

## PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

Findings and recommendations as a result of our examination are presented below. We reviewed these findings and recommendations with management to provide an opportunity for their response. The highway superintendent's written response is paraphrased in this report. Management also offered oral responses to other findings and recommendations; however, these oral responses have not been included in this report.

### OFFICE OF COUNTY EXECUTIVE

**FINDING 02.01      THE SPECIAL PURPOSE FUND HAD A FUND DEFICIT OF \$1,000,000**  
(Material Noncompliance Under Government Auditing Standards)

The Special Purpose Fund had a fund deficit of \$1,000,000 at June 30, 2002. This fund deficit resulted from the establishment of a liability for an interfund loan of \$1,000,000 that was not repaid by June 30, as required by state statute. The Special Purpose Fund, which was used to account for the sale of the medical center, borrowed \$1,000,000 from the General Fund (\$148,586), General Debt Service Fund (\$310,277), Rural Debt Service Fund (\$479,290), and Education Debt Service Fund (\$61,847) to retire an existing revenue anticipation note until the proceeds from the sale of the medical center were received. Title 9, Chapter 21, Tennessee Code Annotated, requires all such interfund loans to be repaid no later than June 30; however, the loan was not repaid until October 2002. Therefore, the loan is reflected as a liability of the Special Purpose Fund at June 30, 2002, in the financial statements of this report.

### RECOMMENDATION

County officials should take steps to ensure that a fund deficit does not occur in the funds maintained by the office. All revenue anticipation notes should be retired no later than June 30, as required by state statute.

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**FINDING 02.02      RURAL DEBT SERVICE FUNDS WERE IMPROPERLY TRANSFERRED TO THE GENERAL CAPITAL PROJECTS FUND FOR A WATERLINE PROJECT**  
(Material Noncompliance Under Government Auditing Standards)

The County Commission approved the transfer of \$250,000 from the Rural Debt Service Fund to the General Capital Projects Fund for a waterline project. Courts have ruled that revenues generated for a specific purpose, such as debt retirement, may not legally be used for any other purpose. Since debt service funds are established solely for the purpose of accumulating resources for the payment of principal and interest on debt, the use of debt service funds for a waterline project is not proper.

RECOMMENDATION

The Rural Debt Service Fund should only be used for the payment of principal and interest on general long-term debt.

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FINDING 02.03      **EXPENDITURES AND ENCUMBRANCES EXCEEDED APPROPRIATIONS APPROVED BY THE COUNTY COMMISSION**  
(Noncompliance Under Government Auditing Standards)

Expenditures exceeded appropriations in the General Debt Service Fund by \$70,383. Also, expenditures and encumbrances exceeded appropriations approved by the County Commission in the jail (\$48,047) and employee benefits (\$71,638) major appropriation categories of the General Fund. Section 5-9-401, Tennessee Code Annotated, states that “all funds ... 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

Expenditures and encumbrances should be held within appropriations approved by the County Commission.

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FINDING 02.04      **RETAINAGE WITHHELD FROM CONTRACTOR PAYMENTS WAS NOT DEPOSITED TO AN ESCROW ACCOUNT IN COMPLIANCE WITH STATE STATUTE**  
(Noncompliance Under Government Auditing Standards)

The office did not deposit retainage of \$114,900 withheld from contractor payments into an escrow account. Section 66-11-144, Tennessee Code Annotated, requires that retainage withheld from contractor payments be deposited into an escrow account for contracts of \$500,000 or more.

RECOMMENDATION

Retainage withheld from contractor payments on contracts of \$500,000 or more should be deposited into an escrow account in compliance with state statute.

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## **OFFICE OF HIGHWAY SUPERINTENDENT**

**FINDING 02.05**      **A FORMAL PURCHASE ORDER SYSTEM HAD NOT BEEN ESTABLISHED**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Highway Department had not established a formal purchase order system. Purchase orders are necessary to control who has purchasing authority for the department and to document purchasing commitments.

### **RECOMMENDATION**

The office should establish a formal purchase order system to improve internal controls over the purchasing process.

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**FINDING 02.06**      **THE OFFICE DID NOT ACCEPT LOW BIDS FOR PURCHASES**  
(Noncompliance Under Government Auditing Standards)

The Highway Department did not accept the lowest bid for the purchase of fuels, oils, lubricants, and anti-freeze and did not provide adequate documentation for accepting the higher bid. The department solicited bids and received bids from three vendors. However, the department did not accept the lowest bid price for 30W oil, 15W oil, 80/90 gear oil, transmission fluid, hydraulic oil, anti-freeze, grease, unleaded gasoline, and diesel fuel and gave no reason why the lowest bid was rejected.

In *Owen of Georgia, Inc., versus Shelby County*, 442F. Supp. 314 (w.b. Tenn. 1977), the court stated that “to reject the bid of the lowest bidder there must be such evidence of the irresponsibility of the bidder as would cause fair-minded and reasonable men to believe that it was not for the best interest of the municipality to award the contract to the lowest bidder.”

### **RECOMMENDATION**

Purchases should be made from the vendor with the lowest price that meets bid specifications, unless circumstances warrant the acceptance of a higher bid price. Documentation should be provided in support of accepting a higher bid price that would clearly indicate that it was for the best interest of the Highway Department to accept the higher bid price.

**FINDING 02.07      **THE OFFICE ENTERED INTO LEASE-PURCHASE AGREEMENTS WITHOUT THE COUNTY COMMISSION'S APPROVAL AND DID NOT REPORT THE DEBT OBLIGATIONS TO THE STATE DIRECTOR OF LOCAL FINANCE****

(Noncompliance Under Government Auditing Standards)

Our audit revealed the following:

- A. The highway superintendent, with the approval of the Highway Commission, entered into lease-purchase agreements for a roller (\$67,903) and a paver (\$165,000) without the approval of the County Commission. Section 7-51-904, Tennessee Code Annotated (TCA), requires such contracts, leases or lease-purchase agreements to be approved by resolution adopted by the County Commission.
  
- B. The office did not file a Report on Debt Obligations with the state director of Local Finance for the lease-purchase agreements. Section 9-21-151, TCA, requires that within 45 days following the issuance of debt, a county must provide to the state director of Local Finance certain information, such as a description of the purchase for which the debt is issued, a description of the debt obligation, and an itemized description of the cost of issuance.

**RECOMMENDATION**

The County Commission should approve all lease-purchase agreements, and all debt obligations should be reported to the state director of Local Finance, as required by state statute.

**MANAGEMENT'S RESPONSE – HIGHWAY SUPERINTENDENT**

In early May of 2001, the transmission in our old paver needed repair, and we ordered the parts for the repair. After a couple of weeks, we contacted the dealer to find out why we hadn't received the parts. The dealer called the manufacturer, and the manufacturer gave a shipping date of the second or third week of June. We then waited until this date before calling again. At that time we were informed the parts would not be shipped until mid-July.

The Coffee County Highway Department's job is to pave and maintain county roads, and we knew summer was quickly getting away. Therefore, we knew that we had to do something immediately. We then gathered information on pavers and obtained prices from several different dealers. After looking at the equipment and price quotes, the six road commissioners and the highway superintendent made the decision to lease-purchase a paver at the best price offered to us. We had already planned to replace the old roller before the paver breakdown and decided it would be to our benefit to also lease-purchase a roller.

We felt this was an emergency and we had no time to lose. Since the County Commission only meets periodically, and we receive no property tax money from the county, we felt there would be no problem due to the circumstances.

## REBUTTAL

The lease-purchase agreement for the roller was signed on July 15, 2002, and the agreement for the paver was signed on August 15, 2002. The County Commission meets in regular session during July, so it appears there was adequate time to obtain the commission's approval in compliance with state statute.

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## OFFICE OF DIRECTOR OF SCHOOLS

FINDING 02.08      **INVENTORY RECORDS WERE NOT MAINTAINED ADEQUATELY**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

School officials maintained inventory records of assets owned by the School Department. However, assets were not labeled as department property. Also, these assets were not verified by personnel independent of maintaining the inventory records. Generally accepted accounting principles require accountability for all assets of the School Department, such as equipment, furniture, and fixtures. The failure to properly label assets may result in a loss of control over the assets.

## RECOMMENDATION

All assets should be labeled as property of the School Department and should be periodically verified by personnel who are independent of maintaining the inventory records.

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## OFFICE OF SHERIFF

FINDING 02.09      **THE OFFICE HAD DEFICIENCIES IN THE ADMINISTRATION OF DRUG CONTROL FUNDS**  
(Noncompliance Under Government Auditing Standards)

Section 39-17-420, Tennessee Code Annotated (TCA), states that drug control funds can only be expended for the following purposes: (1) the local drug enforcement program, (2) the local drug education program, (3) a local drug treatment program, and (4) nonrecurring general law enforcement expenditures. In addition, Section 39-17-420, TCA, requires all nonconfidential drug control expenditures to be paid by warrants drawn on the Drug Control Fund (Special Revenue Fund). Also, state statutes require that certain forms and reports as directed by the Comptroller of the Treasury be used in the administration of confidential drug funds and to account for cash transactions related to undercover investigative operations.

During the year, questionable expenditures of \$9,800 were disbursed from the Drug Control Fund, and confidential drug funds of \$10,406 were used for nonconfidential and other questionable purposes. Some of the expenditures were recurring general law enforcement expenditures that should have been paid from the Sheriff's Department budget in the General Fund, while other expenditures were clearly inappropriate and should have not been paid by the county. The following are details of these questionable expenditures:

#### EXPENDITURES MADE FROM THE DRUG CONTROL FUND

- A. Advertising expenses of \$1,613 were paid from the Drug Control Fund. Advertisements included graduation, back to school, and holiday greetings in both county newspapers and the local radio station; and advertisements in calendars and catalogs. These do not appear to be legitimate county expenditures.
- B. Contributions of \$5,674 were made from the Drug Control Fund. These contributions included the donation of footballs, basketballs, megaphones, and pompoms to the local high school with the statement "compliments of the Coffee County Sheriff, Steve Graves"; flags; pictures for Noah Head Start; a donation for an ice machine at a local high school; basketball schedules and T-shirts for a local high school; and donations to the TAD Foundation and Alliance for Community Outreach. These do not appear to be legitimate law enforcement expenditures.
- C. Expenditures for uniforms and other supplies (\$2,513) were made from the Drug Control Fund. Uniforms and other supplies included state seals, Tennessee Sheriff's Association logo plates and decals, flag and ribbon lapel pins, pens with Coffee County Sheriff Steve Graves' name and telephone number printed on them, Christmas decorations, logo badge embroidery, and polo shirts. These expenditures are considered general recurring law enforcement expenditures, which should have been paid from the Sheriff's Department budget in the General Fund. Included in the expenditures was a disbursement for repair of a fountain at the courthouse. This is not an expenditure that should be paid from law enforcement funds.

#### EXPENDITURES MADE FROM CONFIDENTIAL FUNDS

- A. The office used confidential funds of \$7,431 for training and for travel and food expenses related to the training. These expenditures are not confidential and should have been paid directly from the Drug Control Fund (Special Revenue Fund) based on an appropriation of the County Commission.
- B. The office used confidential funds of \$1,073 for drug-related advertisements in the fair book, telephone book, and DARE T-shirts. These expenditures are not confidential and should have been paid directly from the Drug Control Fund (Special Revenue Fund) based on an appropriation of the County Commission.

- C. The office used confidential funds of \$865 for office supplies. These expenditures are not confidential and should have been paid from the Sheriff's Department budget in the General Fund.
- D. The office used confidential funds of \$1,037 for donations to the high school (\$200), Tip-off Club (\$250), Shrine Hospital (\$100), Quarterback Club (\$250), Franklin County Dive Team (\$37), and a cancer benefit (\$200). These do not appear to be legitimate law enforcement expenditures.
- E. The office did not complete several forms required by the Office of the Comptroller of the Treasury. These forms are necessary to document the administration of confidential drug funds and to account for the use of confidential funds.

**RECOMMENDATION**

Expenditures from the Drug Control Fund should be made in accordance with state statute. The Drug Control Fund should not be used to pay advertising expenses or to make contributions. The office should use confidential funds only for confidential drug enforcement purposes, and the county executive should make all disbursements of nonconfidential funds through the Drug Control Fund. Furthermore, the sheriff should ensure that the office completes all the required forms and reports required by the Comptroller's Office.

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**FINDING 02.10      DEFICIENCIES WERE NOTED IN THE OPERATIONS OF THE WORK RELEASE PROGRAM**  
 (A. Noncompliance Under Government Auditing Standards and B. C. Internal Control – Reportable Conditions Under Government Auditing Standards)

Our audit revealed the following deficiencies:

- A. Some work release funds were not deposited to the office bank account within three days of collection. Section 5-8-207, Tennessee Code Annotated, requires county officials to deposit all public funds to the office bank account within three days of collection.
- B. Subsidiary records were not maintained detailing the financial activity of each work release prisoner.
- C. Work release transactions were not reflected in the office cash journal. The cash journal is the official cash control record and should reflect all financial activity of the office.

RECOMMENDATION

The office should deposit funds within three days of collection, as required by state statute. Subsidiary records should be maintained detailing each work release prisoner's financial activities, and work release transactions should be reflected on the cash journal.

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OTHER FINDINGS AND RECOMMENDATIONS

FINDING 02.11      **RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED ASSETS FOR THE COFFEE COUNTY SCHOOL DEPARTMENT**  
(Internal Control – Material Weakness Under Government Auditing Standards)

The Coffee County School Department 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 Coffee 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

The School Department should inventory, value, and record its general fixed assets in accordance with generally accepted accounting principles.

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FINDING 02.12      **A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

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

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

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**FINDING 02.13 DUTIES WERE NOT ADEQUATELY SEGREGATED IN THE OFFICES OF HIGHWAY SUPERINTENDENT, DIRECTOR OF SCHOOLS, TRUSTEE, COUNTY 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 Highway Superintendent, Director of Schools, Trustee, County Clerk, Clerk and Master, Register, and Sheriff. The officials and employees responsible for maintaining accounting records 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.

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**FINDING 02.14 THE PRACTICE OF PAYING SCHOOL DEPARTMENT WORKERS’ COMPENSATION INSURANCE PREMIUMS FROM THE GENERAL FUND IS OF QUESTIONABLE LEGALITY**  
(Material Noncompliance Under Government Auditing Standards)

During the year examined, the county expended \$138,340 from the General Fund to pay workers’ compensation insurance premiums for the School Department. Opinion No. 77-226A issued by the Tennessee Attorney General’s Office states that taxes collected for the county General Fund may not be diverted for education purposes. Therefore, we question the legality of using General Fund monies to pay workers’ compensation insurance premiums for the School Department.

**RECOMMENDATION**

Workers’ compensation insurance premiums for the School Department should be appropriated and paid from school funds. General Fund monies should not be used to pay education expenses.

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**FINDING 02.15 A PORTION OF SALES TAX COLLECTED OUTSIDE MUNICIPALITIES WAS NOT APPORTIONED WITH CITY SCHOOL SYSTEMS**  
(Material Noncompliance Under Government Auditing Standards)

During the year examined, the county placed a designated portion of rural sales tax collections in the General Purpose School Fund. These collections were not apportioned with the city school systems on the basis of “weighted full-time equivalent average daily attendance” (WFTEADA), as required by Section 49-3-315, Tennessee Code Annotated (TCA).

The Board of County Commissioners provided that these designated funds be used to pay the cost of pupil transportation. Section 49-3-315, TCA, does permit a special tax to be levied and placed in a special fund for pupil transportation without those funds being apportioned on the basis of WFTEADA if the special school districts in the county do not operate a pupil transportation system. However, rural sales tax collections are not a special tax, and the General Purpose School Fund is not a special fund. Therefore, these funds are subject to apportionment with the city school systems based on the WFTEADA.

RECOMMENDATION

County officials should apportion the rural sales tax collections, which are placed in the General Purpose School Fund, with the city school systems, as required by state statute.

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FINDING 02.16      **PURCHASES FOR THE HIGHWAY DEPARTMENT WERE NOT MADE IN COMPLIANCE WITH THE COUNTY PURCHASING LAW OF 1957**  
(Noncompliance Under Government Auditing Standards)

Purchases for the Highway Department were made by the department officials and employees under provisions of Chapter 8, Private Acts of 1971, and the Uniform Road Law. However, the County Commission adopted the County Purchasing Law of 1957, Section 5-14-101, et seq., Tennessee Code Annotated (TCA), which provides for a purchasing agent to make all county purchases. The County Commission attempted to exclude the Highway Department from the provisions of the County Purchasing Law of 1957 when the statute was adopted. However, Section 5-14-115, TCA, provides that only the School Department can be excluded from provisions of this statute.

RECOMMENDATION

The county purchasing agent should make all purchases for the Highway Department in compliance with state statute.