

## **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 written responses of the finance director and sheriff are paraphrased in this report. Other officials offered oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

### **FINANCE DEPARTMENT**

#### **FINDING 02.01      **DEFICIENCIES WERE NOTED IN ACCOUNTING RECORDS OF THE FINANCE DEPARTMENT** (Noncompliance Under Government Auditing Standards)**

We noted the following deficiencies in accounting records during our examination of the Finance Department:

- A. Cash balances of the various funds maintained by the Finance Department were not properly reconciled with the trustee's balances at June 30, 2002. The department had prepared fund reconciliations; however, these reconciliations did not include all necessary reconciling items, such as voided warrants and closing entries.
- B. Fund transfers were not properly reflected on the accounting records. Often transfers would only be reflected on either the fund making the transfer or the fund receiving the transfer, but not both.
- C. Interfund receivables and payables were not properly reflected on the accounting records. Often interfund receivables and payables would only be reflected in one of the funds involved, but not both.
- D. Detailed lists of receivable and payable balances to support the balances reflected on the accounting records were not readily available.
- E. We were not provided with accurate lists of outstanding encumbrances at June 30, 2002.
- F. The office had not reconciled the School Department payroll clearing bank accounts at June 30, 2002.

### **RECOMMENDATION**

Cash balances reflected on accounting records should be properly reconciled with the trustee's cash balances, with all reconciling factors identified. Interfund transactions such as fund transfers and interfund receivables and payables should be reflected on accounting records of all funds involved. Receivables, payables, and encumbrances reflected on the accounting records should be supported by detailed lists. In addition, all bank accounts should be reconciled.

## MANAGEMENT'S RESPONSE – FINANCE DIRECTOR

The finance director stated the following:

- A. Cash with trustee was reconciled weekly and monthly with the trustee's report. In the future, cash with trustee will be reconciled with June 30 balance sheet amounts to reflect voided checks and other adjustments made after the initial reconciliations and prior to closing accounting records.
- B.,C. In the future, fund transfers "Due to" and "Due from" accounts will be properly reflected in all applicable funds.
- D. Receivables and payables will be determined and recorded at the balance sheet date. Detailed lists of receivables and payables will be maintained.
- E. The initial lists of encumbrances provided to auditors were work copies that were not in account number order and did not agree with balance sheet amounts. These lists were subsequently replaced with more complete lists with handwritten account numbers. Detailed computerized encumbrance reports by general ledger account will be provided in the future.
- F. In the future, payroll clearing accounts will be reconciled to June 30 balance sheet amounts to reflect voided checks and other adjustments made after the initial reconciliations and prior to closing accounting records.

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## OFFICE OF SHERIFF

### FINDING 02.02 THE OFFICE HAD A CASH SHORTAGE OF \$12,769 RESULTING FROM UNACCOUNTED FOR TELEPHONE COMMISSION COLLECTIONS

(Material Noncompliance Under Government Auditing Standards)

The Sheriff's Office had a cash shortage of \$12,769 at June 30, 2002. This cash shortage resulted from the failure to report and pay telephone commissions to the county totaling \$12,769. Section 8-22-101, Tennessee Code Annotated (TCA), requires the sheriff to turn over all fees and commissions his office receives to the county's General Fund and also requires the General Fund to pay salaries and operating expenses of the Sheriff's Office. Our examination was originally scheduled to cover office transactions for the period July 1, 2001, through June 30, 2002. However, because of the irregularities involving telephone commissions, we expanded the scope of our examination to cover the telephone commissions for the period January 1, 1999, through June 30, 2002.

During the period January 1, 1999, through June 30, 2002, the Sheriff's Office received proceeds of \$12,769 from Bell South for inmate telephone service. The Sheriff's office

did not issue receipts for these collections and did not report and pay these collections to the county as required by state statute. We were informed by officials with the Sheriff's office that the checks were cashed and used to pay expenses of the sheriff's office. The jail administrator provided us with documentation showing that the funds were used for monthly breakfast meetings for employees of the Sheriff's office at a local restaurant (\$7,920), flowers for employees and their families (\$773), payment to a deputy for the use of his drug dog (\$2,000), and cleaning supplies for the jail (\$45). Since these expenditures totaling \$10,738 were not appropriated by the County Commission, we have included them as part of the cash shortage. Section 5-9-401, TCA, states that "all expenditures from whatever source ... which are used in the operation and respective programs of the various departments ... of county governments shall be appropriated to such use by the county legislative bodies."

In addition to the documented expenditures listed above, the jail administrator also gave us a handwritten statement in which he listed expenditures totaling \$2,031 for jail supplies (\$757), laundry charges (\$624), temporary employees (\$500), and prisoner clothing (\$150). However, it should be noted that the jail administrator could not produce any invoices or other documentation to support these expenditures. As a result, we have included these unsupported amounts (\$2,031) as part of the cash shortage at June 30, 2002. We have reviewed this cash shortage with the district attorney general, sheriff, and other county officials.

#### RECOMMENDATION

The sheriff should take steps to liquidate the cash shortage by either restoring the funds to the office or taking steps to have the County Commission formally approve these disbursements. All telephone commissions should be properly remitted to the General Fund in compliance with state statutes.

#### MANAGEMENT'S RESPONSE – SHERIFF

I concur that the telephone commission funds were not channeled through proper procedures. However, I believe the funds were used for operating expenses of the Sheriff's Office.

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#### OTHER FINDING

FINDING 02.03     **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.