

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 officials offered oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

OFFICE OF DIRECTOR OF FINANCE

FINDING 01.01 **THE OFFICE HAD INTERNAL CONTROL WEAKNESSES IN MAINTAINING EMPLOYEES' TIME RECORDS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our review of the office's payroll functions revealed the following deficiencies in maintaining employees' time records:

- A. The payroll for Morgan County employees was paid every two weeks. However, time sheets prepared by employees documenting this payroll were based on estimates of time worked for the final week of the two-week payroll period because there was no delay between the last day of the payroll period and the date the payroll was paid. We were informed that any differences in the actual hours worked and the estimated hours filed were adjusted in the next payroll. However, we found no documentation of actual hours worked for the second week of the payroll period and no adjustments filed.
- B. Time records did not always include adequate detail for hours worked. In some cases, time sheets only reflected the total number of hours worked during the payroll period. For some individuals who worked for more than one department, time records were not sufficiently detailed to determine the specific hours worked for each department.

RECOMMENDATION

Employees' time records should document the actual hours worked on a daily basis for all employees. If individuals work for more than one department, time records should reflect the actual hours worked daily for each department.

FINDING 01.02 **PAYROLL DEDUCTION ACCOUNTS WERE NOT RECONCILED MONTHLY**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Payroll deduction accounts were not reconciled with supporting payroll records monthly. The failure to reconcile payroll deduction accounts regularly allowed errors to remain undetected and uncorrected for several months.

RECOMMENDATION

Payroll deduction accounts should be reconciled monthly, and steps should be taken immediately to correct any errors discovered.

FINDING 01.03 **DUTIES WERE NOT SEGREGATED ADEQUATELY**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among the employees of the Finance Office. One employee performed billings and received payments for both the Ambulance Service and Solid Waste Department.

RECOMMENDATION

The director of finance should segregate duties adequately among office employees.

OFFICE OF ROAD SUPERINTENDENT

FINDING 01.04 **THE HIGHWAY EQUIPMENT INVENTORY LIST DID NOT INCLUDE ALL EQUIPMENT**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The road superintendent did not have procedures in place to ensure that newly acquired assets were added to the inventory list and that personnel independent of maintaining inventory records verified the list periodically. As a result, items that were purchased during the year were not included on the June 30, 2001, equipment inventory.

RECOMMENDATION

To improve controls over inventory, the road superintendent should implement procedures for adding assets to inventory records and should ensure that personnel independent of the record-keeping process periodically verify inventory records. An up-to-date inventory list should be compiled.

OFFICE OF THE SHERIFF

FINDING 01.05 **THE OFFICE HAD A CASH SHORTAGE OF \$532.75**
(Internal Control – Reportable Condition Under Government Auditing Standards)

On January 8, 2001, the sheriff and county executive informed us that funds were missing from the Sheriff's Office. We performed interim audit procedures and determined that the office had a cash shortage of \$532.75 on January 8, 2001. This cash shortage consisted of November 2000 cash collections that had not been deposited or otherwise accounted for. The sheriff liquidated the cash shortage by depositing personal funds of \$532.75 to the office bank account on January 12, 2001.

FINDING 01.06 **THE OFFICE HAD ACCOUNTING DEFICIENCIES**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit revealed several weaknesses in internal controls for the period July 1, 2000, through January 8, 2001, that contributed to the opportunity for a cash shortage to occur and not be detected immediately. These weaknesses include:

- A. Four receipts had been removed from the office receipt book. Without those receipts, we could not determine if other office funds were missing. Consequently, we could not determine the propriety of all office transactions for the year ended June 30, 2001.
- B. As discussed in finding 01.08, duties were not segregated adequately among employees.
- C. The office cash journal was not maintained properly. Cash journal amounts were not totaled and balanced for September 2000 through December 2000.
- D. Bank statements were not reconciled for September 2000 through December 2000.
- E. Funds were not always deposited within three days of collection, as required by Section 5-8-207, Tennessee Code Annotated.
- F. Cash was not safeguarded adequately. Funds were kept in the bookkeeper's desk drawer until deposited.

RECOMMENDATION

All copies of receipts should be retained in the office receipt book. Duties should be segregated to the extent possible, and supervisory reviews should be performed to ensure that all accounting records are maintained properly and that all funds are accounted for. The cash journal should be totaled, balanced and reconciled on a monthly basis. Finally, funds should be safeguarded adequately and deposited within three days of collection, as required by state statute.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 01.07 **RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED ASSETS**
(Internal Control – Material Weakness Under Government Auditing Standards)

Morgan County and the discretely presented Morgan County School Department did not inventory, value, and record their 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 Morgan County for the year ending June 30, 2004. Statement 34 places an even greater emphasis on the need to maintain general fixed asset records.

RECOMMENDATION

Morgan County and the discretely presented Morgan County School Department should inventory, value, and record their general fixed assets in accordance with generally accepted accounting principles.

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

Duties were not segregated adequately among officials and employees in the Offices of Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff. Officials and employees responsible for maintaining the accounting records in these offices were also involved in receipting, depositing, and/or disbursing funds. We realize that due to limited resources and personnel, management may not be able to properly segregate duties among employees. However, our professional standards require that we bring this matter to the reader's attention in this report.