin Authority Chairman and Executive Director will work with respective appointing authorities to fill the remaining vacant board seats. The CBA has filled 1 of 3 board seats that were vacant as of September 10, 2018. Memphis City Councilman J. Ford

Canale has filled the designated City of Memphis seat. The two remaining vacancies are the Shelby County Legislative Presiding Officer's, and the Governor's appointee. Both appointing authorities for each respective vacancy have been contacted. As a note, a new Chairman of the Shelby County Board of Commissioners was selected in August 2019 and will be making a selection in the forthcoming months.

Action Taken Regarding Board Attendance Issues and Quorum Issues:

The Executive Director and Chairman of the Chickasaw Basin Authority has emphasized the importance of attending board meetings to board members and will achieve quorum for future meetings in accordance with statutory requirements.

Action Taken Regarding the Participation of Fayette County:

The Shelby County Attorney's Office has advised that Fayette County is an authorized member of the Chickasaw Basin Authority. The Chickasaw Basin Authority considers Fayette County as a member and, as such, Fayette County can continue to participate as a member of the Authority. However, the Chickasaw Basin Authority will take steps to clarify any ambiguity in its enabling legislation regarding county members.

Exhibit A
Letter to Chickasaw Basin Authority Regarding Fayette County

Shelby County Government

LEE HARRIS
MAYOR

MARLINEE C. IVERSON
COUNTY ATTORNEY

August 22, 2019

Mr. Tom Needham, Chairman
Chickasaw Basin Authority
c/o BSG Engineering
7965 Veterans Parkway, Suite 108
Millington, TN 38053

Re: County Members of the Chickasaw Basin Authority

You inquired as to whether Fayette County is a member of the Chickasaw Basin Authority. I have reviewed the organic statute for the Chickasaw Basin Authority codified in T.C.A. §64-1-201 et seq. Pursuant to an analysis of the plain language and legislative intent of the statute, Fayette County is a county member of the Chickasaw Basin Authority.

Sincerely,

Esther Sykes-Wood

Esther Sykes-Wood
Assistant County Attorney

cc: Cliff Norville, Executive Director, Chickasaw Basin Authority

VASCO A. SMITH, JR. ADMINISTRATION BUILDING
160 North Main Street, Suite 950 • Memphis, TN 38103 • 901-222-2100 • Fax 901-222-2105
www.shelbycountytn.gov

Observation 8 – Chickasaw's board of directors did not obtain all conflict-of-interest policy disclosure statements annually

During our audit of the Chickasaw Basin Authority, we found that conflict-of-interest forms were not obtained for any board members in fiscal years 2017 and 2018, and nine of twelve members did not sign a statement for fiscal year 2019 (75%).

According to the Executive Director, the conflict-of-interest policy used by the board is the same policy established by the Shelby County Government. Members are asked to review and sign the policy, but he has been unsuccessful in getting the members to do so.

Board members should submit conflict-of-interest disclosures annually. The board chair, in conjunction with the Executive Director, should emphasize to all board members the importance of the conflict-of-interest policy; modify the form to allow members to disclose potential conflicts; and ensure that board members review the policy, document any potential conflicts, and sign the form.

Observation 9 – Chickasaw's management did not prepare a risk assessment

Chickasaw Basin Authority's management has not prepared an annual risk assessment to document the agency's potential risks or the corresponding internal controls. The preparation of a risk assessment is intended to aid management and the board in identifying risks that could affect the agency's overall mission, financial resources, or compliance with state law or other regulatory requirements.

The Executive Director stated that he was unaware that a risk assessment was to be conducted and documented.

Section 9-18-102, *Tennessee Code Annotated,* requires each state government agency to annually assess risks and corresponding internal controls. Additionally, the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book) provides a comprehensive framework for internal control practices in federal agencies and serves as a best practice for other government agencies. Section 7.01 states that "management should identify, analyze, and respond to risks related to achieving defined objectives." Section 2.09 also states that the oversight body, the authority's board of directors, "oversees management's design, implementation, and operation of the entity's internal control system," including the risk assessment. It also states that the oversight body should oversee "management's assessment of risks to the achievement of objectives."

Management should conduct an annual risk assessment to identify any risks that could prevent the authority from meeting its objectives, including those related to compliance with laws and financial matters such as fraud, waste, and abuse. For those risks deemed to be either a high likelihood of occurrence or a high impact if occurring, management should identify internal controls to prevent and detect the occurrence. Management should prepare this risk assessment in cooperation with the board, which should annually approve and update the risk assessment.

Observation 10 – Chickasaw's board of directors did not have a policy governing the retention and disposition of records

State law requires the Public Records Commission to determine and order the proper disposition of the state's public records[18] and to direct the Tennessee Department of State's Records Management Division to initiate any action necessary to establish the regulation of record holding and management in any state agency. In order to achieve efficient control and regulation of public records, the Records Management Division uses Records Disposition Authorizations (RDAs), which are retention schedules detailing how to maintain public records.

Based on our office's legal research, including past state Attorney General opinions, the river basin agencies possess qualities of state agencies for some purposes and qualities of independent, non-state agencies for other purposes. Based on inquiries with the Tennessee Secretary of State's office, the river basin agencies are not subject to the state's Public Records Commission's authority; therefore, they do not have to follow the state's RDAs. While the law is ambiguous about whether the river basin agencies are state agencies for purposes of the Tennessee Public Records Act, the statute includes provisions for state, county, and municipal governments; therefore, it is clearly the intent for all government entities to adopt appropriate record retention and disposition policies. Public officials are legally responsible for creating and maintaining records to provide evidence of government operations and accountability to citizens.

Management at Chickasaw Basin Authority stated that the board of directors and management have not adopted a policy governing the retention and disposition of public records; however, they explained that they follow Shelby County government's policy, since the authority shares staff with them. While the authority states that they follow the county's policy, the authority's board and management should adopt an official policy for its records.

[18] Section 10-7-301(6), *Tennessee Code Annotated*, defines public records as "all documents, papers, letters, maps, books, photographs, microfilms, electronic data processing files and output, films, sound recordings, or other material, regardless of physical form or characteristics made or received pursuant to law or ordinance or in connection with the transaction of official business by any governmental agency."

The policy should include a retention schedule, details concerning how all types of records will be archived and safeguarded, and the method for proper disposal. The Executive Director may wish to consult with the state's Public Records Commission or the municipal technical advisory service in accordance with Section 10-7-702, *Tennessee Code Annotated*, to determine best practices regarding retention schedules, the safeguarding of archived records, and the secure disposition of records.

SEQUATCHIE VALLEY PLANNING AND DEVELOPMENT AGENCY

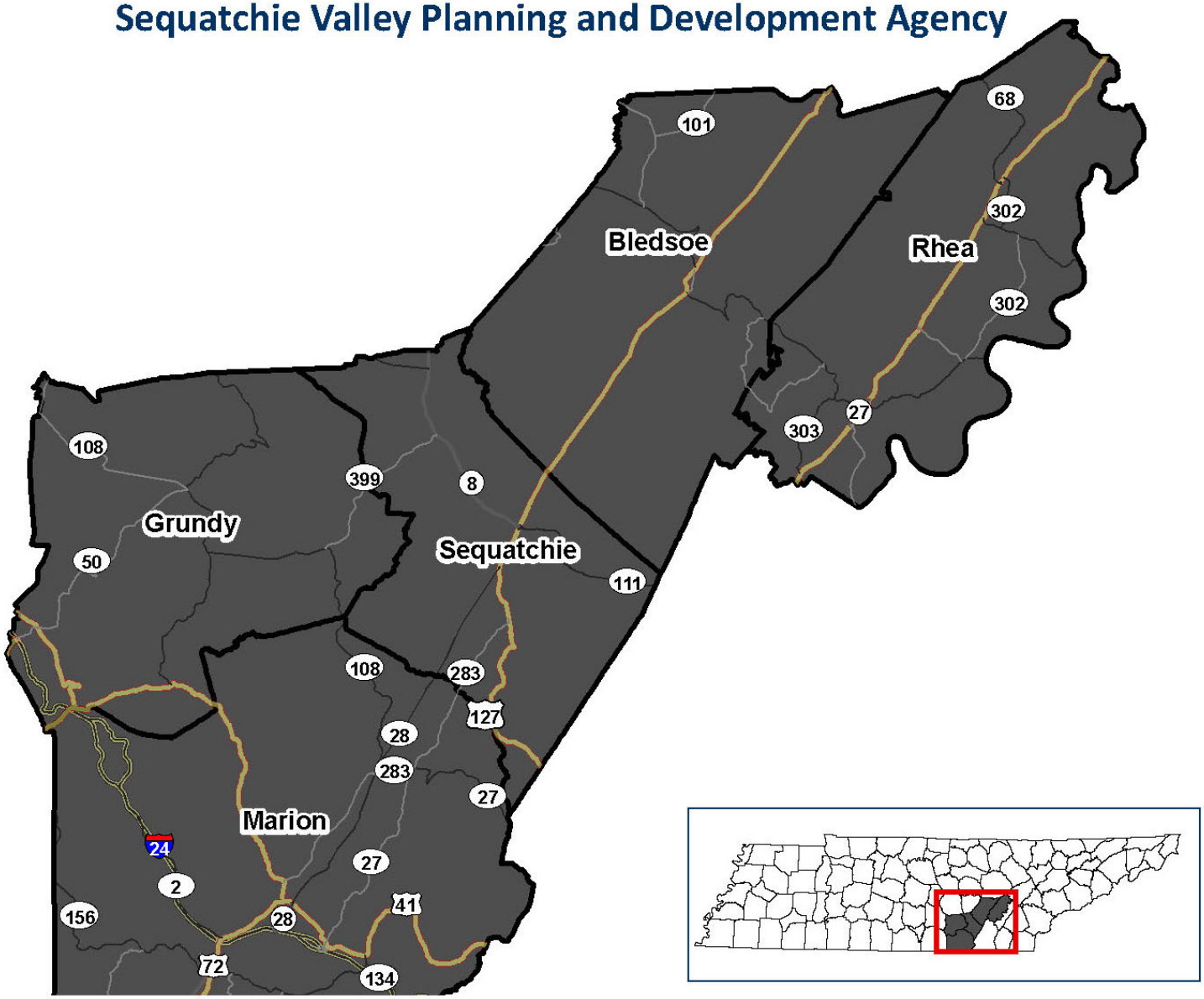


Sequatchie Valley Head Start in South Pittsburg, Tennessee.
Source: Auditor photo.



Playground at Sequatchie Valley Head Start.
Source: Auditor photo.

Sequatchie Valley Planning and Development Agency



SEQUATCHIE VALLEY PLANNING AND DEVELOPMENT AGENCY

KEY CONCLUSIONS

Our audit work related to the Sequatchie Valley Planning and Development Agency (Sequatchie Valley) resulted in the following key conclusions:

PRIOR AUDIT FINDINGS

Sequatchie Valley did not have any repeated or partially resolved audit findings.

FINDINGS

Finding 7 – Sequatchie Valley's board of directors had 8 vacancies on its 16-member board for our entire audit scope and did not reach a quorum at most board meetings

Finding 8 – Sequatchie Valley's management did not provide adequate internal controls in one area

OBSERVATIONS

Observation 11 – Although no issues were noted in the prior audit, during the current audit period, Sequatchie Valley had a board oversight issue related to bank reconciliations

Observation 12 – Several Sequatchie Valley board members had attendance issues, the board did not have conflict-of-interest forms on file for all members, and one board policy conflicts with state statute

Observation 13 – Sequatchie Valley's management did not prepare a risk assessment

MATTER FOR LEGISLATIVE CONSIDERATION

We also reported a **Matter for Legislative Consideration** on page 63.

Finding 7 – Sequatchie Valley's board of directors had 8 vacancies on its 16-member board for our entire audit scope and did not reach a quorum at most board meetings

Condition and Cause

Based on our testwork during our audit of Sequatchie Valley Planning and Development Agency (Sequatchie Valley), we found the following concerning the board of directors:

- 8 of 16 Sequatchie Valley board seats (50%) were vacant during the audit period, July1, 2016, through April 9, 2019; and
- 16 of 18 board meetings held during that same audit period (88%) did not reach a quorum as defined by board bylaws.

According to the agency's Chief Operating Officer, the vacancies are not an issue, and the agency and the board have been operating effectively for a long time. According to the meeting minutes, the Chief Operating Officer shared the vacancy issue with the board at the board meeting held on April 9, 2019. Additionally, the Deputy Director submitted a notice of vacancy to the Governor's office in June 5, 2019, and he submitted letters to municipal mayors on February 25, 2019, regarding the vacant seats.

The Chief Operating Officer stated that failing to reach a quorum was not a problem. She noted that the board can amend the bylaws to make the quorum policy more obtainable.

Criteria

Vacant board seats should be filled according to Section 64-1-502, *Tennessee Code Annotated* as follows:

> **(A)** The county mayor of each of Bledsoe, Marion, Rhea, Grundy and Sequatchie counties shall during that county mayor's term as county mayor be a member of the board, or the county mayor may designate another person from that county to serve as member for the term that the county mayor would otherwise serve;
>
> **(B)** The governor shall appoint from each of the counties mentioned in subdivision (a)(1)(A) to be a member of the board a person active in county, municipal or other public or business, labor or agricultural affairs. The term of each such member shall be six (6) years, except for the original terms, which shall be for two (2), four (4) and six (6) years, beginning with the date of the organizational meeting of the board as provided in subsection (b);

> **(C)** The mayors of the incorporated cities and towns in each of the five (5) counties shall designate by majority vote one (1) member of the board of directors. The terms of these five (5) members of the board shall be six (6) years, beginning with the date of the organizational meeting of the board as provided in subsection (b); and
>
> **(D)** The governor shall designate a member of the governor's staff or cabinet to serve as a director during the governor's term of office.

Board meetings should follow quorum requirements as established by board bylaws. Board members should attend at least half of the board meetings held each fiscal year during their tenure on the board to ensure that each member is actively participating in board business and a physical quorum can be reached.

Effect

Because half the board seats are vacant, the board is not composed as required by Section 64-1-1102, *Tennessee Code Annotated.* Board meetings have been held, business conducted, and votes taken without reaching the quorum requirement of 50% plus one of the active members, as established by board bylaws. While it is reasonable that members may have to miss meetings from time to time, if board members are frequently absent, the board cannot ensure that a quorum will be present at each meeting and that all 16 members are participating and representing their geographic region of the state, as prescribed by *Tennessee Code Annotated*.

Recommendation

The board chair and the Chief Operating Officer should work with the Governor's Office and the governing bodies of incorporated cities and towns in Grundy County and Marion County to fill vacant board seats.

The board chair and the Chief Operating Officer should emphasize to all board members the importance of meeting attendance to achieve a physical quorum so that the board can conduct business.

Management's Comment

We concur. All six governor's appointments required by TCA 64-1-502(B) and (D) were unfilled at the time of the audit. Notices of vacancy were emailed to the governor's office on June 5, 2019. On June 13, 2019, Jade Cooper, the Deputy Director for Boards and Commissions, contacted the agency to begin the official process and to communicate that Sequatchie Valley Planning and Development Agency was not listed in the governor's appointment database. Ms. Cooper asked that the agency submit recommendations to the governor's office to expedite appointments. Three recommendations have already been submitted and are as follows:

- Governor's staff or cabinet: Glen Czarnecki, Tennessee Department of Health, Director for the Southeast Region;
- Rhea County: Harold McCawley, businessman and school board member;
- Sequatchie County: Sam Hudson, attorney-at-law.

On August 8, 2019, we received notice from Jade Cooper that Glen Czarnecki, Harold McCawley and Sam Hudson had been cleared to take their oaths to serve on our board. Recommendations for Marion, Grundy and Bledsoe counties are currently being researched.

According to TCA 64-1-502(c), "the mayors of the incorporated cities and towns in each of the five counties shall designate by majority vote one member of the board of directors". Two of the five positions were vacant at the time of the audit. To resolve this issue, on February 25, 2019, letters were mailed to the municipal mayors in Marion and Grundy counties to elicit nominations to fill the two open positions. Nominations were received, and ballots were mailed to all Marion and Grundy County city mayors on June 3, 2019. The city mayors of Marion County elected by majority vote Paul Wayne Evans to serve as their Board representative. Mayor Evans began his term on June 28, 2019. A majority vote to appoint Jana Barret as the representative for Grundy County was not received on the first round of ballots. On July 2, 2019, a second round of ballots were mailed to the Grundy County city mayors who did not respond to the first request. Attempts to fill the Grundy County vacancy continue. In summary, four of the eight vacancies have been filled.

On June 18, 2019, proposed revisions to the Sequatchie Valley Planning and Development Agency By-laws were emailed to the Board of Directors. On June 28, 2019, at a regularly-scheduled meeting attended by six members of the then eight-member Board, the Board of Directors unanimously voted to approve the proposed revisions to the by-laws, one of which was to change the number of members required to constitute a quorum from 50% plus one to four active members. Board attendance trends indicate that a four-member quorum will increase the probability that a quorum will be present at all meetings. To improve attendance, management will continue to: 1) train members why good attendance is important to the mission of the agency, 2) poll members for acceptable meeting dates and times; and 3) reschedule meetings at which a quorum is not present.

Finding 8 – Sequatchie Valley's management did not provide adequate internal controls in one area

The Sequatchie Valley Planning and Development Agency did not properly design and monitor internal controls in one area. Ineffective implementation of internal controls increases the likelihood of errors, data loss, and inability to continue operations. The details of this observation are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided management with detailed information regarding the specific conditions we identified, as well as the related criteria, causes, and our specific recommendations for improvement.

Management's Comment

We concur. Operational procedures have been revised to mitigate the finding.

Observation 11 – Although no issues were noted in the prior audit, during the current audit period, Sequatchie Valley had a board oversight issue related to bank reconciliations

Results of Prior Audit

In the river basin agencies' July 2013 performance audit report, we reported that some river basin agencies had inconsistent and inadequate internal controls. The report recommended that the other river basin agencies under audit implement procedures for bank reconciliation review similar to the procedures in place at Sequatchie Valley. As we described in the prior audit report, the Sequatchie Valley board chair received a bank statement from the agency's bank, along with a copy of the bank reconciliation performed by the Fiscal Assistant.

Results of Current Audit – Bank Statements

Although the board chair was receiving bank statements directly from Sequatchie Valley's bank during the prior audit, the board chair stated that he stopped receiving bank statements in approximately January 2017. He stated that he did not inform Sequatchie Valley management because he was still getting monthly reconciliations from Sequatchie Valley staff and was kept informed of financial matters through board meetings and annual independent audits. The Sequatchie Valley Deputy Director stated that the board chair informed her on June 21, 2019 that he was no longer receiving statements directly from their bank. The Deputy Director stated that their bank implemented a new computer system in 2017 that does not allow bank statements to be mailed to two separate addresses. On June 27, 2019, the Deputy Director provided documentation that arrangements were made with their bank to resume sending monthly statements directly to the chair.

When the board does not provide direct oversight of the Sequatchie Valley's finances, management could conceal information from the board, which would impact the effectiveness of the board's oversight capabilities. Therefore, the board chair should continue to receive bank statements directly from Sequatchie Valley's bank, as well as copies of the bank reconciliation performed by the Fiscal Assistant.

Management's Remarks

Management did not become aware that Tower Bank had stopped mailing the Board Chairman the monthly bank statement until June 21, 2019. The bank was immediately contacted, and we were informed that the new computer system installed in 2017 was not configured to generate two bank statements. After some research and troubleshooting, Tower Bank was able to confirm that the Board Chair could once again begin receiving bank statements directly from the bank. We have verified that Dwain Land did indeed receive the July 2019 bank statement

from Tower Bank. Regardless of this oversight, the bank reconciliation was mailed monthly to the Board Chair during the entire audit period, as it continues to be. Further, monthly financial reports, including credit card expenditures reports, are emailed to all board members once per month.

Observation 12 – Several Sequatchie Valley board members had attendance issues, the board did not have conflict-of-interest forms on file for all members, and one board policy conflicts with state statute

Board Member Attendance

During our audit of the Sequatchie Valley Planning and Development Agency, we found that several board members attended fewer than 50% of board meetings held during each fiscal year of our audit period, as shown in Table 4. Statute allows for 16 members. The board currently has eight vacant positions. Of the eight filled positions, three members missed 83%-100% of meetings during our audit period.

Table 4
Board Members with Attendance Issues by Fiscal Year

Members with Attendance Issues	Meetings Missed	Fiscal Year
Member A Member B	5 of 6 (83%) 5 of 6 (83%)	2017
Member A Member B Member C	6 of 6 (100%) 6 of 6 (100%) 5 of 6 (83%)	2018
Member A Member C	6 of 6 (100%) 6 of 6 (100%)	2019*

*Through April 9, 2019.

According to the Chief Operating Officer, the board members were absent due to other commitments. However, to ensure that each member is actively participating in board business, board members should attend at least half of the board meetings held each fiscal year during their tenure on the board. While it is reasonable that members may have to miss meetings occasionally, if board members are frequently absent, the board cannot ensure that a quorum will be present at each meeting and that all active members are participating and representing their geographic region of the state, as prescribed by *Tennessee Code Annotated*.

Conflict-of-Interest Policy and Disclosure

According to the board's Standards of Conduct, board members should file an annual disclosure of any potential conflicts and how they could be mitigated, if possible. We found that for fiscal year 2017 four of eight board members (50%) did not have a signed conflict-of-interest acknowledgement form on file, and two of eight board members (25%) did not have a signed conflict-of-interest acknowledgement form on file for fiscal year 2018. The Chief Operating Officer stated the two missing forms for fiscal years 2017 and 2018 were an oversight. Board members should review and sign conflict-of-interest forms on an annual basis and document any potential conflicts. Management should establish a system and identify a member of staff responsible for collecting the forms and following up with any members that did not submit an annual form.

In the absence of completed conflict-of-interested statements, no formal attestation exists that the board members understand the Standards of Conduct and agree to comply with the policy.

Board Bylaws Conflict with State Statute

Board bylaws establish a minimum of 11 and a maximum of 15 board members, which conflicts with state law. According to Section 64-1-502, *Tennessee Code Annotated*, the board is made up of 16 board members. Based on discussions with the Chief Operating Officer, the bylaws are outdated, but the board will update the bylaws to resolve the conflict.

The board chair and the Chief Operating Officer should emphasize to all board members the importance of meeting attendance to achieve a physical quorum so that the board can conduct business. Additionally, the board chair and the Chief Operating Officer should ensure that all members review the board's Standards of Conduct and the board's conflict-of-interest form annually, note any conflicts, and sign acknowledging that they understand the policy and agree to comply with it. Board bylaws should be updated to reflect board size as established by statute.

Management's Remarks

Of the eight members sitting on the board during the audit period, 100% are city and county mayors, and as such, are members of several other boards. Their schedules are hectic, and although we make every attempt to accommodate their diverse schedules, last-minute responsibilities often conflict with our scheduled board meetings.

To improve attendance, management will continue to: 1) train members why good attendance is important to the mission of the agency, 2) poll members for acceptable meeting dates and times; and 3) reschedule meetings at which a quorum is not present.

Board members are provided annually with a Conflict of Interest disclosure and are given copies of the employee and vendor listings to aid in declaration of any conflicts of interest, usually in January of each year. If members are not present at the meeting, copies are emailed and/or mailed to them for completion. The missing conflict of interest statements were an oversight. Management will diligently follow up with all members to ensure 100% of the Conflict of Interest statements are returned.

On June 18, 2019, proposed revisions to the Sequatchie Valley Planning and Development Agency By-laws were emailed to the Board of Directors. On June 28, 2019, at a regularly-scheduled meeting attended by six members of the then eight -member Board, the Board of Directors unanimously voted to approve the proposed revision to the by-laws to increase the number of board members from a minimum of eleven to a maximum of fifteen to the statutorily required sixteen.

Observation 13 – Sequatchie Valley's management did not prepare a risk assessment

Sequatchie Valley Planning and Development Agency's management has not prepared an annual risk assessment to document the agency's potential risks or the corresponding internal controls. The preparation of a risk assessment is intended to aid management and the board in identifying risks which could affect the agency's overall mission, financial resources, or compliance with state law or other regulatory requirements.

The Deputy Director stated that management completed a self-assessment, which they believed served as a risk assessment. Based on our review, management's self-assessment did not identify specific risks, the likelihood of those risks, the potential impacts of the risks, and the mitigating controls; or management's process of monitoring the risks, the associated controls, and corrective actions when needed. As such, we determined that the self-assessment did not serve as an adequate risk assessment tool for management to ensure they could effectively mitigate potential risks of errors, noncompliance, fraud, waste, or abuse.

Section 9-18-102, *Tennessee Code Annotated,* requires each state government agency to annually assess risks and corresponding internal controls.

Additionally, the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book) provides a comprehensive framework for internal control practices in federal agencies and serves as a best practice for other government agencies. Section 7.01 states that "management should identify, analyze, and respond to risks related to achieving defined objectives." Section 2.09 also states that the oversight body, the authority's board of directors, "oversees management's design, implementation, and operation of the entity's internal control system," including the risk assessment. It also states that the oversight body should oversee "management's assessment of risks to the achievement of objectives."

Management should conduct an annual risk assessment to identify any risks that could prevent the authority from meeting its objectives, including those related to compliance with

laws and financial matters such as fraud, waste, and abuse. For those risks deemed to be either a high likelihood of occurrence or a high impact if occurring, management should identify internal controls to prevent and detect the occurrence. Management should prepare this risk assessment in cooperation with the board, which should annually approve and update the risk assessment.

Management's Remarks

Sequatchie Valley performed a GAO Government Accountability Office risk assessment in 2015 and 2016 as part of our five-year strategic planning process. Annually, management performs a self-assessment of its processes and prepares a report for the board, policy council and Office of Head Start. At least annually, the finance department reviews its segregation of duties and internal control flow charts to ensure the possibility of misappropriation is mitigated. Policies and internal controls are revised as required. Therefore, although we have not completed a formal risk assessment template, we annually assess risk.

Management has been reviewing different risk assessment templates. Sequatchie Valley will adopt the best template and complete the assessment by November 1, 2019. Annual assessments will be scheduled during the annual self-assessment process, which takes place in March and April of each year.

MATTER FOR LEGISLATIVE CONSIDERATION

According to Section 64-1-501, *Tennessee Code Annotated,* the Sequatchie Valley Planning and Development Agency was established for the purpose of planning and developing the resources of the region covered by Bledsoe, Marion, Rhea, Grundy, and Sequatchie Counties, including the coordination of the agency's planning and development work with related activities and programs of other federal, state, and local planning and development agencies. Further, the scope of the agency's interest, work, and activities *"shall"* include programs in the fields of education, public health, industrial development, highways, water resources, and recreation and in other fields as the agency's board of directors finds that it can provide planning and development services for the five-county region effectively.

Our review of the Sequatchie Valley Planning and Development Agency determined that the agency provides Head Start and Early Head Start Programs to the five-county region. This has been the focus of the agency's operation since its creation in 1968. A look at the agency's website indicates that Sequatchie Valley Planning and Development Agency and Sequatchie Valley Head Start Program are one in the same. According to information made available by the agency, the Head Start and Early Head Start Programs provide service to 403 children and their families, and while serving a vital role in the community, the agency does not offer programs or services in the areas of industrial development, highways, or water resources and recreation, which according to statute they "shall" provide. Given this, the General Assembly may wish to amend the agency's enabling statute so it is more closely aligned with the agency's stated purpose of providing a Head Start Program that creates a nurturing place where children,

families, and staff can work through community partnerships to exceed Head Start's national goals. The General Assembly may also wish to move the agency to a different section of the code, one that more closely aligns with the agency's mission of serving children and families through Head Start Programs.

TELLICO RESERVOIR DEVELOPMENT AGENCY

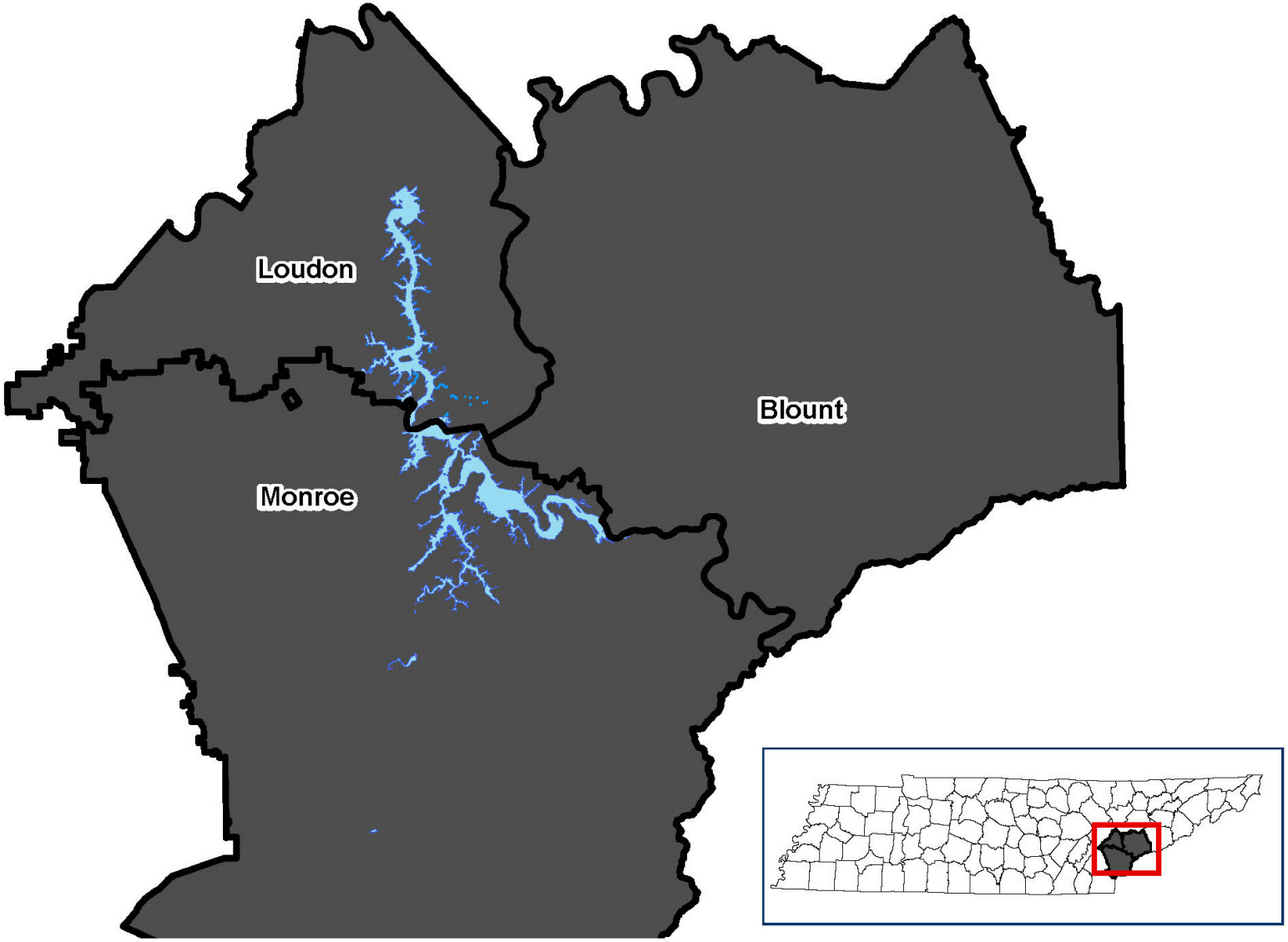


Boat slips and housing around the lake at the Tellico Reservoir.
Source: Auditor photo.



Cabins at the Toqua Campground, part of the Tellico Reservoir Development Agency.
Source: Auditor photo.

Tellico Reservoir Development Agency



TELLICO RESERVOIR DEVELOPMENT AGENCY

KEY CONCLUSIONS

Our audit work related to the Tellico Reservoir Development Agency (Tellico) resulted in the following key conclusions:

PARTIALLY RESOLVED AUDIT FINDING

The prior audit report contained a finding stating that

- Tellico Reservoir Development Agency did not have sufficient board oversight of their independent audit contracts and finances, and
- the board chair did not receive bank reconciliations from the authority and bank statements directly from the bank.

The current audit disclosed that Tellico's board chair signed the independent audit contract, the audit was presented to the board, and a board member received bank statements directly from the bank and a bank reconciliation from management as recommended; however, the board did not vote to approve the independent audit contract.

For more information, see **Observation 14**.

FINDING

Finding 9 – Tellico's management did not design and implement adequate internal controls over revenues and expenditures

OBSERVATIONS

Observation 14 – Tellico's management did not fully resolve the board oversight issues included in the prior audit report

Observation 15 – Tellico's board members had attendance issues, and the board did not have annual conflict-of-interest forms on file for all members

Observation 16 – Tellico's management did not prepare a risk assessment

Observation 17 – Tellico's board of directors did not have a policy governing the retention and disposition of records

Finding 9 – Tellico's management did not design and implement adequate internal controls over revenues and expenditures

Conditions and Cause

The Tellico Reservoir Development Agency's (Tellico) board of directors and management have a responsibility to establish policies and procedures known as internal controls to ensure the proper safeguarding and accounting for assets and compliance with laws. Section 9-18-102, *Tennessee Code Annotated*, requires each state agency and local government to establish and maintain internal controls to provide reasonable assurance that obligations and costs are in compliance with laws; assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly accounted for and recorded. Based on our inquiries and testwork, we identified several internal control deficiencies over the cash receipting and expenditure processes.

Segregation of Duties

Cash Receipts

We found that there was not always adequate segregation of duties in the cash receipting process. Specifically, in some cases, an Administrative Assistant performs most cash receipt functions.

For cash received at the campgrounds, the Administrative Assistant

- posts payments received to the accounting records, and
- performs bank reconciliations.

For revenue received at the agency's main office (usually checks), the Administrative Assistant

- prepares deposits,
- posts payments to the accounting records,
- makes deposits (in most cases), and
- reconciles the bank statements.

According to Tellico's independent audit reports, the authority received fees from the public totaling $1,851,348 in fiscal year[19] 2017 and $1,961,672 in fiscal year 2018.

There are enough staff members to allow for greater segregation of these duties or the introduction of compensating controls. The Executive Director stated that he and the Administrative Assistant normally perform the accounting functions because there are only five

[19] Tellico's fiscal year is September 1 through August 31.

employees who work in the main office, but he plans to implement procedures to increase segregation of duties.

Payroll

We also found that there is not always adequate segregation of duties in the payroll process. The Administrative Assistant performs most functions of the payroll process:

- enters new employees into the accounting system,
- receives timesheets and enters time into the accounting system,
- processes payroll,
- prints payroll checks, and
- distributes payroll checks.

The Administrative Assistant and Executive Director said that the Administrative Assistant provides the payroll checks to the Executive Director for approval, along with the timesheets as supporting documentation. The Executive Director, however, does not document his review of the timesheets prior to signing the checks.

Expenditure Approval

Based on our testwork, we found that for 25 of 25 expenditure items tested (100%), there was no documented review and approval of expenditures, including payroll. Although the Administrative Assistant stated that she provides the supporting documentation for the expenditures when the Executive Director signs checks, his review of that support is not documented. Additionally, for expenditures under $500, the check only requires one signature, and the Administrative Assistant is a signatory. The Administrative Assistant stated that she does not usually sign checks in these situations; however, she does have the authority to.

The Executive Director stated he reviews all expenditures; he just did not document his review. He agreed that it would be a good practice to document his review and said he began doing so in June 2019, after we discussed these issues with him.

Segregation of Duties Criteria

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* provides a comprehensive framework for internal control practices in federal agencies and serves as a best practice for other government agencies.

Section 10.03 states,

> Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Effect

During the audit, we did not find any indication that fraudulent activity had occurred at Tellico. Without strong internal controls in place, however, the risk of undetected errors, noncompliance, fraud, waste, and abuse increases. For example, if management does not ensure that duties are segregated as much as possible or compensating controls are in place, an employee could easily commit and conceal fraud or errors could go undetected.

Recommendation

Management should ensure that there is an adequate segregation of duties to the extent possible at a smaller office. When possible, the same individual should not be responsible for preparing the deposit, posting the amounts to the accounting records, making the deposit, and reconciling the bank statements. Furthermore, all expenditures, including payroll, should be reviewed by a member of management or a member of the board, and this review and approval should be documented.

Management's Comment

We concur. See discussion below.

Tellico currently has an Internal Controls Policy that states:

"It is the intent of the Tellico Reservoir Development Agency (TRDA) that all assets of the Agency are accounted for in a proper and business-like manner in order to comply with applicable laws in regard to the duties and responsibilities of the Agency. The purpose of this document is to explain in simple term the Agency procedures that are designed to eliminate (to the extent that it is possible) or to minimize the possibility of fraud, misappropriations, and misuse of Agency assets."

Tellico has a relatively small staff who performs administrative functions. However, as a result of deficiencies identified by the state auditors, management now realizes that Tellico's internal controls over revenues and expenditures are not adequately designed and implemented. The Internal Controls Policy will be updated to address the segregation of duties concerns.

In the meantime, management will modify and implement procedural changes to reflect stronger controls over cash receipts and expenditure approval as follows:

Cash received at campgrounds: The Administrative Specialist makes the weekly deposits for each campground. The Administrative Assistant compares the bank deposit receipts with the weekly Campground Master reports as part of the posting process. The Office Manager or Administrative Specialist will prepare the monthly bank statement reconciliations. The monthly reconciliations are reviewed with a Board member who receives a duplicate bank statement mailed directly from each bank. The Board member signs and retains the monthly bank statements and related reconciliations. The Executive Director reviews and signs the monthly accounting records.

Revenue received in office: The Office Manager opens the mail and writes numbered receipts for all daily revenues. The Administrative Assistant then prepares the deposit slip. The Administrative Specialist reviews the prepared deposit slip, compares the cash and checks to the receipt book, and then signs the deposit slip. Next, the Administrative Assistant posts the deposit into the accounting system and either the Administrative Assistant or the Executive Director makes the deposit at the bank. Then both the Administrative Specialist and the person making the deposit (i.e. the Administrative Assistant or the Executive Director) signs the deposit receipt slip given at the bank and it is attached to the deposit slip book. The Office Manager or Administrative Specialist will prepare the monthly bank statement reconciliations. The monthly reconciliations are reviewed with a Board member who receives a duplicate bank statement mailed directly from each bank. The Board member signs and retains the monthly bank statements and related reconciliations. The Executive Director reviews and signs the monthly account records.

Expenditure Approval: The Executive Director continues to review all expenditures as has always been done. However, the Executive Director is now signing each invoice to indicate he had reviewed and given his approval to pay each invoice. The Office Manager or Administrative Specialist will receive the timesheets. As a result of comments by auditors during their field work in April 2019, in May 2019 the Executive Director started signing each timesheet to indicate he has reviewed and approved. The Executive Director or Administrative Specialist will distribute the paychecks until an electronic direct deposit program currently being considered is implemented.

Observation 14 – Tellico's management did not fully resolve the board oversight issues included in the prior audit report

Results of Prior Audit

The river basin agencies' July 2013 performance audit report found that some river basin agencies had inconsistent and inadequate internal controls. The report recommended that Tellico Reservoir Development Agency's board should vote on an independent financial statement audit contract, a board member should sign the audit contract, and the audit results should be presented to the board so the independent auditors would report to the board rather than management. Management stated they would implement the procedures we recommended.

Results of Current Audit – Independent Financial Audit Contract

Section 64-11-101, *Tennessee Code Annotated*, requires the authority to file an independent financial audit with the Comptroller of the Treasury.

We noted during the current audit period that although the board chair signed the contract, the entire board did not vote to approve the audit contract. The Executive Director said this may have been done to speed up the audit contract approval process or because that is how they have been doing it in the past but agreed that he would prefer the entire board approve the contract going forward.

When the board does not provide direct oversight of the authority's audit, management could conceal information from the board, limiting the effectiveness of the board's oversight

capabilities. Therefore, the board should vote to select the authority's independent financial auditors and receive the financial auditors' report. The board chair should continue to sign the contract with the audit firm.

Observation 15 – Tellico's board members had attendance issues, and the board did not have annual conflict-of-interest forms on file for all members

Based on our inquiries and testwork, we found that for the Tellico Reservoir Development Agency's board of directors,

- one of nine board members did not attend four of the six board meetings held during fiscal year 2018, and
- conflict-of-interest statements were not obtained for nine of ten[20] members for fiscal year 2017, nine of nine for fiscal year 2018, and eight of nine members for fiscal year 2019.

According to the Executive Director, the board member who missed two-thirds of the meetings was absent due to work-related issues. Concerning the conflict-of-interest policy, board members are to document potential conflicts, and sign the form when they are initially brought on the board the forms in question were before his involvement in the authority and are likely an oversight. The Executive Director added that the board will update the policy to require annual submission.

As a best practice, board members should attend a minimum of 50% of board meetings held each fiscal year during their tenure on the board, to ensure that each member is actively participating in board business. Also, board members should annually review the conflict-of-interest policy, document potential conflicts, and sign acknowledging review of the policy.

While it is reasonable that members may have to miss meetings occasionally, if board members are frequently absent, the board cannot ensure that a quorum will be present at each meeting and that all nine members are participating and representing their geographic region of the state, as prescribed by *Tennessee Code Annotated*. When we inspected the board minutes for the period, we noted that no board member had communicated having a conflict. We were not alerted to or are aware of any unreported conflicts. In the absence of a completed acknowledgement statement, no formal attestation exists that the board members understand the conflict-of-interest policy and agree to comply with it.

The chair of the board and the Executive Director should emphasize to all board members the importance of meeting attendance to achieve a physical quorum so the board can conduct business. They should also establish an annual review of the board conflict-of-interest policy so board members can document any potential conflicts and sign acknowledging review of the policy.

[20] One board member was replaced in fiscal year 2017 by a new member, and neither submitted a signed conflict-of-interest statement.

Observation 16 – Tellico's management did not prepare a risk assessment

Tellico Reservoir Development Agency's management has not prepared an annual risk assessment to document the agency's potential risks or the corresponding internal controls. The preparation of a risk assessment is intended to aid management and the board in identifying risks which could affect the agency's overall mission, financial resources, or compliance with state law or other regulatory requirements.

The Executive Director said that while he was familiar with the concept of a risk assessment, he did not assume day-to-day responsibilities as Executive Director until September 2018 and had not yet had time to coordinate with the board to develop and approve an assessment. He stated that they would soon undertake this process.

Section 9-18-102, *Tennessee Code Annotated,* requires each state government agency to annually assess risks and corresponding internal controls. Additionally, the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book) provides a comprehensive framework for internal control practices in federal agencies and serves as a best practice for other government agencies. Section 7.01 states that "management should identify, analyze, and respond to risks related to achieving defined objectives." Section 2.09 also states that the oversight body, the authority's board of directors, "oversees management's design, implementation, and operation of the entity's internal control system," including the risk assessment. It also states that the oversight body should oversee "management's assessment of risks to the achievement of objectives."

Management should conduct an annual risk assessment to identify any risks that could prevent the authority from meeting its objectives, including those related to compliance with laws and financial matters such as fraud, waste, and abuse. For those risks deemed to be either a high likelihood of occurrence or a high impact if occurring, management should identify internal controls to prevent and detect the occurrence. Management should prepare this risk assessment in cooperation with the board, which should annually approve and update the risk assessment.

Observation 17 – Tellico's board of directors did not have a policy governing the retention and disposition of records

State law requires the Public Records Commission to determine and order the proper disposition of the state's public records[21] and to direct the Tennessee Department of State's Records Management Division to initiate any action necessary to establish the regulation of record holding and management in any state agency. In order to achieve efficient control and regulation of public records, the Records Management Division uses Records Disposition Authorizations (RDAs), which are retention schedules detailing how to maintain public records.

[21] Section 10-7-301(6), *Tennessee Code Annotated*, defines public records as "all documents, papers, letters, maps, books, photographs, microfilms, electronic data processing files and output, films, sound recordings, or other material, regardless of physical form or characteristics made or received pursuant to law or ordinance or in connection with the transaction of official business by any governmental agency."

Based on our office's legal research, including past state Attorney General opinions, the river basin agencies possess qualities of state agencies for some purposes and qualities of independent, non-state agencies for other purposes. Based on inquiries with the Tennessee Secretary of State's office, the river basin agencies are not subject to the state's Public Records Commission's authority; therefore, they do not have to follow the state's RDAs. While the law is ambiguous about whether the river basin agencies are state agencies for purposes of the Tennessee Public Records Act, the statute includes provisions for state, county, and municipal governments; therefore, it is clearly the intent for all government entities to adopt appropriate record retention and disposition policies. Public officials are legally responsible for creating and maintaining records to provide evidence of government operations and accountability to citizens.

Management at the Tellico Reservoir Development Agency stated that the board of directors and management have not adopted a policy governing the retention and disposition of public records. Tellico's board and management should adopt an official policy for the agency's records.

The policy should include a retention schedule, details concerning how all types of records will be archived and safeguarded, and the method for proper disposal. The Executive Director may wish to consult with the state's Public Records Commission or the municipal technical advisory service in accordance with Section 10-7-702, *Tennessee Code Annotated*, to determine best practices regarding retention schedules, the safeguarding of archived records, and the secure disposition of records.

TENNESSEE DUCK RIVER DEVELOPMENT AGENCY

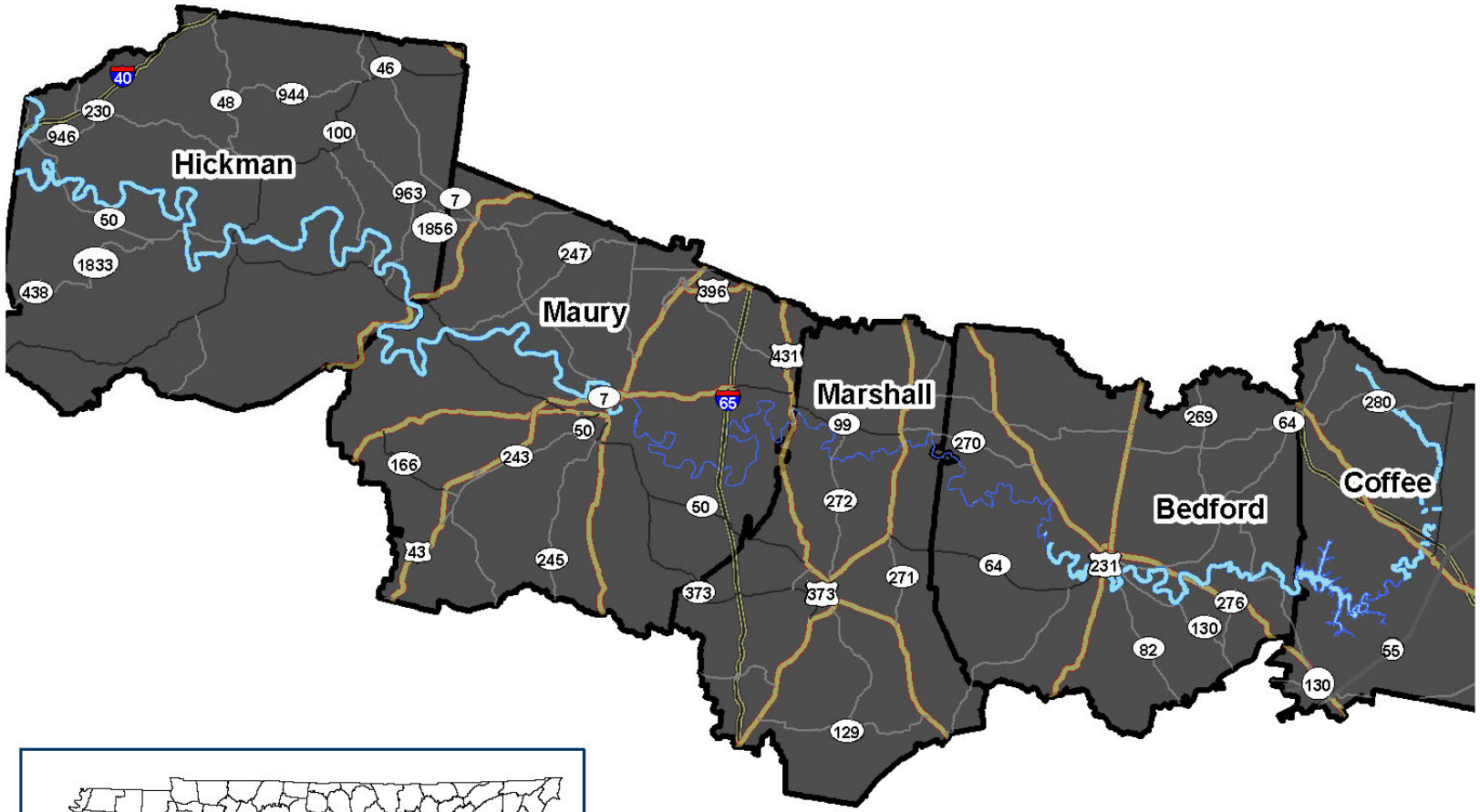


According to the Tennessee Department of Environment and Conservation, at 284 miles, the Duck River is the longest river located entirely in Tennessee.
Source: Photo provided by auditee.



Former mill site at Hurricane Mills, Tennessee.
Source: Photo provided by auditee.

Duck River
Development Agency



TENNESSEE DUCK RIVER DEVELOPMENT AGENCY

KEY CONCLUSIONS

Our audit work related to the Tennessee Duck River Development Agency (Duck River) resulted in the following key conclusions:

PARTIALLY RESOLVED AUDIT FINDING

The prior audit report contained a finding stating that Duck River's board chair did not receive bank reconciliations from the agency and banks statements directly from the bank.

The current audit disclosed that Duck River sent the board chair a bank reconciliation as recommended; however, the agencies sent the board chairs copies of their bank statements rather than the bank sending them directly.

For more information, see **Observation 18**.

FINDINGS

There are no findings.

OBSERVATIONS

Observation 18 – Duck River's management did not fully resolve the board oversight issues included in the prior audit report.

Observation 19 – Duck River's board of directors had one vacant seat, board members had attendance issues, and the board did not have a conflict-of-interest policy until 2019

Observation 20 – Duck River's management did not prepare a risk assessment

Observation 21 – Duck River's board of directors did not have a policy governing the retention and disposition of records

Observation 18 – Duck River's management did not fully resolve the board oversight issues included in the prior audit report

Results of Prior Audit

In the river basin agencies' July 2013 performance audit report, we found that some of the agencies had inconsistent and inadequate internal controls. The report recommended that Duck River's board chair receive a copy of the agency's bank statements directly from the agency's bank, along with a copy of the bank reconciliation performed by the Director of Finance and Administration. This was recommended to ensure the board received independent financial information in order to provide an appropriate level of oversight.

Results of Current Audit – Bank Statements

During the current audit, we learned that the board chair was only provided copies of the agency's bank statements and reconciliations by management. The board chair did not receive a copy of the bank statements directly from the bank, creating the risk that management could alter the bank statements provided to conceal any potential fraud. When asked why the authority had not arranged for the board chair to receive statements directly from the bank, the Executive Director and the Director of Finance and Administration indicated that management did not realize this was the recommendation of the prior audit. On April 17, 2019, the Director of Finance and Administration provided documentation that arrangements were made with their bank to send monthly statements directly to the chair.

When the board does not provide direct oversight of the authority's finances, management could conceal information from the board, which would impact the effectiveness of the board's oversight capabilities. Therefore, the board chair should continue to receive bank statements directly from Duck River's bank, as well as copies of the bank reconciliation performed by the Director of Finance and Administration.

Management's Remarks

We do not concur with this observation for the following reasons:

Background: Administrative recommendation 4 to Duck River Agency regarding board oversight issues on page 39 in the state performance audit report dated July 2013 states: "Tennessee Duck River Development Agency should have duplicate bank statements and copies of bank statement reconciliations mailed to the board chair for review."

Reason we do not concur with Observation 18: We disagree with the language shown above in the observation, specifically, "The report recommended that Duck River's board chair receive a copy of the agency's bank statements directly from the agency's bank…" In the 2013 audit report, the recommendation specific to Duck River Agency does not contain the language "to have the bank statements mailed directly from the bank." Duck River Agency management complied in full with the recommendation specific to its agency as understood and has emailed duplicate copies of each bank statement to the chairman as well as the treasurer each month

following the 2013 audit report. Each bank statement has included a copy of the bank reconciliation.

Assessment: We understand the reason for this recommendation and have put a process in place that ensures the chairman receives monthly bank statements directly from the bank going forward.

Observation 19 – Duck River's board of directors had one vacant seat, board members had attendance issues, and the board did not have a conflict-of-interest policy until 2019

During our audit of Tennessee Duck River Development Agency, we found the following concerning the board of directors:

- 1 of 12 board seats is vacant as of February 2019;
- 3 board members, one unique member for each fiscal year in our audit period, did not attend at least 50% of board meetings held during the fiscal year; and
- the board did not have a conflict-of-interest policy until February 2019.

The Executive Director stated he believes he called the Governor's office about filling the seat (the Governor is the appointing authority for the seat) but was unsure of the date. The Executive Director agreed that board member absences are an issue and stated he believed the absences were due to other obligations and that one member suffered from health issues. He added that the board will revise board policies to include attendance requirements.

The Executive Director agreed that board members should annually sign a conflict-of-interest statement, and the board recently approved such a policy, prior to the audit, that went into effect February 2019. Signed conflict-of-interest forms were provided for 10 of 12 board members for fiscal year 2019. On June 18, 2019, the board's Director of Finance and Administration stated the two newest members added to the board, after field work was completed, have not signed a conflict-of-interest disclosure form for fiscal year 2019. The Director of Finance and Administration added that recently added members will be requested to submit a 2020 disclosure form with the rest of the board members.

Section 64-1-602, *Tennessee Code Annotated*, establishes a board seat that is to be filled by the Governor and serve on the board as long as the Governor is in office. As a best practice, board members should attend at least half of the board meetings held each fiscal year during their tenure on the board to ensure that each member is actively participating in board business. Also, board members should annually review the conflict-of-interest policy, document potential conflicts, and sign the disclosure form to acknowledge that they agree to comply with the policy.

Because of the vacant board seat, the board is not composed as required by Section 64-1-602, *Tennessee Code Annotated*. While it is reasonable that members may have to miss meetings from time to time, if board members are frequently absent, the board cannot ensure that a quorum will be present at each meeting and that all 12 members are participating and representing their

constituents, as prescribed by *Tennessee Code Annotated*. Additionally, without a completed disclosure form, no formal attestation exists that the board members understand the conflict-of-interest policy and agree to comply with it.

The board chair, in conjunction with the Executive Director, should work with the Governor's Office to fill the vacant seat, as established by statute. The board should implement procedures to inform the appointing authority when a member is not attending meetings and actively participating in board business. The board should also consider creating an attendance policy to encourage attendance by all members. Additionally, the board chair, in conjunction with the Executive Director, should ensure that all board members review the conflict-of-interest policy, document potential issues, and sign acknowledging policy requirements.

Management's Remarks

We concur. We would like to note however, that months prior to the 2019 performance audit, Duck River Agency had drafted a conflict-of-interest policy with the help of legal counsel and had it ready to go before the board for approval. The agency's board has since approved the policy and board directors who were in place at the time of this year's performance audit have signed a conflict of interest statement for FY2019. All current board members have signed conflict of interest statements for FY2020.

Observation 20 – Duck River's management did not prepare a risk assessment

Management at Tennessee Duck River Development Agency has not prepared an annual risk assessment to document potential risks or the corresponding internal controls. The preparation of a risk assessment is intended to aid management and the board in identifying risks which could affect the agency's overall mission, financial resources, or compliance with state law or other regulatory requirements.

The Executive Director and the Director of Finance and Administration stated that they had not completed a risk assessment because they were unaware this was expected of them but agreed that completing one would be helpful.

Section 9-18-102, *Tennessee Code Annotated,* requires each state government agency to annually assess risks and corresponding internal controls. Additionally, the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book) provides a comprehensive framework for internal control practices in federal agencies and serves as a best practice for other government agencies. Section 7.01 states that "management should identify, analyze, and respond to risks related to achieving defined objectives." Section 2.09 also states that the oversight body, the authority's board of directors, "oversees management's design, implementation, and operation of the entity's internal control system," including the risk assessment. It also states that the oversight body should oversee "management's assessment of risks to the achievement of objectives."

Management should conduct an annual risk assessment to identify any risks that could prevent the agency from meeting its objectives, including those related to compliance with laws

and financial matters such as fraud, waste, and abuse. For those risks deemed to be either a high likelihood of occurrence or a high impact if occurring, management should identify internal controls to prevent and detect the occurrence. Management should prepare this risk assessment in cooperation with the board, which should annually approve and update the risk assessment.

Management's Remarks

We concur. Agency management understands the need for a risk assessment and plans to develop a risk assessment in cooperation with its board that will be reviewed annually and revised as necessary by management and the board.

Observation 21 – Duck River's board of directors did not have a policy governing the retention and disposition of records

State law requires the Public Records Commission to determine and order the proper disposition of the state's public records[22] and to direct the Tennessee Department of State's Records Management Division to initiate any action necessary to establish the regulation of record holding and management in any state agency. In order to achieve efficient control and regulation of public records, the Records Management Division uses Records Disposition Authorizations (RDAs), which are retention schedules detailing how to maintain public records.

Based on our office's legal research, including past state Attorney General opinions, the river basin agencies possess qualities of state agencies for some purposes and qualities of independent, non-state agencies for other purposes. Based on inquiries with the Tennessee Secretary of State's office, the river basin agencies are not subject to the state's Public Records Commission's authority; therefore, they do not have to follow the state's RDAs. While the law is ambiguous about whether the river basin agencies are state agencies for purposes of the Tennessee Public Records Act, the statute includes provisions for state, county, and municipal governments; therefore, it is clearly the intent for all government entities to adopt appropriate record retention and disposition policies. Public officials are legally responsible for creating and maintaining records to provide evidence of government operations and accountability to citizens.

The Tennessee Duck River Development Agency's Executive Director and Director of Finance and Administration stated that the board of directors and management have not adopted a policy governing the retention and disposition of public records because the agency is very small. While they stated that they have not destroyed any records, the agency's board and management should adopt an official policy.

The policy should include a retention schedule, details concerning how all types of records will be archived and safeguarded, and the method for proper disposal. The Executive Director may wish to consult with the state's Public Records Commission or the municipal technical

[22] Section 10-7-301(6), *Tennessee Code Annotated*, defines public records as "all documents, papers, letters, maps, books, photographs, microfilms, electronic data processing files and output, films, sound recordings, or other material, regardless of physical form or characteristics made or received pursuant to law or ordinance or in connection with the transaction of official business by any governmental agency."

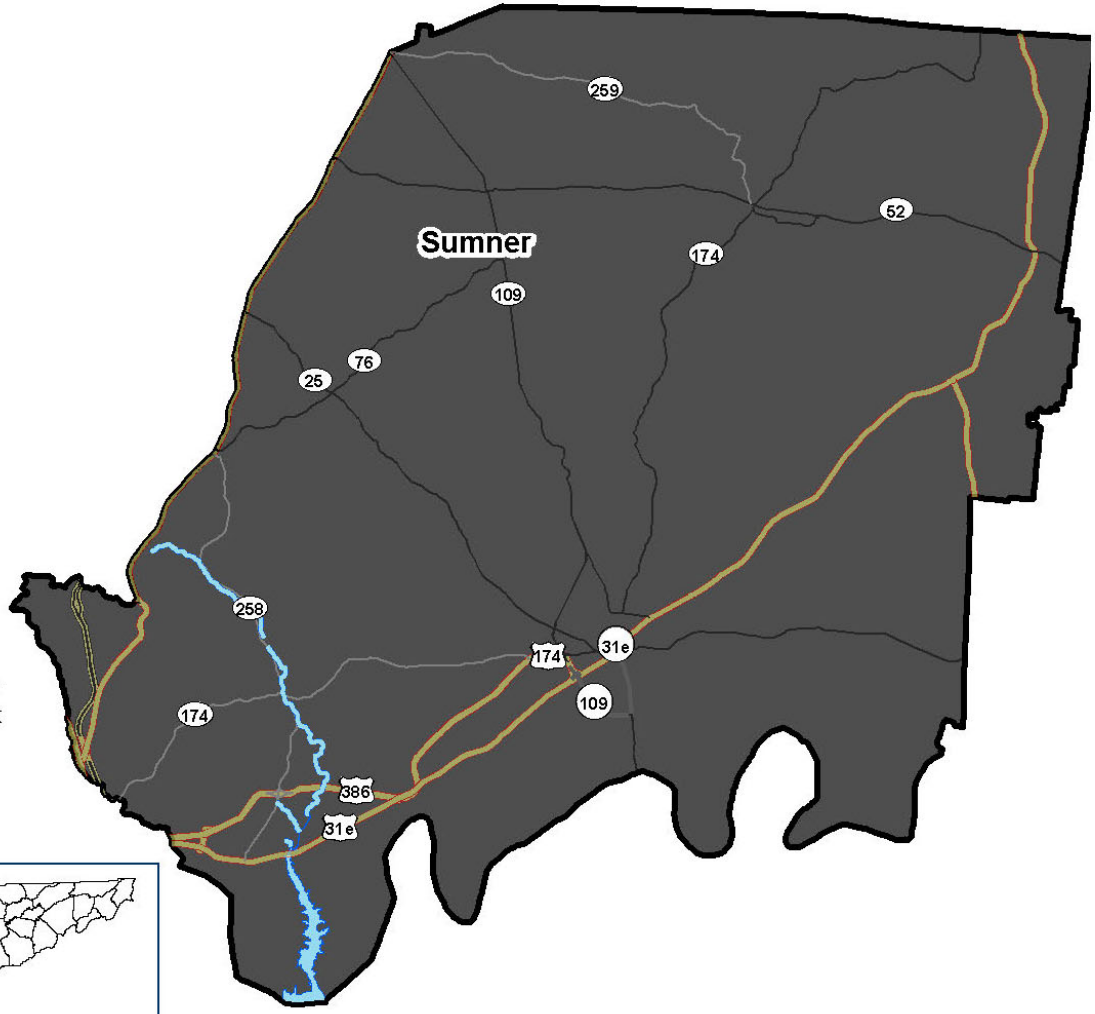
advisory service in accordance with Section 10-7-702, *Tennessee Code Annotated*, to determine best practices regarding retention schedules, the safeguarding of archived records, and the secure disposition of records.

Management's Remarks

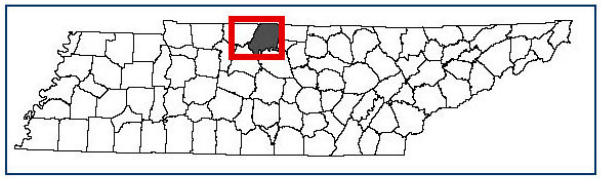
We concur. For the past 10 years, Duck River Agency has used a records retention schedule provided by its former auditor, Kraft CPAs, as a guide. However, we understand the need to develop our own policy and are taking steps to complete this process within one year.

WEST FORK DRAKES CREEK DAM AND RESERVOIR INTERSTATE AUTHORITY

West Fork Drakes Creek Dam and Reservoir Interstate Authority



Note: Simpson County, Kentucky is also a member of the West Fork Drakes Creek Dam and Reservoir Interstate Authority.



WEST FORK DRAKES CREEK DAM AND RESERVOIR INTERSTATE AUTHORITY

KEY CONCLUSIONS

Our audit work related to the West Fork Drakes Creek Dam and Reservoir Interstate Authority (West Fork) resulted in the following key conclusions:

PARTIALLY RESOLVED FINDING

The prior audit report contained a finding stating that West Fork Drakes Creek Dam and Reservoir Interstate Authority did not have a board, was not operating as statutorily established, and had not resolved the City of Portland's water supply issues.

The current audit disclosed that while West Fork has established a board of directors, which meets once a year, the board had issues concerning attendance, a vacant seat, and conflict-of-interest policy.

For more information, see **Observation 22**.

FINDINGS

There are no findings.

OBSERVATION

Observation 22 – West Fork's board of directors had attendance issues, had a vacant seat, and did not have a conflict-of-interest policy

MATTER FOR LEGISLATIVE CONSIDERATION

We also reported a **Matter for Legislative Consideration** on page 81.

Observation 22 – West Fork's board of directors had attendance issues, had a vacant seat, and did not have a conflict-of-interest policy

While the West Fork Drakes Creek Dam and Reservoir Interstate Authority has not conducted business beyond appointing board officers at the annual meeting, we still applied our audit objectives and procedures. Based on our discussion with staff and testwork performed, we found the following concerning West Fork's board of directors:

- four board members did not attend the annual board meeting held during fiscal year 2017, and one board member did not attend the annual board meeting held in fiscal year 2018;
- 1 of 10 board seats (10%) are vacant; and
- the board does not have a conflict-of-interest policy for board members.

According to the Mayor of Portland, he does not know the reason for the absences, and the board will emphasize the importance of members attending the annual meeting. The Assistant to the Mayor of Portland stated that the Sumner County water authority has not been created and has not made any appointments to West Fork. According to the Assistant to the Mayor of Portland, a conflict-of-interest policy is not necessary because West Fork only holds an annual meeting to elect board officers and establishing board bylaws or policies is not necessary. The Mayor of Portland added that the board will establish a policy.

As a best practice, board members should attend the annual meeting held each fiscal year during their tenure on the board to ensure that board members are actively participating in board business. Also, as a best practice, the board should establish a conflict-of-interest policy and have board members annually review the policy, document potential conflicts, and sign the disclosure form.

The board chair should emphasize to all board members the importance of attending meetings to achieve a physical quorum so the board can conduct business. Additionally, the board chair should implement procedures to inform the appointing authority when a member is not attending meetings and actively participating in board business, and the board should also consider creating an attendance policy to encourage attendance by all members.

The board should work with the General Assembly regarding the Sumner County Water Authority seat. In addition, the board should create a conflict-of-interest policy and ensure that each board member annually reviews the policy, documents potential conflicts, and signs the disclosure form.

Management's Remarks

- Board Members' Attendance

  Meeting dates for the authority's meeting are set one year in advance. Meeting notices are sent approximately one month in advance of the meeting; usually via email. Meeting notices are included on the City of Portland's website and social media sites. Franklin, KY had a meeting notice published in their newspaper. It is obviously beyond leadership's control to assure that every board member faithfully attends the annual meeting; however, we will take additional steps to urge their attendance by stressing the importance of this group.

- Vacant Board Seat

  The vacant seat referred to is that of a member that should be appointed from the Sumner County Water Authority, but no such group exists. The City of Portland might request that the county appoint such a committee on our behalf, and then we might appoint a member from that group, but as has been noted in previous state agencies' comments, Portland appears to be the only town in the county with water issues, and this is not likely a top priority for Sumner County government.

- Conflict of Interest Policy

  It has been noted that no conflict of interest policy is in place, and the audit directs the WFDC Authority to do so. There seemed to be no need for such a policy as no finances have been involved to date; however, we are in the process of securing a policy and will ask all members to sign at our next meeting next week. When that has been accomplished, we will forward copies to you as soon as reasonably possible.

MATTER FOR LEGISLATIVE CONSIDERATION

As noted in the background on page 12, the West Fork Drakes Creek Dam and Reservoir Interstate Authority has not been able to address Portland, Tennessee's water supply issues. The General Assembly may consider revising the statute to allow West Fork to consider other viable options to resolve the water supply issues for the City of Portland. The General Assembly may also consider revisiting board appointing authorities because Franklin, Kentucky and Simpson County, Kentucky have already resolved their water supply issues.

Management's Remarks

In response to your suggestion in "Matter for Legislative Consideration" for the General Assembly to revise the statute to allow WFDC Authority to consider other viable options to resolve water supply issues, that would certainly be welcomed by Portland. We have considered several

other options. And since TDEC, TWRA and TACIR have been well acquainted with our supplemental water supply dilemma but have been somewhat unsympathetic to our having spent millions of dollars in pursuit of this project only to come up against a ‘block wall’, it would obviously take a directive from the State Legislature and/or Governor Lee to prompt the help we need.

WEST TENNESSEE RIVER BASIN AUTHORITY

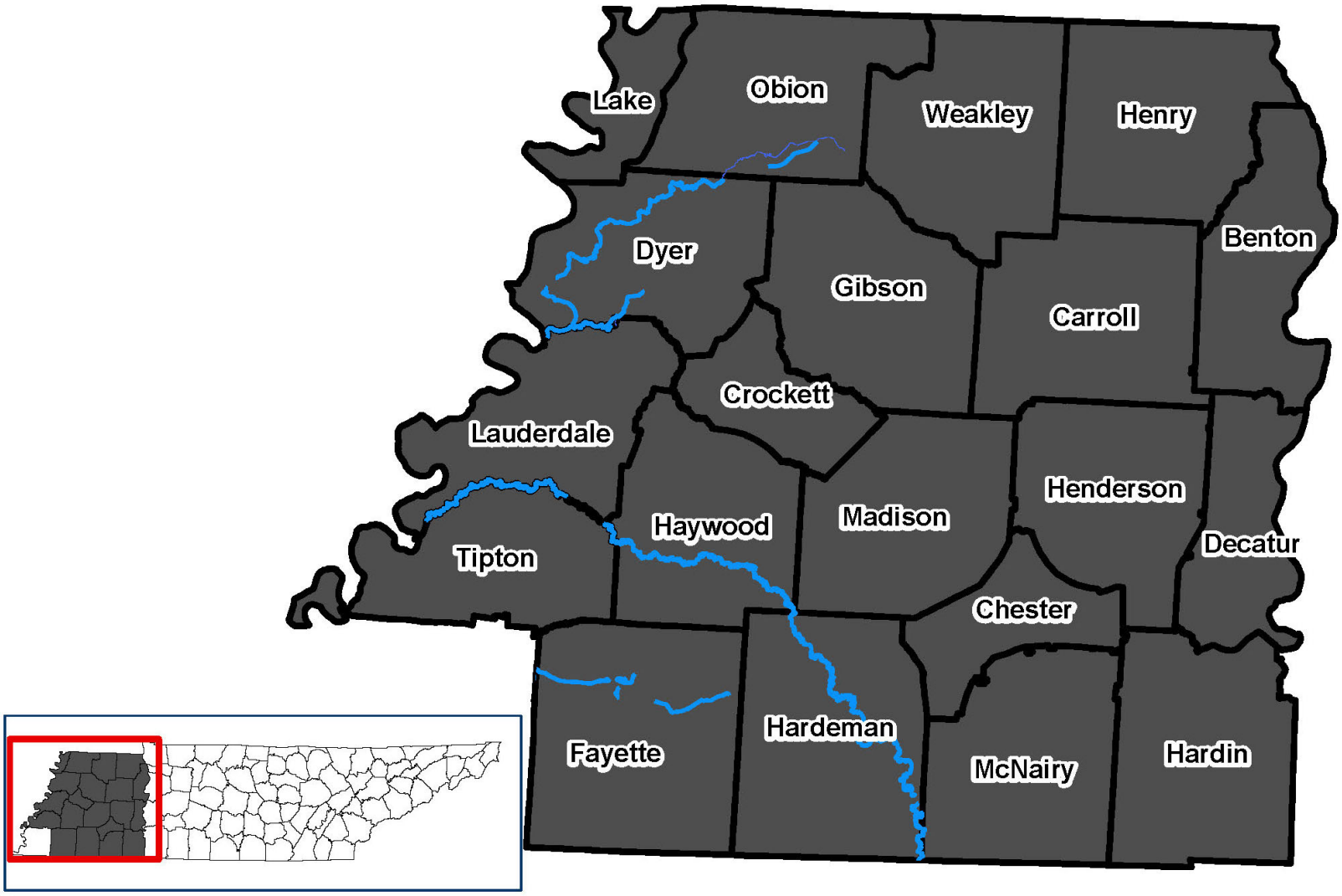


Amphibious trackhoe working to clear stream obstructions at the West Tennessee River Basin Authority.
Source: Photo provided by auditee.



Stream damage repair.
Source: Photo provided by auditee.

West Tennessee River Basin Authority



WEST TENNESSEE RIVER BASIN AUTHORITY

KEY CONCLUSIONS

Our audit work related to the West Tennessee River Basin Authority (West Tennessee Authority) resulted in the following key conclusions:

PRIOR AUDIT FINDINGS

West Tennessee Authority did not have any repeated or partially resolved audit findings.

FINDING

Finding 10 – West Tennessee Authority's board of directors had attendance issues

OBSERVATIONS

Observation 23 – West Tennessee Authority's board policies were unreasonable and inconsistent

Observation 24 – West Tennessee Authority did not provide adequate internal controls in one area

Observation 25 – West Tennessee Authority did not have annual financial statement audits

---

Finding 10 - West Tennessee Authority's board of directors had attendance issues

Conditions and Causes

Based on our discussion with staff and testwork performed during our audit of West Tennessee River Basin Authority, we identified board members that attended less than 50% of board meetings held during our audit period of July 1, 2016 through, April 12, 2019:

Board Members Attending Less Than 50% of Meetings	Fiscal Year
9 of 31 (29%)	2017
13 of 31 (42%)	2018
9 of 31 (29%)	2019

The Executive Director stated that member absences are not a problem because of the frequent communication between management and board members. Also, each board member can appoint two advisory members to aid them in their board activities. When board members are

unable to attend meetings, the advisory members can attend and update the board members later. Additionally, he stated that the board members are involved and very interested in the activities of the authority. Attendance issues can also affect whether the board has enough members in attendance to achieve a quorum, which is addressed in **Observation 23** below.

Criteria

As best practice, board members should attend a minimum of 50% of board meetings held each fiscal year during their tenure on the board to ensure that each member is actively participating in board business.

Effect

While it is reasonable that members may have to miss meetings from time to time, if board members are frequently absent, the board cannot ensure that a quorum will be present at each meeting and that all 31 members are participating and representing their constituents, as prescribed by statute.

Recommendation

The board chair, working in conjunction with the Executive Director, should emphasize to all board members the importance of attending board meetings.

Management's Comment

We concur, in part. We acknowledge that the metrics considered by the audit committee do indicate an attendance issue. However, we do not feel that the effectiveness of the board or the agency has suffered any negative consequence. After discussion with the auditors and internally within the WTRBA [West Tennessee River Basin Authority] we have identified changes to improve attendance.

Observation 23 – West Tennessee Authority's board policies were unreasonable and inconsistent

Quorum

The bylaws of West Tennessee River Basin Authority's board of directors establish the quorum for conducting business as the number of board members present at the meeting rather than specifying the number of members that must be present. Although we did not find any instance of this occurring, under the bylaws as written, it is possible for one member to meet and conduct business. Upon further discussion, the Executive Director stated that three members could conduct business under *Robert's Rules of Order*. Either way, we question whether the board's method of establishing a quorum is reasonable.

According to the Executive Director, the quorum policy is not an issue since the agenda for each meeting is sent to members beforehand and members can determine if they need to attend to represent their geographic areas and their interests.

The quorum policy established by board bylaws should reflect a minimum number of members needed to demonstrate the will of the board when business is being conducted.

Conflict-of-Interest Policy

The Executive Director stated that West Tennessee Authority's board followed the Tennessee Department of Environment and Conservation's (TDEC) conflict-of-interest policy during our audit period. Under this policy, the board members should have signed an Ethics and Conflict of Interest Statement when they joined the board; however, the Executive Director stated that the TDEC policy does not require annual disclosure.

When we requested the board members' conflict-of-interest statements on February 5, 2019, authority staff provided statements from dates in fiscal year 2013. When we followed up on March 18, 2019, to ask for more recent conflict-of-interest statements, authority staff provided conflict-of-interest statements for 29 of 31 board members. Since these statements were signed on various dates, beginning February 20, 2019, after our initial inquiry, the authority does not appear to have been following TDEC's policy during our audit period.

Additionally, the TDEC Ethics and Conflict of Interest Statement does not contain an area for the board members to disclose potential conflicts.

West Tennessee Authority should work with its board of directors to design and implement its own conflict-of-interest policy and disclosure form. Board members should review the policy and complete disclosure statements annually, and the disclosure statements should contain an area for members to document potential conflicts. Without a policy and disclosure forms, no formal attestation exists that the board members are aware of conflicts in fact or appearance and that they are aware of the impact a conflict can have on the board and the authority.

Observation 24 – West Tennessee Authority management did not provide adequate internal controls in one area

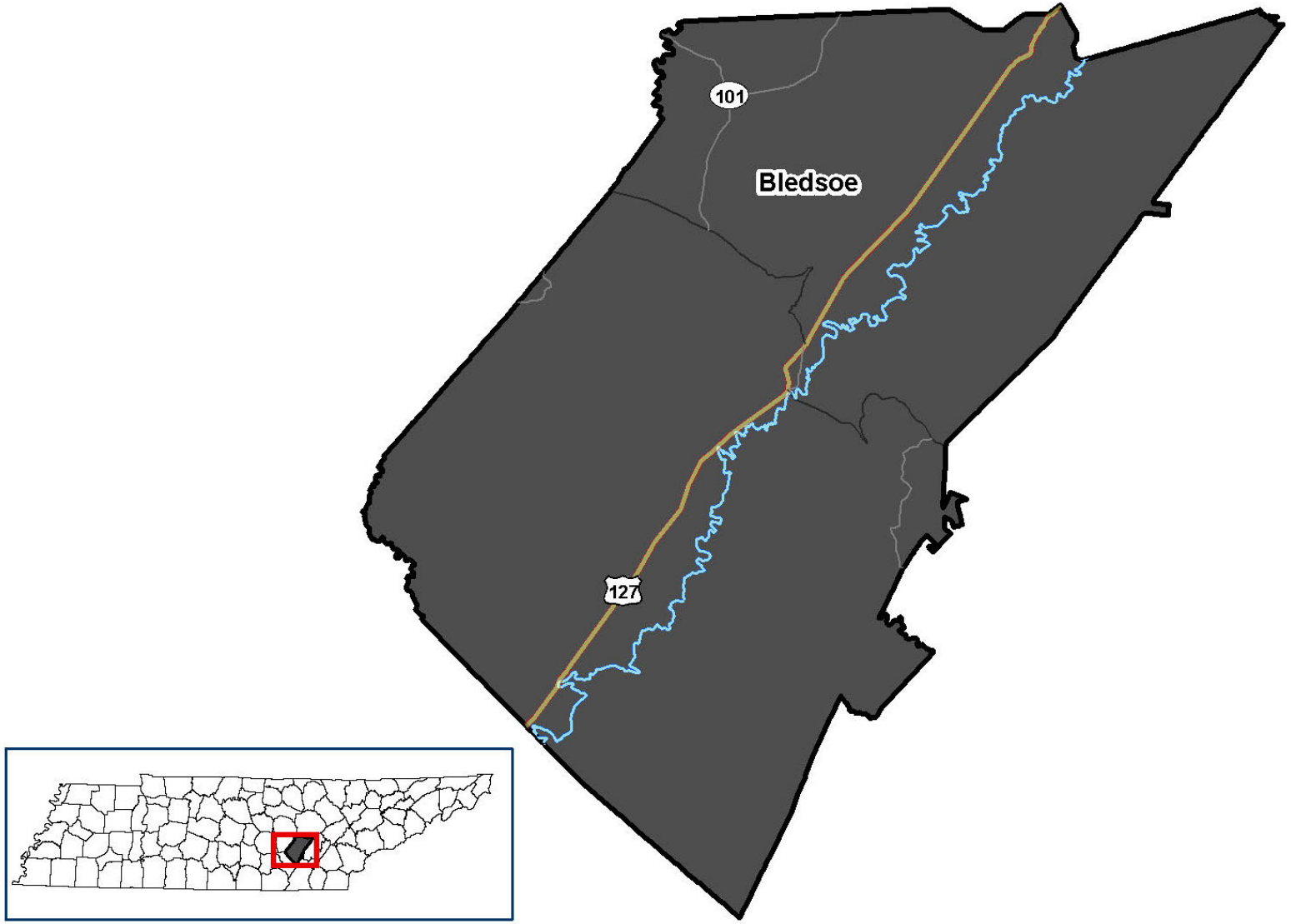
The West Tennessee River Basin Authority did not properly design and monitor internal controls in one area. Ineffective implementation of internal controls increases the likelihood of errors, data loss, and inability to continue operations. The details of this observation are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided the authority with detailed information regarding the specific conditions we identified.

Observation 25 – West Tennessee Authority did not have annual financial statement audits

Unlike other river basin agencies created in Title 64, Chapter 1, *Tennessee Code Annotated*, the West Tennessee River Basin Authority is not an independent entity but is established within the Tennessee Department of Environment and Conservation. All receipts and expenditures of the authority are accounted for in the state's accounting system. Since it is part of a state agency, it does not have separately issued financial statements and therefore does not have annual financial statement audits.

BLEDSOE REGIONAL WATER AUTHORITY
(INACTIVE)

Bledsoe Regional Water Authority



BLEDSOE REGIONAL WATER AUTHORITY

KEY CONCLUSIONS

Our audit work related to the Bledsoe Regional Water Authority (Bledsoe Authority) resulted in the following key conclusions:

OBSERVATION

Observation 26 – Bledsoe Authority is not included in the Tennessee Governmental Entity Review Law

FINDING

Finding 11 – Bledsoe Authority does not have a board of directors and is not operating as established by statute

MATTER FOR LEGISLATIVE CONSIDERATION

We also reported a **Matter for Legislative Consideration** on page 90.

Observation 26 – Bledsoe Authority is not included in the Tennessee Governmental Entity Review Law

The Bledsoe Regional Water Authority (Bledsoe Authority) was created in 2001 on behalf of the County of Bledsoe, the City of Pikeville, the North Bledsoe Utility District, the Fall Creek Falls Utility District, and the Summer City Utility District. As established in Section 64-1-1201, *Tennessee Code Annotated*, the purpose of the authority is to plan and develop the water resources and to provide necessary wastewater collection and treatment, environmental services, and secure economic benefits. The enabling legislation also provided for the creation of a six-member board of directors.

During our audit, we determined that Bledsoe Authority was not included with the other eight river basin agencies in the Tennessee Governmental Entity Review Law,[23] Title 4, Chapter

[23] This law is known as the Sunset Law, which requires the Joint Government Operations Committee to review each entity created in statute at least once every eight years to determine whether the entity should be continued, restructured, or terminated.

29, *Tennessee Code Annotated*. Because Bledsoe Authority was not given a sunset date in its enacting legislation, it has not been reviewed since its inception.

Finding 11 – Bledsoe Authority does not have a board of directors and is not operating as established by statute

Condition and Criteria

Authority and Board of Directors

Bledsoe Regional Water Authority (Bledsoe Authority) does not have a board of directors and is not operating as statutorily established. Because a board has not been appointed and the authority is not conducting business, it is not meeting its statutory mission.

Section 64-1-1201, *Tennessee Code Annotated*, states that Bledsoe Authority was created and established for the purpose of

> (A) Planning, acquiring, constructing, improving, extending, furnishing, equipping, financing, owning, operating, and maintaining a water and wastewater system, including treatment, storage, distribution and collection facilities, properties and services, as provided in this part;
>
> (B) The selling, donating, conveying, or otherwise disposing of water and wastewater; and
>
> (C) Undertaking any project or work related thereto or connected therewith.

The statute further states that Bledsoe Authority's purpose is "to plan and develop the water resources of the geographic region and to provide necessary wastewater collection and treatment." Additionally, it is "to provide environmental services and to secure economic benefits" to the area.

As noted in the background section on page 15 of the report, Section 64-1-1203, *Tennessee Code Annotated*, created a six-member board of directors to govern the authority.

Enabling Legislation

Chapter 223, Section 22 of the Public Acts of 2001, states that "the creation and activation of the authority shall not occur until approved by a two-thirds (2/3) favorable vote of the governing body of Bledsoe County." It also states that "its approval or disapproval shall be proclaimed by the presiding officer of the governing body and certified by such officer to the Secretary of State."

We spoke with the Bledsoe County Mayor, who took office in 2002, and he stated that the Bledsoe County Commission had approved the creation of the authority and provided a record of the commission meeting during which the vote occurred, dated June 11, 2001. The record indicated that there was a motion, which was seconded, to approve the authority's creation; however, there was no documentation of the results of the voice vote. As a result, we could not

determine if the vote passed. We also contacted the Director of Publications in the Tennessee Secretary of State's office, and he stated that his office had not received a notification of this vote.

Utility Districts

Based on our research, some of the utility districts identified in the statute as appointing authorities for the authority's board of directors are no longer in operation. According to Section 64-1-1203, *Tennessee Code Annotated*, each of the following utility districts' governing bodies selects a director for the board:

- Pikeville Utility District,
- North Bledsoe Utility District,
- Fall Creek Falls Utility District, and
- Summer City Utility District.

We found that the City of Pikeville absorbed the North Bledsoe Utility District; therefore, it no longer exists. Additionally, based on our discussion with the Utilities Specialist in the Office of the Comptroller of the Treasury, the City of Dayton absorbed the Summer City Utility District. The City of Dayton is not a part of the authority.

Cause

We discussed the authority with the Bledsoe County Mayor, the Administrative Assistant to the Mayor of Pikeville, and the President of the Fall Creek Falls Utility District. The Bledsoe County Mayor was the only one of the three that was aware of the legislation to create the authority.

When we spoke further with the Bledsoe County Mayor, he stated that when he took office in 2002, his predecessor informed him about the authority. He explained that at that time, he attempted to organize the authority and begin operations; however, the other stakeholders were not interested. According to the Mayor, Bledsoe County is still experiencing water issues, and has experienced these issues for years. He stated that in his opinion, in its current state, the authority is not serving its purpose for Bledsoe County.

Effect

Because the authority does not have a board and is not operating, it is not fulfilling its mission. As a result, it cannot work to address water issues in the area as they arise.

Recommendation

The Bledsoe County Commission should ensure that it fulfills the statutory requirement to approve the creation of the Bledsoe Regional Water Authority. It may be necessary, given the amount of time that has passed, for the commission to re-authorize the authority's creation.

Furthermore, once the necessary actions to authorize the authority are carried out, the Bledsoe County Mayor and other stakeholders in the region, including the City of Pikeville and the utility districts identified in statute that are still in operation, should work together to establish the authority and begin operations to meet its statutory mission.

We have also noted a **Matter for Legislative Consideration** regarding the authority.

Management's Comment

I concur with your findings related to the Bledsoe County Water Authority.

I was first elected Bledsoe County Mayor in September 2002. At that time the authority had been enacted, but never activated for any purpose. To my knowledge this agency has not appointed an authoritative board, nor has there been any interest in doing so.

MATTER FOR LEGISLATIVE CONSIDERATION

This performance audit found that the Bledsoe Regional Water Authority does not have a board of directors and has not been in operation since its creation in 2001, even though the Bledsoe County Mayor believes the area has water issues that have not been addressed. Additionally, some of the utility districts whose governing bodies are appointing authorities for the authority's board are no longer in operation. If the General Assembly determines there is a continued need for the authority, it may wish to reconsider the appointing authorities for and the composition of the board of directors. The General Assembly may also wish to consider whether this authority should be terminated.

APPENDICES

APPENDIX 1
Methodologies to Achieve Objectives

Beech River Watershed Development Authority

Mission

To meet our objective, we examined Section 64-1-102(a), *Tennessee Code Annotated* to determine the Beech River Watershed Development Authority's purpose and authorized activities. We interviewed management and discussed the authority's mission and activities. After learning that the authority maintains a campground, marina and lake-side recreation areas, we visited the Beech Lake campground, marina, and public-use recreation area. We compared these activities to the authority's purpose established in *Tennessee Code Annotated*.

Internal Controls (Expenditures, Revenues, and Independent Audit)

To meet our objectives, we conducted interviews with applicable personnel and reviewed documentation supporting the described processes. We then compared these processes to internal control best practices. We requested independent financial audit reports covering our audit period.

To determine if the authority receives cash revenues, we conducted interviews with applicable personnel and reviewed the authority's revenues population. From a population of 1,144 revenue transactions totaling $1,130,683, collected during the period July 1, 2016, through March 30, 2019,[24] we selected and tested a nonstatistical random sample of 25 transactions to determine if management maintained documentation to support the amount in the accounting records and that the amount received was deposited timely.

Also, from a population of 2,331 expenditure transactions totaling $1,229,991, paid during the period July 1, 2016, through March 30, 2019,[25] we selected and tested a nonstatistical random sample of 25 transactions to determine if management maintained documentation to support the amount in the accounting records, if the documentation indicated the transaction was in support of the authority's mission, and that the expenditure was properly approved.

Risk Assessment

To determine if management prepared annual risk assessments, we conducted interviews with applicable personnel.

[24] The authority provided the revenue and expenditure populations from its accounting information system. We did not audit this system; therefore, we make no assertions relating to the completeness of the populations. We believe the populations represented an adequate cross-section of revenues and expenditures to conclude on the objectives.

[25] Payroll expenditures were provided for the period July 1, 2016 through January 31, 2019, whereas all other expenditures were provided through March 30, 2019.

Records Management

We consulted officials of the Tennessee Secretary of State's Office of Records Management to determine if the authority was subject to State of Tennessee Records Disposition Authorizations. We made inquiries with the authority's management to determine if they had their own official records management policy.

Board of Directors

We examined Section 64-1-101, *Tennessee Code Annotated*, to determine the statutorily required number of board members for the Beech River Watershed Development Authority. We reviewed an authority-provided board member list demonstrating their representation and appointing authority.

To determine if quorum standards were met for the authority, we reviewed board bylaws pertaining to mandated quorums. We then reviewed board meeting minutes provided for 13 board meetings that took place from July 1, 2016, through March 28, 2019, to determine which members attended each board meeting. We performed an analysis of board members' attendance to document the percentage of board meetings each member attended during our audit period. We noted any board member that did not attend at least 50% of the meetings in any one of the fiscal years, in order to determine if board members consistently attended meetings.

To determine if the authority had policies and procedures in place to identify and prevent conflicts of interest of board members, we reviewed board bylaws and conflict-of-interest policy. We then performed testwork to determine if all board members annually signed the conflict-of-interest acknowledgement statement for fiscal years 2017, 2018, and 2019.

Staff Turnover

To achieve our objective, we used authority-provided employment data from July 1, 2016, through June 30, 2018. We used employee separations and non-seasonal employment numbers to calculate an annual average turnover rate. We also discussed turnover with management to determine if turnover has affected the authority's mission.

Prior Audit Finding – Board Oversight

To determine if the prior finding was corrected, we conducted interviews with applicable personnel. We also examined management's responses to the prior audit findings regarding internal controls, reviewed board meeting minutes, and reviewed the authority's independent audit contracts for federal fiscal years 2016 through 2018.

Prior Audit Finding – Sovereign Immunity

To determine if there had been any clarification to Beech River's sovereign immunity status, we reviewed its creating statutes for amendments since the July 2013 Sunset Audit. We

received an opinion from our Office of General Counsel about whether or not the agencies possessed sovereign immunity for liability purposes. We also reviewed a past opinion from the state's Attorney General regarding whether Carroll County Watershed Authority is a state agency for liability purposes. Additionally, we had discussions with management to determine if they were aware of any amendments and if they thought that the legislation needed clarification.

Carroll County Watershed Authority

Mission

To determine the Carroll County Watershed Authority's purpose and authorized activities, we examined Section 64-1-804, *Tennessee Code Annotated*. We interviewed management and discussed the authority's mission and activities. After learning that the authority had created a lake for recreational use, we visited the lake and a nearby housing subdivision under development. We also visited the authority's recreational vehicle park. We compared these activities to the authority's purpose established in *Tennessee Code Annotated*.

Internal Controls (Expenditures, Revenues, and Independent Audit)

To meet our objectives, we conducted interviews with applicable personnel and reviewed documentation supporting the described processes. We then compared these processes to internal control best practices. We requested independent financial audit reports covering our audit period.

To determine if the authority receives cash revenues, we conducted interviews with applicable personnel and reviewed the authority's revenues population. From a population of 2,356 revenue transactions totaling $1,803,977, collected during the period July 1, 2016, through December 31, 2018,[26] we selected and tested a nonstatistical random sample of 25 transactions to determine if management maintained documentation to support the amount in the accounting records and that the amount received was deposited timely.

Also, from a population of 1,770 expenditure transactions totaling $2,168,253, paid during the period July 1, 2016, through December 31, 2018, we selected and tested a nonstatistical random sample of 25 transactions to determine if management maintained documentation to support the amount in the accounting records, if the documentation indicated the transaction was in support of the authority's mission, and that the expenditure was properly approved.

Risk Assessment

To determine if management prepared annual risk assessments, we conducted interviews with applicable personnel.

[26] We obtained our populations from the authority, which said that the population was obtained from its accounting information system. We did not audit this system. Consequently, we make no assertions relating to the completion of the populations used in the testwork. We believe the populations received provided an adequate cross-section of revenues and expenditures to conclude on the objectives.

Records Management

We consulted officials of the Tennessee Secretary of State's Office of Records Management to determine if the authority was subject to State of Tennessee Record Disposition Authorities (RDAs). We made inquiries with the authority's management to determine if they had their own official records management policy.

Board of Directors

We examined Section 64-1-802, *Tennessee Code Annotated*, to determine the statutorily required number of board members for the Carroll County Watershed Authority. We reviewed an authority-provided board member list demonstrating their representation and appointing authority.

To determine if quorum standards were met for the authority, we reviewed Section 64-1-802(h), *Tennessee Code Annotated,* pertaining to mandated quorums. We then reviewed board meeting minutes provided for 32 board meetings that took place from July 1, 2016, through May 28, 2019, to determine which members attended each board meeting. We performed an analysis of board members' attendance to document the percentage of board meetings each member attended during our audit period. We noted any board member that did not attend at least 50% of the meetings in any one of the fiscal years, in order to determine if board members consistently attended meetings.

We requested from the authority the policies and procedures in place to identify and prevent conflicts of interest of board members. The authority does not have a conflict-of-interest policy for board members to review, document potential conflicts, and sign on an annual basis.

Staff Turnover

To achieve our objective, we used authority-provided employment data from July 1, 2016, through June 30, 2018. We used employee separations and non-seasonal employment numbers to calculate an annual average turnover rate. We also discussed turnover with management to determine if turnover has affected the authority's mission.

Prior Audit Finding – Board Oversight

To determine if the prior finding was corrected, we conducted interviews with applicable personnel. We also examined management's responses to the prior audit findings regarding internal controls, reviewed board meeting minutes, and reviewed the authority's fiscal year 2019 independent audit contract.

Prior Audit Finding – Sovereign Immunity

To determine if there had been any clarification to Carroll County Authority's sovereign immunity status, we reviewed the authority's creating statutes for amendments since the July 2013 Sunset Audit. We received an opinion from our Office of General Counsel about whether or not the agencies possessed sovereign immunity for liability purposes. We also reviewed a past opinion

from the state's Attorney General regarding whether Carroll County Watershed Authority is a state agency for liability purposes. Additionally, we had discussions with management to determine if they were aware of any amendments and if they thought that the legislation needed clarification.

Chickasaw Basin Authority

Mission

To meet our objective, we examined Section 64-1-204, *Tennessee Code Annotated*, to determine the Chickasaw Basin Authority's purpose and authorized activities. We interviewed management and discussed the authority's mission and activities. After learning that the authority maintains the North Fork flood control dam and maintains the walking paths at the Wolf River Wildlife Area, we visited both locations. We compared these activities to the authority's purpose established in *Tennessee Code Annotated*.

Internal Controls (Expenditures, Revenues, and Independent Audit)

To meet our objectives, we conducted interviews with applicable personnel and reviewed documentation supporting the described processes. We then compared these processes to internal control best practices. We requested independent financial audit reports covering our audit period.

From a population of 38 expenditure transactions totaling $121,722, paid during the period July 1, 2016, through January 31, 2019,[27] we selected and tested a nonstatistical random sample of 25 transactions to determine if management maintained documentation to support the amount in the accounting records, if the documentation indicated the transaction was in support of the authority's mission, and that the expenditure was properly approved.

To determine if the authority receives cash revenues, we conducted interviews with applicable personnel and reviewed the authority's revenues population for the period of July 1, 2016, through January 31, 2019. We learned that the authority did not receive cash from the public. Therefore, we determined that this was not a high risk area and no further work was performed.

Risk Assessment

To determine if management prepared annual risk assessments, we conducted interviews with applicable personnel.

Records Management

We consulted officials of the Tennessee Secretary of State's Office of Records Management to determine if the authority was subject to State of Tennessee RDAs. We made

[27] We obtained our populations from the authority, which said that the population was obtained from its accounting information system. We did not audit this system. Consequently, we make no assertions relating to the completion of the populations used in the testwork. We believe the populations received provided an adequate cross-section of revenues and expenditures to conclude on the objectives.

inquiries with the authority's management to determine if they had their own official records management policy.

Board of Directors

We examined Section 64-1-203, *Tennessee Code Annotated*, to determine the statutorily required number of board members for the Chickasaw Basin Authority. We reviewed an authority-provided board member list demonstrating their representation and appointing authority.

To determine if quorum standards were met for the Chickasaw, we reviewed Section 64-1-203(c)*, Tennessee Code Annotated,* pertaining to mandated quorums. We then reviewed board meeting minutes provided for five board meetings that took place from July 1, 2016, through September 10, 2018, to determine which members attended each board meeting. We performed an analysis of board members' attendance to document the percentage of board meetings each member attended during our audit period. We noted any board member that did not attend at least 50% of the meetings in any one of the fiscal years, in order to determine if board members consistently attended meetings.

To determine if Chickasaw had policies and procedures in place to identify and prevent conflicts of interest of board members, we reviewed the board's bylaws and conflict-of-interest policy. We then performed testwork to determine if all board members annually signed the conflict-of-interest acknowledgement statement for fiscal years 2017, 2018, and 2019.

Staff Turnover

Chickasaw has no employees and has no turnover. Staff from Shelby County government carries out all business for the authority.

Prior Audit Finding – Sovereign Immunity

To determine if there had been any clarification to Chickasaw's sovereign immunity status, we reviewed the authority's creating statutes for amendments since the July 2013 Sunset Audit. We received an opinion from our Office of General Counsel about whether or not the agencies possessed sovereign immunity for liability purposes. We also reviewed a past opinion from the state's Attorney General regarding whether Carroll County Watershed Authority is a state agency for liability purposes. Additionally, we had discussions with management to determine if they were aware of any amendments and if they thought that the legislation needed clarification.

Prior Audit Finding – Chickasaw Budget

To determine if the prior finding was corrected, we conducted interviews with applicable personnel. We also examined management's responses to the prior audit findings regarding submissions of annual budgets, and inquired with Tennessee Department of Environment and Conservation management regarding the authority's budget submissions.

Sequatchie Valley Planning and Development Agency

Mission

To meet our objective, we examined Section 64-1-501, *Tennessee Code Annotated*, to determine Sequatchie Valley Planning and Development Agency's purpose and authorized activities. We interviewed management and discussed the agency's mission and activities. After learning that the agency provides early education services exclusively, we visited two of the agency's Head Start centers and observed their classroom and playground facilities. We compared these activities to the agency's purpose established in *Tennessee Code Annotated*.

Internal Controls (Expenditures, Revenues, and Independent Audit)

To meet our objectives, we conducted interviews with applicable personnel and reviewed documentation supporting the described processes. We then compared these processes to internal control best practices. We requested independent financial audit reports covering our audit period.

From a population of 14,030 expenditure transactions totaling $17,762,529, paid during the period July 1, 2016, through February 12, 2019,[28] we selected and tested a nonstatistical random sample of 25 transactions to determine if management maintained documentation to support the amount in the accounting records, if the documentation indicated the transaction was in support of the agency's mission, and that the expenditure was properly approved.

To determine if the agency receives cash revenues, we conducted interviews with applicable personnel and reviewed the agency's independent audit reports for fiscal years 2017 and 2018. We learned that the authority did not receive cash from the public. Therefore, we determined that this was not a high risk area and no further work was performed.

Risk Assessment

To determine if management prepared annual risk assessments, we conducted interviews with applicable personnel.

Information Systems

We compared management's internal control activities to state information systems security policies and industry best practices.

[28] We obtained our populations from the agency, which said that the population was obtained from its accounting information system. We did not audit this system. Consequently, we make no assertions relating to the completion of the populations used in the testwork. We believe the populations received provided an adequate cross-section of revenues and expenditures to conclude on the objectives.

Records Management

We consulted officials of the Tennessee Secretary of State's Office of Records Management to determine if the agency was subject to State of Tennessee RDAs. We obtained the agency's records management policy.

Board of Directors

We examined Section 64-1-502, *Tennessee Code Annotated*, to determine the statutorily required number of board members for the Sequatchie Valley Planning and Development Agency. We reviewed an agency-provided board member list demonstrating their representation and appointing authority.

To determine if quorum standards were met for the Sequatchie Valley, we reviewed board bylaws pertaining to mandated quorums. We then reviewed board meeting minutes provided for 18 board meetings that took place from July 1, 2016, through April 9, 2019, to determine which members attended each board meeting. We performed an analysis of board members' attendance to document the percentage of board meetings each member attended during our audit period. We noted any board member that did not attend at least 50% of the meetings in any one of the fiscal years, in order to determine if board members consistently attended meetings.

To determine if Sequatchie Valley had policies and procedures in place to identify and prevent conflicts of interest of board members, we reviewed the board's bylaws and conflict-of-interest policy. We then performed testwork to determine if all board members annually signed the conflict-of-interest acknowledgement statement for fiscal years 2017, 2018, and 2019.

Staff Turnover

To achieve our objective, we used agency-provided employment data from July 1, 2016, through June 30, 2018. We used employee separations numbers to calculate an annual average turnover rate. We also discussed turnover with management to determine if turnover has affected the agency's mission.

Prior Audit Finding – Board Oversight

To determine if the prior finding was corrected, we conducted interviews with applicable personnel. We also examined management's responses to the prior audit findings regarding internal controls, reviewed board meeting minutes, and reviewed audit contracts for fiscal years 2017 and 2018.

Prior Audit Finding – Sovereign Immunity

To determine if there had been any clarification to Sequatchie Valley's sovereign immunity status, we reviewed the agency's creating statutes for amendments since the July 2013 Sunset Audit. We received an opinion from our Office of General Counsel about whether or not the agencies possessed sovereign immunity for liability purposes. We also reviewed a past opinion

from the state's Attorney General regarding whether Carroll County Watershed Authority is a state agency for liability purposes. Additionally, we had discussions with management to determine if they were aware of any amendments and if they thought that the legislation needed clarification.

Tellico Reservoir Development Agency

Mission

To meet our objective, we examined Section 64-1-701, 64-1-703, and 64-1-706, *Tennessee Code Annotated,* to determine Tellico Reservoir Development Agency's purpose and authorized activities. We interviewed management and discussed the agency's mission and activities. After learning that the agency operates an industrial park, marina, three campgrounds, and a housing development, we visited each of these. We compared these activities to the agency's purpose established in *Tennessee Code Annotated*.

Internal Controls (Expenditures, Revenues, and Independent Audit)

To meet our objectives, we conducted interviews with applicable personnel and reviewed documentation supporting the described processes. We then compared these processes to internal control best practices. We requested independent financial audit reports covering our audit period.

To determine if the authority receives cash revenues, we conducted interviews with applicable personnel and reviewed the authority's revenues population. From a population of 2,462 revenue transactions totaling $7,917,356, collected during the period July 1, 2016, through March 14, 2019,[29] we selected and tested a nonstatistical random sample of 25 transactions and three haphazardly selected transactions[30] to determine if management maintained documentation to support the amount in the accounting records and that the amount received was deposited timely.

Also, from a population of 10,992 expenditure transactions totaling $10,003,368, paid during the period July 1, 2016, through March 14, 2019, we selected and tested a nonstatistical random sample of 25 transactions to determine if management maintained documentation to support the amount in the accounting records, if the documentation indicated the transaction was in support of the agency's mission, and that the expenditure was properly approved.

Risk Assessment

To determine if management prepared annual risk assessments, we conducted interviews with applicable personnel.

[29] We obtained our populations from the agency, which said that the population was obtained from its accounting information system. We did not audit this system. Consequently, we make no assertions relating to the completion of the populations used in the testwork. We believe the populations received provided an adequate cross-section of revenues and expenditures to conclude on the objectives.

[30] We haphazardly selected one transaction from each of Tellico's three campgrounds to ensure each one was represented in our testwork.

Records Management

We consulted with officials of the Tennessee Secretary of State's Office of Records Management to determine if the authority was subject to State of Tennessee RDAs. We made inquiries with the agency's management to determine if they had their own official records management policy.

Board of Directors

We examined Section 64-1-702, *Tennessee Code Annotated*, to determine the statutorily required number of board members for the Tellico Reservoir Development Agency. We reviewed an agency-provided board member list demonstrating their representation and appointing authority.

To determine if quorum standards were met for Tellico, we reviewed the board's bylaws pertaining to mandated quorums. We then reviewed board meeting minutes for 13 board meetings that took place from July 1, 2016, through February 8, 2019, to determine which members attended each board meeting. We performed an analysis of board members' attendance to document the percentage of board meetings each member attended during our audit period. We noted any board member that did not attend at least 50% of the meetings in any one of the fiscal years, in order to determine if board members consistently attended meetings.

To determine if Tellico had policies and procedures in place to identify and prevent conflicts of interest of board members, we reviewed the board's bylaws and conflict-of-interest policy. We then performed testwork to determine if all board members annually signed the conflict-of-interest acknowledgement statement for fiscal years 2017, 2018, and 2019.

Staff Turnover

To achieve our objective, we reviewed employee data, which showed no separations, and thus no turnover to analyze.

Prior Audit Finding – Board Oversight

To determine if the prior finding was corrected, we conducted interviews with applicable personnel. We also examined management's responses to the prior audit findings regarding internal controls, reviewed board meeting minutes, and reviewed the agency's independent audit contracts for fiscal years 2016 through 2019. The agency's fiscal year is September 1 through August 31.

Prior Audit Finding – Sovereign Immunity

To determine if there had been any clarification to Tellico's sovereign immunity status, we reviewed Tellico's creating statutes for amendments since the July 2013 Sunset Audit. We received an opinion from our Office of General Counsel about whether or not the agencies possessed sovereign immunity for liability purposes. We also reviewed a past opinion from the

state's Attorney General regarding whether Carroll County Watershed Authority is a state agency for liability purposes. Additionally, we had discussions with management to determine if they were aware of any amendments and if they thought that the legislation needed clarification.

Tennessee Duck River Development Agency

Mission

To meet our objective, we examined Sections 64-1-601 and 64-1-603, *Tennessee Code Annotated*, to determine the Tennessee Duck River Development Agency's purpose and authorized activities. We interviewed management and discussed the agency's mission and activities. After learning that the agency developed the Duck River Regional Water Supply Plan consisting of structural and non-structural components, we reviewed the plan and determined the status of each component. We compared these activities to the agency's purpose established in *Tennessee Code Annotated*.

Internal Controls (Expenditures, Revenues, and Independent Audit)

To meet our objectives, we conducted interviews with applicable personnel and reviewed documentation supporting the described processes. We then compared these processes to internal control best practices. We requested independent financial audit reports covering our audit period.

From a population of 856 expenditure transactions totaling $1,074,526, paid during the period July 1, 2016, through February 8, 2019,[31] we selected and tested a nonstatistical random sample of 25 transactions to determine if management maintained documentation to support the amount in the accounting records, if the documentation indicated the transaction was in support of the agency's mission, and that the expenditure was properly approved.

To determine if the agency receives cash revenues, we conducted interviews with applicable personnel and reviewed the agency's independent audit reports for fiscal years 2017 and 2018. We learned that the authority did not receive cash from the public. Therefore, we determined that this was not a high risk area and no further work was performed.

Risk Assessment

To determine if management prepared annual risk assessments, we conducted interviews with applicable personnel.

[31] We obtained our populations from the agency, which said that the population was obtained from its accounting information system. We did not audit this system. Consequently, we make no assertions relating to the completion of the populations used in the testwork. We believe the populations received provided an adequate cross-section of revenues and expenditures to conclude on the objectives.

Records Management

We consulted officials of the Tennessee Secretary of State's Office of Records Management to determine if the agency was subject to State of Tennessee RDAs. We made inquiries with the agency's management to determine if they had their own official records management policy.

Board of Directors

We examined Section 64-1-602, *Tennessee Code Annotated*, to determine the statutorily required number of board members for the Tennessee Duck River Development Agency. We reviewed board member lists demonstrating their representation and appointing authority and compared agency-provided information to board meeting minutes.

To determine if quorum standards were met for the agency, we reviewed board bylaws pertaining to mandated quorums. We then reviewed board meeting minutes for 12 board meetings that took place from July 1, 2016, through April 25, 2019, to determine which members attended each board meeting. We performed an analysis of board member attendance to document the percentage of board meetings board members attended during each fiscal year in our audit period. We noted any board member that did not attend at least 50% of the meetings held in any one of the fiscal years, in order to determine if board members consistently attended meetings.

To determine if the agency had policies and procedures in place to identify and prevent conflicts of interest of board members, we requested the conflict-of-interest policy, which was initiated in fiscal year 2019. We then performed testwork to determine if all board members signed the conflict-of-interest acknowledgement statement for fiscal year 2019.

Staff Turnover

To achieve our objective, we reviewed employee data, which showed no separations, and thus no turnover to analyze.

Prior Audit Finding – Board Oversight

To determine if the prior finding was corrected, we conducted interviews with applicable personnel. We also examined management's responses to the prior audit findings regarding internal controls, observed emails between management and the board chair, reviewed board meeting minutes, and reviewed independent audit contracts for fiscal years 2017 and 2018.

Prior Audit Finding – Sovereign Immunity

To determine if there had been any clarification to Duck River's sovereign immunity status, we reviewed the agency's creating statutes for amendments since the July 2013 Sunset Audit. We received an opinion from our Office of General Counsel about whether or not the agencies possessed sovereign immunity for liability purposes. We also reviewed a past opinion from the

state's Attorney General regarding whether Carroll County Watershed Authority is a state agency for liability purposes.

West Fork Drakes Creek Dam and Reservoir Interstate Authority

Board of Directors

We examined Section 64-1-902, *Tennessee Code Annotated*, to determine the statutorily required number of board members for the West Fork Drakes Creek Dam and Reservoir Interstate Authority. We reviewed board member lists demonstrating their representation and appointing authority and compared authority-provided information to board meeting minutes.

To determine if quorum standards were met for the authority, we reviewed respective statutory requirements pertaining to mandated quorums. We then reviewed board meeting minutes for three board meetings that took place from July 1, 2016, through September 10, 2018, to determine which members attended each board meeting. We performed an analysis of board member attendance to document the percentage of board meetings board members attended during each fiscal year in our audit period. We noted any board member that did not attend the annual meeting in any one of the fiscal years, in order to determine if board members consistently attended meetings.

We requested from West Fork policies and procedures in place to identify and prevent conflicts of interest of board members.

Staff Turnover

West Fork does not have any employees and therefore has no reportable turnover.

Prior Audit Finding – Sovereign Immunity

To determine if there had been any clarification to West Fork's sovereign immunity status, we reviewed the authority's creating statutes for amendments since the July 2013 Sunset Audit. We received an opinion from our Office of General Counsel about whether or not the agencies possessed sovereign immunity for liability purposes. We also reviewed a past opinion from the state's Attorney General regarding whether Carroll County Watershed Authority is a state agency for liability purposes.

Prior Audit Finding – West Fork Board/Mission

To determine if the board was now meeting as required by state statute, we conducted interviews with applicable personnel and obtained board meeting minutes.

To determine if the authority was accomplishing its mission to address Portland, Tennessee's water supply issues, we conducted interviews with the applicable personnel. We also conducted interviews with personnel from the Tennessee Department of Environment and

Conservation and the Tennessee Wildlife Resources Agency. We examined related documentation.

West Tennessee River Basin Authority

Mission

To meet our objective, we examined Section 64-1-1101, *Tennessee Code Annotated*, to determine the West Tennessee River Basin Authority's purpose and authorized activities. We interviewed management and discussed the authority's mission and activities. After learning that the authority maintains flood plain areas, we visited one of the flood plain areas that the authority maintains adjacent to the Middle Fork Forked Deer River. We compared these activities to the authority's purpose established in *Tennessee Code Annotated*.

Internal Controls (Expenditures, Revenues, and Independent Audit)

To meet our objectives, we conducted interviews with applicable personnel and reviewed documentation supporting the described processes. We then compared these processes to internal control best practices and reviewed general internal control recommendations made in the prior audit. We requested independent financial audit reports covering our audit period.

From a population of 19,762 expenditure transactions totaling $8,100,337, paid during the period July 1, 2016, through December 14, 2018, we selected and tested a nonstatistical random sample of 25 transactions to determine if management maintained documentation to support the amount in the accounting records, if the documentation indicated the transaction was in support of the authority's mission, and that the expenditure was properly approved.

To determine if the authority receives cash revenues, we conducted interviews with applicable personnel and reviewed the authority's annual reports for fiscal years 2017 and 2018. We learned that the authority did not receive cash from the public. Therefore, we determined that this was not a high risk area and no further work was performed.

Risk Assessment

To determine if management prepared annual risk assessments, we conducted interviews with applicable personnel.

Information Systems

We compared management's internal control activities to state information systems security policies and industry best practices.

Records Management

We consulted officials of the Tennessee Secretary of State's Office of Records Management to determine if the authority was subject to State of Tennessee RDAs. We made inquiries with the authority's management to determine if they had their own official records management policy.

Board of Directors

We examined Section 64-1-1102, *Tennessee Code Annotated*, to determine the statutorily required number of board members for the West Tennessee River Basin Authority. We reviewed an authority-provided board member list demonstrating their representation and appointing authority.

To determine if quorum standards were met for the authority, we reviewed board bylaws pertaining to mandated quorums. We then reviewed board meeting minutes for 12 board meetings that took place from July 1, 2016, through April 12, 2019, to determine which members attended each board meeting. We performed an analysis of board members' attendance to document the percentage of board meetings each member attended during our audit period. We noted any board member that did not attend at least 50% of the meetings in any one of the fiscal years, in order to determine if board members consistently attended meetings.

To determine if the authority had policies and procedures in place to identify and prevent conflicts of interest of board members, we reviewed the board's conflict-of-interest policy. We then performed testwork to determine if all board members annually signed the conflict-of-interest acknowledgement statement for fiscal years 2017, 2018, and 2019.

Staff Turnover

To achieve our objective, we obtained authority employment numbers. We reconciled employee turnover percentages based on queries from Edison, the state's accounting system, and reduced the employee separations and total count by seasonal and temporary positions. We also discussed turnover with the Executive Director to determine its impact on the authority's mission.

Prior Audit Finding – Sovereign Immunity

To determine if there had been any clarification to West Tennessee Authority's sovereign immunity status, we reviewed authority's creating statutes for amendments since the July 2013 Sunset Audit. We received an opinion from our Office of General Counsel about whether or not the agencies possessed sovereign immunity for liability purposes. We also reviewed a past opinion from the state's Attorney General regarding whether Carroll County Watershed Authority is a state agency for liability purposes.

Bledsoe Regional Water Authority

Mission

To meet our objective related to Bledsoe Regional Water Authority's statutory mission, we examined Section 22, Chapter 223, of the Public Acts of 2001 and Title 64, Chapter 1, Part 8, *Tennessee Code Annotated*, to determine the authority's purpose and the activities it was authorized to perform. We interviewed the Bledsoe County Mayor, the Mayor of Pikeville's Administrative Assistant, and the President of Fall Creek Falls Utilities to gain an understanding of the authority and its activities and compared those to the statute. We also spoke with the Utilities Specialist with the Office of the Comptroller of the Treasury to determine the status of the various utility districts named in statute.

APPENDIX 2
RIVER BASIN AGENCIES' BOARDS OF DIRECTORS
BOARD MEMBER LISTINGS

Beech River Watershed Development Authority
Board Members
As of March 28, 2019

Name	Appointment	Representing	Term End Date
Scott Barber	Governor Appointee	Decatur County	5/15/2024
Eddie Bray	Mayor	Henderson County	9/1/2022
Bryan Bunch, Chairman	Governor Appointee	Henderson County	5/15/2024
Mike Creasy	Mayor	Decatur County Mayor	9/1//2018
Brent Lay	Governor Appointee	Decatur County	6/30/2021
Jeffrey Lewis	Governor Appointee	Henderson County	6/30/2021
Phillip Renfroe	Governor Appointee	Henderson County	6/30/2027
David Salyers	Ex Officio	Commissioner, Tennessee Department of Environment and Conservation*	Ex Officio

Source: Beech River Watershed Development Authority staff.
*The commissioner serves in an advisory capacity without vote.

Carroll County Watershed Authority
Board Members
As of May 28, 2019

Name	Appointment	Representing	Term End Date
Joseph Butler	Governor Appointee	Carroll County	5/31/2024
Robert A. Clark	Governor Appointee	Carroll County	5/31/2024
Dale R. Kelley, Secretary/Treasurer	Governor Appointee	Carroll County	5/31/2020
Natalie Porter	Governor Appointee	Carroll County	5/31/2023
Joe T. Smothers	Governor Appointee	Carroll County	5/31/2022
Tommy Surber, Chairman	Governor Appointee	Carroll County	5/31/2020

Source: Carroll County Watershed Authority management.

Chickasaw Basin Authority
Board Members
As of September 10, 2018

Name	Appointment	Representing	Term End Date
John Zeanah	Memphis City Council Chair or Chair's authorized representative	Memphis City Council	1/1/2020
Tim Gwaltney	Mayor or Mayor's authorized representative	City of Germantown	11/30/2022
Ed Haley	Mayor or Mayor's authorized representative	City of Millington	11/30/2022
Emily Harrell	Mayor or Mayor's authorized representative	City of Lakeland	11/30/2022
Charles Perkins	Shelby County Mayor or Mayor's authorized representative	Shelby County	8/31/2022
Rick McClanahan	Mayor of Bartlett or Mayor's authorized representative	City of Bartlett	11/30/2022
Amber Mills	Shelby County Commissioner	Shelby County	8/4/2022
Mark Norris	Governor Appointee	Member At Large	1/18/2019
Jason Waters	Mayor or Mayor's authorized representative	Town of Collierville	11/30/2020
John Charles Wilson	Member, Shelby County Soil Conservation District Board of Supervisors	Shelby County Soil Conservation District Board of Supervisors	6/30/2023
Mike Wissman	Mayor or Mayor's authorized representative	Town of Arlington	11/30/2019
Manny Belen	Mayor or Mayor's authorized representative	City of Memphis	1/1/2020
Vacant	Member, Memphis City Council Member	City of Memphis	

Name	Appointment	Representing	Term End Date
Vacant	Shelby County Legislative Presiding Officer or Officer's authorized representative	Shelby County	
Rhea Taylor*	Mayor	Fayette County	

*According to Section 64-1-212(a), *Tennessee Code Annotated*, Fayette County is not part of Chickasaw Basin Authority; therefore, this director should not be on the board. See **Finding 6** on page 47.
Source: Chickasaw Basin Authority management.

Sequatchie Valley Planning and Development Agency
Board Members
As of April 9, 2019

Name	Appointment	Representing	Term End Date
Michael Brady	Mayor or designated member	Grundy County	8/31/2022
Phillip Cagle	Municipal Mayors' designated member	Bledsoe County	9/15/2024
D. Keith Cartwright	Mayor or designated member	Sequatchie County	8/31/2022
David Jackson	Mayor or designated member	Marion County	8/31/2022
Dwain Land, Chair	Municipal Mayors' designated member	Sequatchie County	5/30/2021
Gary Louallen	Mayor or designated member	Rhea County	8/30/2020
Gregg Ridley	Mayor or designated member	Bledsoe County	8/31/2022
George Thacker, Secretary	Mayor or designated member	Rhea County	8/31/2022
Vacant	Governor Appointee	Bledsoe County	
Vacant	Governor Appointee	Marion County	
Vacant	Governor Appointee	Rhea County	
Vacant	Governor Appointee	Grundy County	
Vacant	Governor Appointee	Sequatchie County	
Vacant	Governor Appointee	Governor's Staff or Cabinet	
Vacant	Municipal Mayors' designated member	Grundy County	
Vacant	Municipal Mayors' designated member	Marion County	

Source: Sequatchie Valley Planning and Development Agency management.

Tellico Reservoir Development Agency
Board Members
As of February 8, 2019

Name	Appointment	Representing	Term End Date
David Black	Mayor Appointee	Blount County	8/31/2016*
Buddy Bradshaw	Mayor	Loudon County	8/31/2022
Mitch Ingram, Vice Chairman	Mayor	Monroe County	8/31/2022
Gene Lambert	Mayor Appointee	Loudon County	8/31/2018*
Randy Massey	Mayor Appointee	Blount County	8/31/2020
Jimmy Matlock	Mayor Appointee	Loudon County	8/31/2020
Ed Mitchell, Chairman	Mayor	Blount County	8/31/2022
Patty Weaver	Mayor Appointee	Monroe County	8/31/2018*
Mike Webb	Mayor Appointee	Monroe County	8/31/2022

*Currently serving since a successor has not been appointed.
Source: Tellico Reservoir Development Agency Secretary.

Tennessee Duck River Development Agency
Board Members
April 25, 2019

Name	Appointment	Representing	Term End Date
Jim Bingham	Governor Appointee	City Mayor-At-Large	12/31/2021
Lane Curlee	Governor Appointee	Coffee County	12/31/2022
Eslick Daniel, Vice Chairman	Governor Appointee	Member-At-Large	12/31/2023
Vacant	Governor Appointee	County Mayor-At-Large	12/31/2021
Hershel Mayberry	Governor Appointee	Hickman County	12/31/2021
Charles W. McDonald	Governor Appointee	Bedford County	11/30/2022
Lonnie Norman	Governor Appointee	City Mayor-At-Large	12/31/2021
Vacant	Governor Appointee	County Mayor-At-Large	12/31/2021
Thomas Peebles, Chairman	Governor Appointee	Member-At-Large	12/31/2023
Joanne Pogue	Governor Appointee	Maury County	11/30/2022
Tony White	Governor Appointee	Marshall County	12/31/2025
Vacant	Governor Appointee	Governor's Staff or Cabinet	

Source: Tennessee Duck River Development Agency management.

West Fork Drakes Creek Dam and Reservoir Interstate Authority
Board Members
As of September 10, 2018

Name	Appointment	Representing	Term End Date
Ronnie Clark, Vice Chairman	Mayor	Franklin, KY	12/31/2018
Billy Geminden	Sumner County Legislative Body	Sumner County, TN	8/2/2022
Wayne Goodrum, Treasurer	Franklin Foundation Board	Franklin, KY	12/31/2021
John Kerley	Portland City Legislative Body	Portland, TN	11/3/2020
Jamie Powell	Franklin City Legislative Body	Franklin, KY	12/31/2018
Larry Randolph	Simpson County Legislative Body	Simpson County, KY	12/31/2018
Larry Riggsbee, Secretary	Portland Industrial Foundation Board	Portland, TN	8/4/2022
Stephen Snider	Commissioner or designee	Simpson County Water District	12/31/2021
Kenneth Wilber, Chairman	Mayor	Portland, TN	11/6/2018
Vacant	Commissioner or designee	Sumner County Water Authority	

Source: West Fork Drakes Creek Dam and Reservoir Interstate Authority management

West Tennessee River Basin Authority
Board Members
As of April 12, 2019

Name	Appointment	Representing	Term End Date
Hugh Adams	Governor Appointee	Tennessee Farm Bureau	6/30/2022
Harris Armour	Governor Appointee	Tennessee Association of Conservation Districts	6/30/2021
William R. Ashe	Governor Appointee	Tennessee Forestry Association	6/30/2022
Eddie Bray	Mayor	Henderson County	8/31/2022
Joseph Butler	Mayor	Carroll County	8/31/2022
Dr. James Byford	Governor Appointee	Tennessee Wildlife Federation	6/30/2022
Jake Bynum	Mayor	Weakley County	8/31/2022
Mike Creasy	Mayor	Decatur County	8/31/2022
Kevin C. Davis	Mayor	Hardin County	8/31/2022
Maurice Gaines	Mayor	Lauderdale County	8/31/2022
Brent Greer, Chairman	Mayor	Henry County	8/31/2022
Representative Bruce Griffey	Speaker of the House Appointee	State House of Representatives	11/3/2020
Jimmy Harris, Vice Chairman	Mayor	Madison County	8/31/2022
Dr. Charlie Hatcher	Commissioner	Tennessee Department of Agriculture	Ex Officio
Jeff Huffman	Mayor	Tipton County	8/31/2022
Barry Hutcherson	Mayor	Chester County	8/31/2022
Senator Ed Jackson	Speaker of the Senate Appointee	State Senate	11/8/2022
Denny Johnson	Mayor	Lake County	8/31/2022
Brett Lashlee	Mayor	Benton County	8/31/2022
David Livingston	Mayor	Haywood County	8/31/2022
Jason Maxedon	Executive Director	Tennessee Wildlife Resources Agency	Ex Officio
Benny McGuire, Secretary	Mayor	Obion County	8/31/2022
Gary Reasons	Mayor	Crockett County	8/31/2022
Jimmy Sain	Mayor	Hardeman County	8/31/2022
David Salyers	Commissioner	Tennessee Department of Environment and Conservation	Ex Officio
Larry Smith	Mayor	McNairy County	8/31/2022
Senator John Stevens	Speaker of the Senate Appointee	State Senate	11/3/2020
Rhea Taylor	Mayor	Fayette County	8/31/2022

Name	Appointment	Representing	Term End Date
Representative Chris Todd	Speaker of the House Appointee	State House of Representatives	11/3/2020
Tom Witherspoon	Mayor	Gibson County	8/31/2022
Chris Young	Mayor	Dyer County	8/31/2022

Source: West Tennessee River Basin Authority management.

APPENDIX 3
RIVER BASIN AGENCIES' FINANCIAL INFORMATION

BEECH RIVER WATERSHED DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For The Year Ended September 30*,

	2017	2016
Operating revenues:		
Lot sales:		
Subdivision lot sales	$ 73,500	$ 127,700
Land and development costs	(30,047)	(38,424)
	43,453	89,276
Other operating revenue:		
Permit sales	61,166	72,708
Local funding	9,400	-
Water sales - City of Lexington	99,142	93,017
Campground operations	115,172	84,407
Redneck Island	3,851	4,177
Interest on land sales	14,007	12,228
Marina rental	35,836	35,691
Duck blind registration	5,300	5,400
Office rental	4,800	4,800
Agricultural land use licenses	3,203	3,203
Concessions revenue	511	482
Miscellaneous	1,478	455
Total other operating revenues	353,866	316,568
Total operating revenues	397,319	405,844
Operating expenses:		
General and administrative	200,401	170,916
Recreation program	123,162	117,968
Reservoir and channel maintenance	70,340	54,875
Depreciation	30,652	28,744
Total operating expenses	424,555	372,503
Operating income (loss)	(27,236)	33,341
Nonoperating revenues (expenses):		
Interest income	10,981	10,497
Total nonoperating revenues (expenses)	10,981	10,497
Change in net position	**(16,255)**	**43,838**
Total net position - beginning	2,030,037	1,986,199
Total net position - ending	$ 2,013,782	$ 2,030,037

***Source:** Obtained from an independent audit report issued by Alexander Thompson Arnold PLLC of Beech River's Financial Statements and Supplementary Information for the Fiscal Year Ended September 30, 2017.

CARROLL COUNTY WATERSHED AUTHORITY
STATEMENTS OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2018*

	General Fund	Adjustments (Note 3B)	Statement of Activities
Revenues:			
Wheel tax receipts	$ 246,902	$ -	$ 246,902
Real and personal property tax	52,785	-	52,785
Licenses and permits	39,790	-	39,790
Marina	42,110	-	42,110
Residential boat dock fee	19,000	-	19,000
Bait/supplies	1,525	-	1,525
Fuel sales	4,351	-	4,351
Concessions	1,285	-	1,285
Business Ventures	191	-	191
Future contributions/donations	1,000	-	1,000
Interest income	8,819	-	8,819
RV Park Rentals	12,568	-	12,568
Total revenue	430,326	-	430,326
Expenditures:			
Surety bonds for officials	280	-	280
Bait/supplies	1,615	-	1,615
Construction expense	84,953	(70,063)	14,890
General purpose machinery	1,062	-	1,062
Accounting and auditing services	6,150	-	6,150
Tennessee state planning	2,875	-	2,875
Other operating supplies	2,353	-	2,353
Salaries/wages part-time	50,055	-	50,055
OASI (employer's share)	3,829	-	3,829
Worker's compensation	2,300	-	2,300
Unemployment insurance	465	-	465
Minor medical and physicals	242	-	242
Postage	140	-	140
Publication of formal and legal	1,431	-	1,431
Insurance on vehicles and equipment	607	-	607
Gas for resale	4,650	-	4,650
State fees	245	-	245
Repair and maintenance			
Motor vehicles	172	-	172
Machinery and equipment	113	-	113
Buildings and grounds	18,056	(10)	18,046
Beach	2,470	-	2,470
Electric	12,009	-	12,009
Water	1,320	-	1,320
Telephone	9,418	-	9,418
Professional services	8,750	-	8,750

***Source:** Obtained from an independent audit report issued by Alexander Thompson Arnold PLLC of Carroll County Authority's Financial Statements and Supplementary Information for the Fiscal Year Ended June 30, 2018.

CARROLL COUNTY WATERSHED AUTHORITY
STATEMENTS OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2018 (Cont.)*

	General Fund	Adjustments (Note 3B)	Statement of Activities
Expenditures			
Insurance - buildings	16,017	-	16,017
Waste disposal	2,199	-	2,199
Janitorial supplies	3,748	-	3,748
Office supplies and material	1,252	-	1,252
Petroleum products	443	-	443
Administrative expense	2,688	-	2,688
Depreciation	-	142,688	142,688
Amortization	-	5,191	5,191
Debt service:			
Interest expense	483,179	-	483,179
Principal payments	18,000	(18,000)	-
Total expenditures	743,086	59,806	802,892
Changes in fund balance/net position before capital contributions	**(312,760)**	**(59,806)**	**(372,566)**
Capital Contributions			
Donated Asset	-	25,000	25,000
Total capital contributions	-	25,000	25,000
Net changes in fund balance/net position	**(312,760)**	**(34,806)**	**(347,566)**
Fund balance/net position - beginning	1,249,439	4,267,621	5,517,060
Fund balance/net position - ending	$ 936,679	$ 4,232,815	$ 5,169,494

***Source:** Obtained from an independent audit report issued by Alexander Thompson Arnold PLLC of Carroll County Authority's Financial Statements and Supplementary Information for the Fiscal Year Ended June 30, 2018.

CARROLL COUNTY WATERSHED AUTHORITY
STATEMENTS OF ACTIVITES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2017*

	General Fund	Adjustments (Note 3B)	Statement of Activities
Revenues:			
Wheel tax receipts	$ 250,691	$ -	$ 250,691
Real and personal property tax	49,862	-	49,862
LPRF grant	144,767	-	144,767
Licenses and permits	38,133	-	38,133
Marina	23,750	-	23,750
Residential boat dock fee	5,000	-	5,000
Bait/supplies	2,059	-	2,059
Fuel sales	2,244	-	2,244
Concessions	1,209	-	1,209
Business Ventures	234	-	234
Future contributions/donations	1,000	-	1,000
Interest income	2,397	-	2,397
Sale of Real Property	248,588	-	248,588
Insurance Recoveries	1,554	-	1,554
Total revenue	771,488	-	771,488
Expenditures:			
Surety bonds for officials	280	-	280
Bait/supplies	2,120	-	2,120
Construction expense	137,112	(133,687)	3,425
Accounting and auditing services	5,970	-	5,970
Tennessee state planning	3,209	-	3,209
Other operating supplies	1,585	-	1,585
Salaries/wages part-time	48,908	-	48,908
OASI (employer's share)	3,741	-	3,741
Worker's compensation	2,223	-	2,223
Unemployment insurance	667	-	667
Minor medical and physicals	816	-	816
Postage	238	-	238
Publication of formal and legal	193	-	193
Insurance on vehicles and equipment	613	-	613
Gas for resale	3,417	-	3,417
State fees	188	-	188

***Source:** Obtained from an independent audit report issued by Alexander Thompson Arnold PLLC of Carroll County Authority's Financial Statements and Supplementary Information for the Fiscal Year Ended June 30, 2017.

CARROLL COUNTY WATERSHED AUTHORITY
STATEMENTS OF ACTIVITES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2017 (Cont.)*

	General Fund	Adjustments (Note 3B)	Statement of Activities
Expenditures			
Repair and maintenance			
Motor vehicles	$ 96	$ -	$ 96
Machinery and equipment	366	-	366
Buildings and grounds	26,799	-	26,799
Beach	1,960	-	1,960
Electric	10,397	-	10,397
Water	733	-	733
Telephone	3,947	-	3,947
Professional services	30,500	(15,000)	15,500
Engineering services	10,199	(8,199)	2,000
Legal Services	300	-	300
Insurance - buildings	16,560	-	16,560
Waste disposal	1,286	-	1,286
Janitorial supplies	1,943	-	1,943
Office supplies and material	1,551	-	1,551
Petroleum products	90	-	90
Administrative expense	2,688	-	2,688
Depreciation	-	143,371	143,371
Amortization	-	5,190	5,190
Travel & Per Diem	125	-	125
Dept Training Expense	275	-	275
Debt service:			
Interest expense	483,739	-	483,739
Principal payments	17,300	(17,300)	-
Total expenditures	822,654	(25,625)	797,029
Net changes in fund balance/net position	**(51,166)**	**25,625**	**(25,541)**
Fund balance/net position - beginning	1,300,605	4,241,996	5,542,601
Fund balance/net position - ending	$ 1,249,439	$ 4,267,621	$ 5,517,060

***Source:** Obtained from an independent audit report issued by Alexander Thompson Arnold PLLC of Carroll County Authority's Financial Statements and Supplementary Information for the Fiscal Year Ended June 30, 2017.

Chickasaw River Basin
Budgeted Revenues and Expenditures
For the Fiscal Years Ended June 30, 2018 and 2017*

	2018	2017
Revenues		
Charges for Services	$ 78,000	$ 78,000
Investment Income	300	300
Other	-	2,000,000
Total Revenues	**$ 78,300**	**$ 2,078,300**
Expenditures		
Supplies & Materials	$ 2,300	$ 4,100
Services & Other Expenses	3,460	3,900
Professional & Contracted Services	20,050	1,005,300
Rent, Utilities & Maintenance	12,320	12,680
Interfund Services	5,000	10,000
Capital Asset Acquistions	-	1,000,000
Operating Transfers Out	35,170	35,170
Planned Use of Fund Balances	-	7,150
Total Expenditures	**$ 78,300**	**$ 2,078,300**
Total		
Net Budget Total	$ -	$ -

***Source:** Obtained from Chickasaw's budget for Fiscal Years Ended June 30, 2018, and 2017 which was provided by Chickasaw's management.

SEQUATCHIE VALLEY PLANNING AND DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018*

	Child Care	Child Care Food Program	Head Start	Early Head Start	Total Governmental Funds
REVENUES					
Grantor contributions - Federal	$ -	$ 277,039	$ 3,825,460	$ 1,177,598	$ 5,280,097
Miscellaneous income	14,329	-	-	-	14,329
Total revenues	14,329	277,039	3,825,460	1,177,598	5,294,426
EXPENDITURES					
Current					
Salaries	6,365	65,076	2,351,773	754,846	3,178,060
Payroll taxes	-	5,475	180,201	57,545	243,221
Group insurance	-	6,069	158,411	51,048	215,528
Other employee/fringe benefits	-	-	3,635	485	4,120
Workmen's compensation	-	-	17,103	3,232	20,335
Unemployment insurance	-	656	18,642	6,238	25,536
Retirement	-	4,656	150,207	49,540	204,403
Travel	-	-	28,158	2,836	30,994
Communications	-	-	28,943	6,213	35,156
Utilities	-	-	49,966	14,117	64,083
Contracted services	-	-	2,698	-	2,698
Supplies	-	25,055	12,585	9,301	46,941
Program supplies and expense	47	-	156,542	35,113	191,702
Parent activities and supplies	-	-	1,897	388	2,285
Technology expense	-	-	68,024	14,901	82,925
Facility maintenance and repairs	-	-	254,369	12,737	267,106
Vehicle maintenance and repairs	-	-	20,495	184	20,679
Food	-	137,889	14,055	16,946	168,890
Workshops and training	-	-	40,371	61,573	101,944
Occupancy	-	-	94,835	28,532	123,367
Insurance	-	-	14,085	1,361	15,446
Testing	-	-	1,212	190	1,402
Indirect costs - administrative	3,644	10,398	157,253	50,272	221,567
Miscellaneous	-	1,080	-	-	1,080
Total expenditures	10,056	256,354	3,825,460	1,177,598	5,269,468
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	4,273	20,685	-	-	24,958
FUND BALANCES					
Beginning	250,043	8,869	-	-	258,912
Ending	$ 254,316	$ 29,554	$ -	$ -	$ 283,870

***Source:** Obtained from an independent audit report issued by Johnson, Hickey and Murchison, P.C. of Sequatchie Valley's Financial Statements and Supplementary Information for the Fiscal Year Ended June 30, 2018.

SEQUATCHIE VALLEY PLANNING AND DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017*

	Child Care	Child Care Food Program	Head Start	Early Head Start	Total Governmental Funds
REVENUES					
Grantor contributions - Federal	$ -	$ 221,461	$ 3,333,098	$ 1,944,969	$ 5,499,528
Total revenues	-	221,461	3,333,098	1,944,969	5,499,528
EXPENDITURES					
Current					
Salaries	-	53,471	2,002,954	860,369	2,916,794
Payroll taxes	-	3,907	146,832	63,913	214,652
Group insurance	450	5,321	117,794	39,699	163,264
Other employee/fringe benefits	-	-	2,866	1,261	4,127
Workmen's compensation	-	1,000	17,505	3,100	21,605
Unemployment insurance	-	483	18,672	7,139	26,294
Retirement	-	3,659	128,768	58,032	190,459
Travel	-	-	28,152	3,522	31,674
Communications	-	-	18,802	5,941	24,743
Utilities	30	-	52,396	14,438	66,864
Contracted services	-	-	4,748	1,443	6,191
Supplies	-	20,740	18,896	27,141	66,777
Program supplies and expense	580	-	96,262	73,159	170,001
Parent activities and supplies	-	-	2,087	-	2,087
Technology expense	-	-	52,821	8,819	61,640
Facility maintenance and repairs	-	-	253,279	170,605	423,884
Vehicle maintenance and repairs	-	-	36,366	2,550	38,916
Food	-	134,362	9,741	9,894	153,997
Workshops and training	-	-	38,697	72,019	110,716
Occupancy	-	-	81,060	35,323	116,383
Insurance	-	-	30,871	6,951	37,822
Testing	-	-	1,919	1,809	3,728
Indirect costs - administrative	(3,644)	11,562	164,270	83,655	255,843
Miscellaneous	33	538	2	-	573
Capital outlay	-	-	7,338	394,187	401,525
Total expenditures	(2,551)	235,043	3,333,098	1,944,969	5,510,559
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,551	(13,582)	-	-	(11,031)
FUND BALANCES					
Beginning	247,492	22,451	-	-	269,943
Ending	$ 250,043	$ 8,869	$ -	$ -	$ 258,912

***Source:** Obtained from an independent audit report issued by Johnson, Hickey and Murchison, P.C. of Sequatchie Valley's Financial Statements and Supplementary Information for the Fiscal Year Ended June 30, 2017.

TELLICO RESERVOIR DEVELOPMENT AGENCY
Statements of Revenues, Expenses and Changes in Net Position
Years Ended August 31, 2018 and 2017*

	2018	2017
Operating Revenues		
Campground	$ 841,028	$ 807,229
Wastewater treatment	541,692	498,201
Leases, net	427,131	430,652
Building permit	136,725	102,670
Grants	50,000	275,000
Miscellaneous	22,810	1,415
Licensing - agricultural and other	15,096	12,596
Total operating revenues	2,034,482	2,127,763
Operating Expenses		
Public use recreation program	1,087,101	1,079,168
General and administrative	555,159	511,227
Industrial development program	433,047	432,665
Wastewater treatment plant	431,408	431,531
Residential program	88,238	85,677
Loss (gain) on disposal of capital assets	1,368	(5,412)
Tellico Parkway/Archaeological Program	60	60
Adjustment of land costs	-	257,181
Grants	-	250,000
Total operating expenses, net	2,596,381	3,042,097
Operating loss	(561,899)	(914,334)
Non-operating income (expense)		
Interest	33,848	20,064
Loss before capital contributions	(528,051)	(894,270)
Tennessee Valley Authority contributions	42,881	42,881
Change in net position	(485,170)	(851,389)
Net position at the beginning of the year	18,492,447	19,343,836
Net position at the end of the year	$ 18,007,277	$ 18,492,447

***Source:** Obtained from an independent audit report issued by Rodefer Moss & Co, PLLC of Tellico's Financial Statements and Supplementary Information for the Fiscal Years Ended on August 31, 2018 & 2017.

TENNESSEE DUCK RIVER DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Year Ended June 30, 2018*

		GENERAL FUND
REVENUES		
Operating and Project Fund - Administrative	$	220,000
Operating and Project Fund - Program Revenues		61,248
Water supply projects		80,418
TOTAL REVENUES		361,666
EXPENDITURES		
Current:		
Environmental programs		141,566
Administration		200,102
TOTAL EXPENDITURES		341,668
EXCESS OF REVENUES OVER EXPENDITURES		19,998
NET CHANGE IN FUND BALANCE		19,998
FUND BALANCE, beginning of year		65,539
FUND BALANCE, end of year	$	85,537
Net change in Fund Balance - Governmental Funds	$	19,998
Amounts reported for governmental activities in the Statement of Activiites are different from amounts reported for governmental funds in the Schedule of Revenues, Expenditures, and Net Change in Fund Balance because:		
Governmental funds report capital outlays as expenditures. However, the cost of those assets is allocated over their useful lives and reported as depreciation expense for governmental activities.		(1,265)
Net pension expense in excess of pension contributions		(2,560)

***Source:** Obtained from an independent audit report issued by KraftCPAs, PLLC of Duck River's Financial Statements and Supplementary Information for the Fiscal Year Ended June 30, 2018.

TENNESSEE DUCK RIVER DEVELOPMENT AGENCY

STATEMENT OF REVENUES, EXPENDITURES, AND NET CHANGE IN FUND BALANCE

GOVERNMENTAL FUND

FOR THE YEAR ENDED JUNE 30, 2017*

	GENERAL FUND
REVENUES	
Trust Fund B - administrative	$ 210,000
Trust Fund B - program revenues	59,630
Water supply projects	237,568
DRATAC programs - pathogen study	5,728
TOTAL REVENUES	512,926
EXPENDITURES	
Current:	
Environmental programs	302,982
Administration	199,953
TOTAL EXPENDITURES	502,935
EXCESS OF REVENUES OVER EXPENDITURES	9,991
NET CHANGE IN FUND BALANCE	9,991
FUND BALANCE, beginning of year	55,548
FUND BALANCE, end of year	$ 65,539
Net change in Fund Balance - Governmental Funds	$ 9,991
Amounts reported for governmental activities in the Statement of Activities are different from amounts reported for governmental funds in the Schedule of Revenues, Expenditures, and Net Change in Fund Balance because:	
Governmental funds report capital outlays as expenditures. However, the cost of those assets is allocated over their useful lives and reported as depreciation expense for governmental activities	(2,821)
Net pension expense in excess of pension contributions	(2,363)
Change in Net Position of Governmental Activities	$ 4,807

***Source:** Obtained from an independent audit report issued by KraftCPAs, PLLC of Duck River's Financial Statements and Supplementary Information for the Fiscal Year Ended June 30, 2017.

West Tennessee River Basin Authority
Budgeted and Actual Expenditures and Revenues
For Fiscal Year Ended June 30, 2018

West Tennessee Authority		FY 2018 Recommended Budget*	FY 2018 Actual Expenditures and Revenues**
Expenditures	Payroll	1,222,700	1,283,200
	Operational	6,411,600	2,189,800
	Total	**7,634,300**	**3,473,000**
Revenues	State	2,648,700	2,432,900
	Federal	-	-
	Other	4,985,600	1,040,100
	Total	**7,634,300**	**3,473,000**

*Source: Tennessee State Budget, Fiscal Year 2017-2018.

**Source: Tennessee State Budget, Fiscal Year 2019-2020.

West Tennessee River Basin Authority
Budgeted and Actual Expenditures and Revenues
For Fiscal Year Ended June 30, 2017

West Tennessee Authority		FY 2017 Recommended Budget*	FY 2017 Actual Expenditures and Revenues**
Expenditures	Payroll	1,173,700	1,177,500
	Operational	6,014,000	2,422,300
	Total	**7,187,700**	**3,599,800**
Revenues	State	2,214,800	1,821,800
	Federal	-	-
	Other	4,972,900	1,778,000
	Total	**7,187,700**	**3,599,800**

*Source: Tennessee State Budget, Fiscal Year 2016-2017.

**Source: Tennessee State Budget, Fiscal Year 2018-2019.