

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

OFFICE OF COUNTY EXECUTIVE

FINDING 03.01 **THE OFFICE HAD DEFICIENCIES IN PURCHASING PROCEDURES**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Office of County Executive did not always follow sound purchasing procedures. Our audit revealed the following deficiencies:

- A. The office did not issue purchase orders for some applicable purchases. Purchase orders are necessary to control who has purchasing authority and to document purchasing commitments.
- B. In several instances, invoices were paid without documentation that goods had been received or services had been rendered. However, we extended our audit procedures and were able to determine that goods had been received and services had been rendered.

RECOMMENDATION

The office should improve purchasing procedures by issuing purchase orders for all applicable purchases and requiring documentation that goods have been received or services rendered before invoices are paid.

FINDING 03.02 **EXPENDITURES EXCEEDED APPROPRIATIONS**
(Material Noncompliance Under Government Auditing Standards)

Expenditures exceeded appropriations approved by the County Commission in the Drug Control Fund (\$4,197) and General Debt Service Fund (\$18,531). 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.

OFFICE OF ROAD SUPERVISOR

FINDING 03.03 THE OFFICE HAD DEFICIENCIES IN PURCHASING PROCEDURES
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Office of Road Supervisor did not always follow sound purchasing procedures. Our audit revealed the following deficiencies:

- A. The office did not issue purchase orders for some applicable purchases. Purchase orders are necessary to control who has purchasing authority and to document purchasing commitments.
- B. In several instances, invoices were paid without documentation that goods had been received or services had been rendered. However, we extended our audit procedures and were able to determine that goods had been received and services had been rendered.

RECOMMENDATION

The office should improve purchasing procedures by issuing purchase orders for all applicable purchases and requiring documentation that goods have been received or services rendered before invoices are paid.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 03.04 EXPENDITURES AND ENCUMBRANCES EXCEEDED APPROPRIATIONS IN THE GENERAL PURPOSE SCHOOL FUND
(Noncompliance Under Government Auditing Standards)

General Purpose School Fund expenditures and encumbrances exceeded appropriations approved by the County Commission in the Regular Capital Outlay major appropriation category by \$64,393. 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.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 03.05 **RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED ASSETS**
(Internal Control – Material Weakness Under Government Auditing Standards)

Chester 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 Chester 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

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

FINDING 03.06 **A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Chester 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

Chester County officials should consider adopting 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.

FINDING 03.07 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK, CLERK AND MASTER, AND SHERIFF**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among the officials and employees in the Offices of Circuit and General Sessions Courts Clerk, Clerk and Master, and Sheriff. Officials and employees responsible for maintaining accounting records were also involved in receipting, depositing, and disbursing funds; posting receipts to the cash journal; and/or reconciling

bank statements. 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.

FINDING 03.08 **DESIGNATED SITUS-BASED TAXES WERE INADEQUATE TO FUND RURAL FIRE PROTECTION**

(Material Noncompliance Under Government Auditing Standards)

During the year, Chester County expended \$263,879 from the General Fund to provide fire protection service to rural areas of the county. The County Commission has designated certain situs-based taxes in the General Fund to be used to fund rural fire protection. However, these situs-based taxes amounted to \$177,790 during the year and were not enough to cover operating expenditures of \$263,879 for rural fire protection. Therefore, the property taxes of all county citizens, living both inside and outside Henderson city limits, helped to fund this service, and citizens living within the City of Henderson paid for fire protection service in both the city and rural areas.

RECOMMENDATION

In addition to the designated situs-based taxes, Chester County should consider establishing fire districts and taxing annually the property owners of each district to pay that district's share of the total budget of the countywide departments.