

## **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 written responses of the county executive, superintendent of highways, 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.

### **OFFICE OF COUNTY EXECUTIVE**

#### **FINDING 02.01**

#### **THE OFFICE HAD PURCHASING DEFICIENCIES**

(Internal Control – Reportable Condition Under Government Auditing Standards)

Our examination of purchasing procedures revealed the following deficiencies:

- A. The office did not issue purchase orders for all applicable purchases. Purchase orders are necessary to control who has purchasing authority and to document purchasing commitments.
- B. Competitive bids were not solicited for the purchase of guns for the Sheriff's Department (\$9,372). Sections 5-14-201 through 5-14-206, Tennessee Code Annotated, require competitive bids for all purchases exceeding \$5,000.

#### **RECOMMENDATION**

To strengthen internal controls over the purchasing process and to document purchasing commitments, the office should issue purchase orders for all applicable purchases. Also, competitive bids should be solicited for all purchases exceeding \$5,000, as required by state statute.

#### **MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE**

The Sheriff's Department did not consult with me about the purchase of guns.

#### **REBUTTAL**

All officials and departments paid through the Office of County Executive should be required to obtain purchase orders to control purchasing authority and determine if competitive bids are required

---

FINDING 02.02

**THE OFFICE HAD DEFICIENCIES IN BUDGET OPERATIONS**

(Material Noncompliance Under Government Auditing Standards)

Our examination revealed the following deficiencies in budget operations:

- A. Expenditures exceeded appropriations by \$83,334 in the Special Purpose Fund.
- B. It is the County Commission's practice to adopt formal budgets for its Capital Projects Funds; however, it did not adopt a budget for the Hospital Capital Projects Fund for the 2001-02 year. During the year, the County Commission did approve appropriations of \$598,413 for the Hospital Capital Projects Fund. These appropriations have been reflected as the budget for the Hospital Capital Projects Fund in this report. These appropriations were not sufficient to cover the actual expenditures (\$2,000,415) of the fund. As a result, expenditures exceeded appropriations by \$1,402,002 in the Hospital Capital Projects 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 should be held within appropriations approved by the County Commission.

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE

The county executive stated the following:

- A. The Special Purpose Fund expenditures were to reimburse the General Fund for assisted living facility expenditures initially made from the General Fund.
- B. Expenditures for the hospital expansion were appropriated in the capital outlay note resolution the prior year.

REBUTTAL

In regard to B., since it is the County Commission's practice to formally adopt budgets for its Capital Project Funds, unexpended balances remaining at the end of a fiscal year must be reappropriated the next fiscal year.

**OFFICE OF SUPERINTENDENT OF HIGHWAYS**

**FINDING 02.03**

**THE HIGHWAY/PUBLIC WORKS FUND HAD A CASH OVERDRAFT**

(Internal Control – Reportable Condition Under Government Auditing Standards)

The Highway/Public Works Fund had a cash overdraft of \$73,810 at June 30, 2002. This cash overdraft resulted from the office's issuing warrants that exceeded funds on deposit with the county trustee.

**RECOMMENDATION**

The office should not issue warrants that exceed cash on deposit with the county trustee.

**MANAGEMENT'S RESPONSE – SUPERINTENDENT OF HIGHWAYS**

We will take steps to avoid cash overdrafts in the future.

---

**FINDING 02.04**

**APPROPRIATIONS EXCEEDED ESTIMATED AVAILABLE FUNDS**

(Material Noncompliance Under Government Auditing Standards)

The budget and subsequent amendments submitted to and approved by the County Commission for the Highway/Public Works Fund resulted in appropriations exceeding estimated funding by \$85,623.

**RECOMMENDATION**

Appropriations that exceed estimated available funds should not be submitted to the County Commission, and the County Commission should not approve such appropriations.

**MANAGEMENT'S RESPONSE – SUPERINTENDENT OF HIGHWAYS**

I concur. Steps will be taken to correct future budget oversights.

---

## **OFFICE OF DIRECTOR OF SCHOOLS**

### **FINDING 02.05**

### **THE OFFICE HAD PURCHASING DEFICIENCIES**

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

Our examination of purchasing procedures revealed the following purchasing deficiencies:

- A. The office did not issue purchase orders for all applicable purchases. Purchase orders are necessary to control who has purchasing authority for the School Department and to document purchasing commitments.
- B. In a few instances, invoices were not on file to support disbursements. However, we were able to determine that these purchases were legitimate purchases of the department.
- C. Competitive bids were not solicited for the purchase of playground equipment (\$27,346). Section 49-2-203, Tennessee Code Annotated, requires competitive bids for all purchases exceeding \$5,000.
- D. The Board of Education solicited and received three bids for the purchase of three new buses. The low bid received was \$36,085 per bus. However, the Board of Education rejected this bid in favor of a local vendor whose bid was \$36,249 per bus. The reason given for rejecting the low bid was the nominal difference in price and the fact that the other vendor was a local vendor.
- E. During the year, a 1996 school bus belonging to the Board of Education was wrecked. The board's insurance carrier gave the board two choices on a settlement. The insurance carrier could take possession of the bus and pay the board \$24,500, or the board could keep the bus and the insurance carrier would pay the board \$18,250 for the needed repairs. The board chose to let the insurance carrier take possession of the bus and take the \$24,500 payment. The board then solicited bids to purchase a comparable 1996 bus and received two bids. One bid of \$26,900 was for a 1996 Bluebird 72-78 passenger bus with 44,000 miles. The second bid of \$27,500 was from a local vendor and was for a 1996 International 66-passenger bus with 52,100 miles. The board chose the higher bid, which was for a smaller bus with more miles. However, more importantly, it was the same bus they had wrecked and turned over to the insurance company. The local vendor had repaired the bus and was selling it back to the county for \$3,000 more than the insurance settlement. The Board of Education cited the 50,000 miles of remaining warranty, a new transmission, and knowledge of maintenance on the bus as reasons for accepting the higher bid. If the board chose to accept the higher bid for these reasons, then the board should have taken the \$18,250 insurance settlement and had the bus repaired.

In Owen of Georgia, Inc., versus Shelby County, 442F. Supp. 314 (w.b. Tenn. 1977), the court stated that in order 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.” The court also stated that declining the bid of the lowest-priced vendor because it was not a local company was not proper.

### RECOMMENDATION

The School Department should do the following:

- A. To strengthen internal controls over the purchasing process and to document purchasing commitments, the office should issue purchase orders for all applicable purchases.
- B. Adequate documentation should be maintained to support disbursements.
- C. Competitive bids should be solicited for all purchases exceeding \$5,000, as required by state statute.
- D./E. Purchases should be made from the vendor with the lowest price that meets bid specifications. A low bid should not be rejected based on personal preference or a vendor’s locality.

---

### FINDING 02.06

### **INSURANCE PREMIUMS WERE OVERPAID**

(Internal Control – Reportable Condition Under Government Auditing Standards)

The School Department continued to pay dental insurance premiums (\$2,698) for ten employees after they had been terminated, had cancelled coverage, or had changed coverage. After auditors notified the School Department of these problems, these employees were dropped or their coverage was changed, and the School Department received a partial refund (\$984) from the insurance carrier. Therefore, the net cost to the School Department as a result of the errors was \$1,714.

### RECOMMENDATION

The School Department should continually monitor the county’s insurance program to ensure that insurance premiums are not paid for terminated employees and that corrections to insurance coverage are made on a timely basis.

**OFFICE OF COUNTY CLERK**

**FINDING 02.07**

**THE OFFICE HAD DEFICIENCIES IN THE COLLECTION OF BUSINESS TAXES**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The county clerk did not have formal procedures in place to ensure that new and/or out-of-town businesses (i.e., contractors and subcontractors) obtained a business license to operate in the county.

**RECOMMENDATION**

The county clerk should establish formal policies and procedures to ensure that all new businesses are notified of their need to file a business tax application.

---

**OFFICE OF CLERK AND MASTER**

**FINDING 02.08**

**THE CLERK AND MASTER DID NOT OBTAIN A LETTER OF AGREEMENT OR COURT DECREE TO AUTHORIZE DEPUTY HIRES**  
(Noncompliance Under Government Auditing Standards)

The clerk and master did not obtain a letter of agreement or file suit in Chancery Court to authorize the number and salaries of her deputies. Section 8-20-101, Tennessee Code Annotated, permits the clerk and master to enter into a letter of agreement with the county executive concerning the number of deputies and the salaries of those deputies or to file suit in Chancery Court.

**RECOMMENDATION**

The clerk and master should obtain a letter of agreement with the county executive or petition Chancery Court for the number and compensation of her deputies, as required by state statute.

---

## OTHER FINDINGS AND RECOMMENDATIONS

### FINDING 02.09

**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 adequately segregated among the officials and employees in the Offices of Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff. Employees responsible for maintaining the accounting records in these offices were also involved in receipting, depositing, and/or disbursing funds.

### RECOMMENDATION

To strengthen internal controls, officials of these offices should segregate duties adequately among employees.

### MANAGEMENT'S RESPONSE – SHERIFF

Due to the limited funding in the Wayne County sheriff's budget and small staff, there are limitations to the duties that can be given to employees.

### REBUTTAL

Duties should be segregated adequately among employees.

---

### FINDING 02.10

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

Wayne 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 Wayne 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

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

FINDING 02.11

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

Wayne 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

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