

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

### **BENTON COUNTY PRIMARY GOVERNMENT**

#### **FINDING 03.01      **GOVERNMENT-WIDE FINANCIAL STATEMENTS WERE NOT PRESENTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES****

(Material Noncompliance Under Government Auditing Standards)

Benton County did not identify and determine the historical value of its capital assets and the related depreciation amounts of these assets for the primary government. Therefore, Benton County was unable to provide the information necessary to prepare government-wide financial statements for all of the government's activities, as required by Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. GASB is the standard-setting body for accounting principles that state and local governments are required to follow. As a result of this omission, Benton County's financial statements are not presented in accordance with generally accepted accounting principles; thus, we have issued an adverse opinion on the county's financial statements.

The Office of the Comptroller of the Treasury, State of Tennessee, requires counties that do not implement GASB Statement 34 to issue a financial report in compliance with Financial Reporting Standards for County Governments, Component Units of County Governments, and Special School Districts That Do Not Implement Governmental Accounting Standards Board Statement 34, established by the Comptroller of the Treasury. The Benton County primary government's financial statements are presented in compliance with these requirements.

#### **RECOMMENDATION**

The Benton County primary government should present government-wide financial statements in conformity with generally accepted accounting principles, and should compile and maintain records that properly account for its capital assets. These records should document the historical costs of the county's capital assets and the related depreciation amounts of these assets. This information is necessary to present the financial statements in accordance with generally accepted accounting principles.

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## **OFFICE OF COUNTY EXECUTIVE**

**FINDING 03.02      **REQUISITIONS AND PURCHASE ORDERS WERE NOT ISSUED FOR SOME PURCHASES****  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The County Executive's Office did not issue requisitions and purchase orders for some purchases. Requisitions and purchase orders are necessary to control who has purchasing authority for the county and to document purchasing commitments. Chapter 541, Private Acts of 1939, as amended, provides for the issuance of requisitions and purchase orders for all general county purchases of equipment, supplies, and materials.

### **RECOMMENDATION**

Requisitions and purchase orders should be issued for all applicable purchases in accordance with controlling statutes.

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**FINDING 03.03      **ACCOUNTING DEFICIENCIES WERE NOTED IN FUNDS ADMINISTERED BY THE COUNTY EXECUTIVE****  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit revealed the following weaknesses:

- A. General ledger payroll deduction accounts for the General Fund and Drug Control Fund were not reconciled with subsidiary payroll records. As a result, unidentified balances were allowed to accumulate in numerous withholding accounts. These unidentified balances were due in part to the General Fund's reporting and paying payroll deductions for the Drug Control Fund without this fund reimbursing the General Fund for these payments. Interfund receivables and payables have been reflected in the financial statements of this report to correct these accounting deficiencies.
  
- B. Receivables and payables were established in the General Fund at year-end for the 2003 fiscal year. However, when these receivables were received and payables were paid subsequent to the end of the fiscal year, they were erroneously recorded on the books as revenue and expenditure of the current year. Therefore, we provided audit adjustments to management for both the 2003 and 2004 years to correct the improper recording of receivables and payables.

RECOMMENDATION

Payroll deduction accounts should be reconciled with subsidiary records. The Drug Control Fund should reimburse the General Fund for payroll payments made on its behalf. Furthermore, transactions reflecting the receipt of receivables and the payment of payables should be recorded properly in the accounting records.

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FINDING 03.04      **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 \$29,899 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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FINDING 03.05      **THE OFFICE DID NOT DEVELOP A DISASTER RECOVERY PLAN**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Office of County Executive 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.

**OFFICE OF ROAD SUPERVISOR**

**FINDING 03.06**      **PURCHASE ORDERS WERE NOT ISSUED PROPERLY**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

In most instances, dollar amounts of purchases were not reflected on purchase orders until the invoices were received from the vendors. The dollar amounts of items on purchase orders are necessary to quantify purchasing commitments and to identify items purchased.

**RECOMMENDATION**

Purchase orders should include the dollar amount of the purchase to quantify purchasing commitments.

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**FINDING 03.07**      **EXPENDITURES AND ENCUMBRANCES EXCEEDED APPROPRIATIONS IN ONE MAJOR CATEGORY OF THE HIGHWAY/PUBLIC WORKS FUND**  
(Noncompliance Under Government Auditing Standards)

Expenditures and encumbrances exceeded appropriations in the Capital Outlay major category of the Highway/Public Works Fund by \$44,338. This overexpenditure resulted from the uncompleted portion of bridge construction contracts of \$136,094 being reserved as an encumbrance in the financial statements of this report.

**RECOMMENDATION**

Appropriations for construction projects should be budgeted in the year the contracts are approved.

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**OFFICE OF GENERAL SESSIONS COURT CLERK**

**FINDING 03.08**      **BANK STATEMENTS WERE NOT RECONCILED WITH CASH JOURNAL ACCOUNTS, AND ACCURATE OUTSTANDING CHECK LISTS WERE NOT PREPARED MONTHLY**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Bank statements were not reconciled with cash journal accounts, and lists of outstanding checks were not prepared accurately for three months during the period under examination. The reconciliation of bank statements with cash journal accounts and the preparation of accurate outstanding check lists are necessary procedures to ensure that all cash collections and disbursements are recorded accurately on the accounting records.

RECOMMENDATION

The office should reconcile bank statements with cash journal accounts and prepare an accurate list of outstanding checks each month.

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**OTHER FINDINGS AND RECOMMENDATIONS**

FINDING 03.09      **A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

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

RECOMMENDATION

Benton County officials should consider adopting either 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.

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FINDING 03.10      **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF 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 Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff. In each of these offices, one employee was responsible for issuing receipts, preparing bank deposits, posting receipts to the cash journal, generating checks, and/or signing checks. 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.