

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

Findings and recommendations as a result of our examination are presented below. We have reviewed these findings and recommendations with management to provide an opportunity for their response. The county executive's and the circuit, general sessions, and juvenile courts clerk's written responses are paraphrased in this report. Other officials offered oral responses to certain findings and recommendations; however, their oral responses have not been included in this report.

OFFICE OF COUNTY EXECUTIVE

FINDING 01.01 **THE OFFICE HAD DEFICIENCIES IN PURCHASING PROCEDURES**

(A. and B. Internal Control – Reportable Condition Under Government Auditing Standards and C. Noncompliance Under Government Auditing Standards)

The Office of County Executive did not always follow sound purchasing procedures. Our audit revealed the following:

- A. The office did not issue purchase orders for some purchases. Also, in several instances, purchase orders were issued after purchases were made. Properly issued purchase orders are necessary internal control procedures to control who has purchasing authority and to document purchasing commitments.
- B. In several instances, the office paid invoices without documentation that goods had been received or services had been rendered.
- C. Competitive bids were not solicited for the purchase and installation of system sensors (\$6,791), air conditioning (\$7,480), and electric locks (\$8,700) at the Juvenile Detention Center. Purchasing procedures for this office are governed by Chapter 357, Private Acts of 1945, as amended, which provides for the county executive, as the county purchasing agent, to obtain written competitive bids for all purchases exceeding \$1,000, except in cases of emergency. In cases of emergency and in cases where the necessary number of competitive bids cannot be obtained, the purchasing agent is required to certify the reasons to the County Commission.

RECOMMENDATION

The office should improve purchasing procedures by issuing purchase orders for all applicable purchases before purchases are made and paying invoices only after documentation of the receipt of goods or services. Also, competitive bids should be solicited for all applicable purchases, as required by the county's purchasing law.

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE

The county executive stated the following:

- A., B. We will attempt to issue purchase orders for all applicable purchases and pay invoices only after receiving documentation that goods have been received or services have been rendered.

- C. Informal quotes were obtained in lieu of soliciting bids in the interest of getting the center in operation as soon as possible. Subsequent to June 30, 2001, we increased the bid limit to \$5,000.

REBUTTAL

In regard to C., we were not provided with any documentation that any bids or price quotes, formal or informal, were taken for these purchases.

FINDING 01.02 **INVENTORY RECORDS WERE NOT MAINTAINED PROPERLY**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Inventory records in the Office of County Executive were not updated and verified by personnel independent of maintaining the inventory records. Generally accepted accounting principles require accountability for all county-owned assets, such as equipment, furniture, and vehicles. The failure to properly maintain inventory records results in a loss of control over assets.

RECOMMENDATION

County officials should maintain and regularly update inventory records of all county-owned assets, as required by generally accepted accounting principles. Furthermore, personnel independent of maintaining the inventory should periodically verify the inventory records.

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE

This finding was corrected during the audit.

REBUTTAL

Personnel in the County Executive's Office began updating the inventory records on the date of our exit conference. As of the date of our report, the inventory list had not been completed, and the inventory had not been inspected by personnel independent of maintaining the records.

FINDING 01.03 ALL FINANCIAL ACTIVITY OF THE AGRICULTURAL EDUCATION CENTER WAS NOT SUBJECT TO THE BUDGETARY CONTROL OF THE COUNTY LEGISLATIVE BODY

(Noncompliance Under Government Auditing Standards)

During the 1997-98 year, Bedford County built an agricultural education center and appointed a Board of Directors to operate the center. A significant portion of the center's expenditures was paid through the county's General Fund; however, the Board of Directors maintained a checking account to deposit event revenues and pay certain operating expenses. The funds channeled through this checking account were not subject to the county's budgetary process.

Section 5-9-401, Tennessee Code Annotated, states, "All funds from whatever source derived, including, but not limited to taxes, county aid funds, federal funds, and fines, which are to be used in the operation and respective programs of the various departments, commissions, institutions, boards, offices and agencies of county governments shall be appropriated to such use by the county legislative bodies."

RECOMMENDATION

The agricultural education center should operate as a department within the county's General Fund, and all revenues and expenditures related to its operation should be subject to the budgetary control of the county legislative body, as required by state statute.

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE

I concur and will encourage the County Commission to implement this recommendation.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 01.04 INVENTORY RECORDS WERE NOT MAINTAINED PROPERLY

(Internal Control – Reportable Condition Under Government Auditing Standards)

Inventory records (with the exception of technology equipment records) were not updated and verified by personnel independent of maintaining the inventory records. Generally accepted accounting principles require accountability for all department-owned assets, such as equipment, furniture, and vehicles. The failure to properly maintain inventory records results in a loss of control over assets.

RECOMMENDATION

School officials should maintain accurate and updated inventory records for all department-owned assets. Furthermore, personnel independent of maintaining the inventory should periodically verify the inventory records.

OFFICE OF SOLID WASTE AUTHORITY

FINDING 01.05 **THE AUTHORITY'S MONITORING OFFICE DID NOT PROPERLY MAINTAIN ITS ACCOUNTING RECORDS** (Internal Control – Reportable Condition Under Government Auditing Standards)

The Solid Waste Authority's monitoring office did not properly maintain its accounting records. Our audit revealed the following deficiencies:

- A. The monitoring office's bookkeeper did not maintain a complete set of accounting records. The accounting records reflected only the transactions of one of the office's two checking accounts. This deficiency resulted in a loss of budgetary and accounting control.
- B. The office issued one check totaling \$1,454 from its surcharge checking account that was not reflected in the accounting records and that was not prenumbered. We have properly reflected this expenditure in the financial statements of this report.
- C. At June 30, 2001, accounts payable totaling \$15,194 were not reflected in the accounting records, as required by generally accepted accounting principles. These payables have been properly reflected in the financial statements of this report.
- D. Year-end closing entries were not posted to the accounting records at June 30, 2001, as required by generally accepted accounting principles.

The monitoring office maintained the authority's minutes and manual accounting records, issued 11 checks during the year, and invested in two certificates of deposit. The authority's convenience center office maintained a complete computer accounting system, managed a payroll system, and issued over 1,000 checks during the year. Maintaining two accounting systems is a duplication of effort, and it appears that maintaining all accounting records at the convenience center office would be more efficient.

RECOMMENDATION

The Solid Waste Authority should consider consolidating its monitoring and convenience center offices to eliminate duplication of effort, use its computer capabilities, and reduce the

cost of operations. If the offices are not consolidated, the monitoring office should implement the following recommendations. Accounting records should be complete, accurate, and maintained on a current basis. Bank accounts should be reconciled with the general ledger on a monthly basis, and prenumbered checks should be used. Accounts payable should be reflected on accounting records at June 30. Also, the monitoring office should post year-end closing entries.

OFFICE OF CIRCUIT, GENERAL SESSIONS, AND JUVENILE COURTS CLERK

FINDING 01.06 **THE OFFICE DID NOT DEVELOP A DISASTER RECOVERY PLAN**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Office of Circuit, General Sessions, and Juvenile Courts Clerk did not develop a disaster recovery plan to assist in re-creating its data processing environment in the event of a disaster. Without a formal, written plan, critical computerized applications could be disrupted indefinitely until the system could be repaired or a back-up facility could be found and made operational.

RECOMMENDATION

Management should develop and regularly update a disaster recovery plan defining procedures for personnel to follow in the event of a major hardware or software failure, or temporary or permanent destruction of facilities. The plan should contain provisions for a contingency operations site as well as for the adequate backup of data files, system programs, user documentation, supplies, and computer hardware so that operations could continue as normally as possible. A copy of the plan should be kept in a secure area within the office, as well as at a secure, off-site location.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 01.07 **A PRIVATE PROBATION COMPANY DID NOT REMIT COLLECTIONS OF FINES AND COSTS TO GENERAL SESSIONS COURT**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Tennessee Bureau of Investigation (TBI) requested the Division of County Audit to assist in a review of Probation Services of Tennessee, Inc. (PST), a private probation company operated in Bedford and Cannon Counties. We reviewed PST's Bedford County records for the period beginning late 1995 through May 4, 2001. On May 4, 2001, the TBI obtained PST's records from the company's attorney, who informed the TBI and us that

PST had approximately \$15,000 of county fines and court costs on hand and due to the Bedford County General Sessions Court. However, on June 14, 2001, PST's attorney identified and remitted actual county fines and court costs of \$53,523.48 to the court. As of June 30, 2001, we identified another \$29,604 of receipts PST issued for fines and costs that had not been remitted to the county or otherwise accounted for. Our review disclosed the following accounting deficiencies concerning PST:

- A. PST did not remit collections of fines and costs to General Sessions Court on a current basis.
- B. Collections of fines and costs were often not remitted to the court, even when all fines and costs on a case had been collected.
- C. On May 4, 2001, PST could not identify collections due to specific General Sessions Court cases.
- D. Unofficial receipt books were used for collections, and these receipt books often had receipt numbers that were the same.
- E. Receipts were not issued in numerical sequence.
- F. Some case files were not available for our inspection.
- G. Case files were not maintained accurately. Case numbers were often omitted or were inaccurate. Case information usually included the month but often did not indicate the calendar year. Defendant names were inaccurate.
- H. PST used one receipt book for fines and costs and used another receipt book for probation fees; however, the company often receipted fines and costs in the probation receipt books and probation fees in the fines and costs receipt books. We also found several receipts for Cannon County cases receipted in the Bedford County receipt books.
- I. Case numbers were not included on any receipts.
- J. Several receipts issued for fines and costs could not be traced to any cases on file in General Sessions Court of Bedford or Cannon Counties.
- K. PST was not audited.
- L. Bedford County did not have a written contract with PST.

The following factors related to the operation of the Bedford County Office of General Sessions Court Clerk also contributed to the deficiencies:

- M. The General Sessions Court Clerk's Office would not accept partial payments of fines and costs; therefore, PST had to hold collections until all fines and costs were collected for a case.

- N. Several private probation companies operated in Bedford County. After cases were assigned to a particular probation company, the General Sessions Court Clerk's Office did not track the disposition of cases assigned to a particular company.
- O. The office's computer system could not issue a report listing all cases assigned to a specific probation company.

Effective January 2001, Bedford County opened a county probation office and ended its business with all private probation companies. We reviewed this finding with the district attorney general and other officials.

RECOMMENDATION

Bedford County should seek payment of all fines and costs collected by Probation Services of Tennessee, Inc. All probation office collections of fines and costs should be remitted to General Sessions Court on a current basis. The General Sessions Court should accept partial payments of fines and costs from the probation office. The probation office should issue official, prenumbered receipts in numerical sequence, include case numbers on each receipt, and deposit receipts to the office bank account intact and within three days of collection. The General Sessions Court Clerk's Office computer software should have the capability to generate lists of all outstanding probation cases, and the office should monitor these cases for any needed action prior to the end of the probationary period.

MANAGEMENT'S RESPONSE – CIRCUIT, GENERAL SESSIONS, AND JUVENILE COURTS CLERK

The general sessions judge instructed me not to take partial payments on probation cases and instructed the private probation companies to remit all fines and costs to court when fully collected. The probation fees were to be paid to the private probation companies after all fines and costs were collected.

REBUTTAL

The General Sessions Court should accept partial payments because some probationers may never pay all of their fines and costs.

FINDING 01.08 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF COUNTY CLERK; CIRCUIT, GENERAL SESSIONS, AND JUVENILE COURTS CLERK; CLERK AND MASTER; REGISTER; AND SHERIFF**
 (Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among the officials and employees in the Offices of County Clerk; Circuit, General Sessions, and Juvenile Courts Clerk; Clerk and Master;

Register; and Sheriff. Employees responsible for maintaining the accounting records were also involved in receipting, depositing, and/or disbursing funds.

RECOMMENDATION

To strengthen internal controls over operations, these offices should adequately segregate duties among employees.

FINDING 01.09 **RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED ASSETS**
(Internal Control – Material Weakness Under Government Auditing Standards)

Bedford County did not inventory, value, and record its general fixed assets (buildings, equipment, etc.), as required by generally accepted accounting principles. The Governmental Accounting Standards Board has adopted Statement 34, which will become effective in Bedford County for the year ending June 30, 2003. Statement 34 places an even greater emphasis on the need to maintain general fixed asset records.

RECOMMENDATION

Bedford County should inventory, value, and record its general fixed assets in accordance with generally accepted accounting principles.

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE

This finding has been in the audit report for a number of years, and this office will encourage compliance when the recommendation becomes mandatory.

REBUTTAL

A self-balancing group of accounts for all general fixed assets is currently required by generally accepted accounting principles. The absence of fixed asset records requires us to issue a qualified opinion on the county's audit report.

FINDING 01.10 **A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Bedford County officials had not adopted a central system of accounting, budgeting, and purchasing. Establishing a central system would significantly improve internal controls over the accounting, budgeting, and purchasing processes.

RECOMMENDATION

Bedford County officials should consider adopting the County Financial Management System of 1981 or a private act, which would provide for a system of central accounting, budgeting, and purchasing covering all county departments.

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE

I agree with this recommendation and will encourage the County Commission to proceed toward this goal.