

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 ISSUING PURCHASE ORDERS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The County Executive's Office 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 for the county and to document purchasing commitments.

- B. In most instances when the office issued purchase orders, the dollar amount of the purchase was not listed on the purchase order. Including dollar amounts on purchase orders is necessary to quantify purchasing commitments.

RECOMMENDATION

The office should improve purchasing procedures by issuing purchase orders for all applicable purchases and including the dollar amount on all purchase orders.

FINDING 03.02 **THE OTHER CAPITAL PROJECTS FUND HAD A FUND DEFICIT**
(Noncompliance Under Government Auditing Standards)

The Other Capital Projects Fund had a fund deficit of \$22,999 at June 30, 2003. This fund deficit resulted from the recognition of \$60,320 in current liabilities and from unperformed portions of construction contracts totaling \$6,984 being reserved as encumbrances. The fund deficit should be liquidated when additional federal grant funds are received subsequent to June 30, 2003.

OFFICE OF HIGHWAY COMMISSIONER

FINDING 03.03 **THE HIGHWAY DEPARTMENT DID NOT ISSUE PURCHASE ORDERS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Highway Department did not issue purchase orders. Purchase orders are necessary to control who has purchasing authority for the county and to document purchasing commitments.

RECOMMENDATION

The Highway Department should issue purchase orders to strengthen internal controls over the purchasing process and to document purchasing commitments.

FINDING 03.04 **THE HIGHWAY DEPARTMENT DID NOT ACCOUNT FOR THE USE OF ROAD MATERIALS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Highway Department had a system to determine the use of road materials, such as rock and asphalt, for state-aid road projects. However, the department did not have a system to account for materials used on other types of road projects. The failure to maintain a system to document the use of road materials results in a loss of control over assets and increases the risk of inventory loss.

RECOMMENDATION

The Highway Department should develop and implement a system to account for the use of all road materials.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 03.05 **THE OFFICE'S WARRANT-SIGNING MACHINE DID NOT HAVE A COUNTER TO SHOW THE TOTAL NUMBER OF WARRANTS PROCESSED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Board of Education used a mechanical warrant-signing machine to affix the signature of the director of schools and the chairman of the Board of Education. Various department employees were allowed to use the warrant-signing machine. The mechanical counter on the machine could be reset and did not have a counter to show the total number of warrants processed through the machine.

RECOMMENDATION

The warrant-signing machine should have a counter that cannot be reset indicating the total number of warrants processed.

OFFICE OF TRUSTEE

FINDING 03.06 DELINQUENT TAXES WERE NOT FILED WITH A DELINQUENT TAX ATTORNEY
(Noncompliance Under Government Auditing Standards)

The trustee did not file delinquent 2001 taxes with a delinquent tax attorney, as required by Section 67-5-2404, Tennessee Code Annotated (TCA). The trustee delivered these delinquent taxes to the clerk and master for collection without filing suit. Section 67-5-2406(a), TCA, provides that if the county trustee and county executive do not employ a delinquent tax attorney to institute suits for the collection of delinquent taxes by April 1 of each year, then the district attorney general can employ an attorney to institute and prosecute suits to collect the delinquent taxes.

RECOMMENDATION

The county trustee and county executive should employ a delinquent tax attorney to file suit for the collection of delinquent taxes, as required by state statute.

FINDING 03.07 THE OFFICE DID NOT DEPOSIT CASH COLLECTIONS INTACT
(Internal Control – Reportable Condition Under Government Auditing Standards)

Office collections were not deposited intact to the office bank account. Depositing collections intact strengthens internal controls over cash collections and aids in determining that all funds have been accounted for properly and deposited on a current basis.

RECOMMENDATION

The office should deposit all collections intact.

FINDING 03.08 THE TRUSTEE'S DEPOSITORY USED AN UNAUTHORIZED METHOD FOR PAYMENT OF WARRANTS
(Noncompliance Under Government Auditing Standards)

The office's depository deducted warrants from the office's bank account before the bank presented the warrants to the trustee for payment. Section 811-104, Tennessee Code Annotated (TCA), states that the trustee should "pay all just claims against the county as they are presented, if he has a sufficient sum of money ... not otherwise appropriated." The depository's practice did not provide a method for the trustee to verify the availability of funds for paying warrants. Section 5-8-210, TCA, provides an alternative method for the trustee to determine that adequate funds are available and for the bank to charge the trustee's account directly. This section authorizes the county trustee to implement a checking system instead of a warrant system for disbursing funds.

RECOMMENDATION

The office's depository should not deduct warrants from the office's bank account until the warrants have been presented to the trustee for payment. As an alternative to this practice, the trustee should consider implementing a checking system for disbursing county funds, as authorized by state statute.

FINDING 03.09 THE TRUSTEE ALLOWED INDIVIDUALS UNSUPERVISED ACCESS TO HIS OFFICE AFTER BUSINESS HOURS
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our examination disclosed that the trustee did not adequately control access to his office. Individuals who were not office employees had unsupervised access to the Trustee's Office after business hours. Allowing persons who are not employees to have unsupervised access to an office after business hours seriously weakens internal controls over office assets.

RECOMMENDATION

Individuals who are not office employees should not be allowed unsupervised access to the Trustee's Office after business hours.

FINDING 03.10 TWO DEPOSITORIES WERE NOT REQUIRED TO ADEQUATELY COLLATERALIZE FUNDS
(Noncompliance Under Government Auditing Standards)

The trustee did not require two depositories holding county funds to pledge adequate securities to protect funds exceeding Federal Deposit Insurance Corporation (FDIC) coverage at June 30, 2003. Section 5-8-201, Tennessee Code Annotated, provides for county

officials to require any bank that is a depository of county funds to deposit in an escrow account in a second bank collateral security equal to 105 percent of county funds. Subsequent to June 30, 2003, sufficient funds were pledged.

FINDING 03.11 THE OFFICE DID NOT USE SECURITY FEATURES OF ITS COMPUTER SYSTEM
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Trustee’s Office did not use the security features component of the UNIX operating system. These features allow a designated user to assign unique user log-in names and passwords for all employees. User profiles can be used to assign system access privileges. Unrestricted system access to the automated accounting applications could result in the unauthorized manipulation of sensitive financial information.

RECOMMENDATION

The office should implement the security features offered by the UNIX operating system. To restrict access to the computer system, the office should ensure that a unique user log-in name and password are assigned to each user whose documented job responsibilities require access to the computer system. Furthermore, passwords should remain confidential and should be changed periodically.

FINDING 03.12 THE OFFICE DID NOT HAVE ADEQUATE APPLICATION CONTROLS OVER A DATA MANIPULATION UTILITY IN THE ACCOUNTING SOFTWARE
(Internal Control – Reportable Condition Under Government Auditing Standards)

The office’s accounting software had a data manipulation utility that allowed users to make changes to previously processed accounting information but provided no audit trail of these changes. Without an audit trail of data manipulation, errors and improper changes could occur and go undetected.

RECOMMENDATION

Management should contact the software vendor to remove the data manipulation utility from the accounting software. To provide an adequate audit trail, the office should record all accounting transactions through the use of journal entries.

FINDING 03.13 SUFFICIENT USER DOCUMENTATION FOR THE OPERATING SYSTEM AND SOFTWARE APPLICATIONS WAS NOT MAINTAINED
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Trustee’s Office did not maintain formal user documentation pertaining to the accounting software and operating system. This documentation is necessary to provide users with information regarding system maintenance, system inputs, application processing requirements, output definitions, and system recovery. Inadequate documentation may result in inaccurate and inefficient processing of applications.

RECOMMENDATION

The office should maintain user documentation pertaining to all software applications and the operating system. Management should contact their vendor and obtain current user documentation for all components of the computer system.

OFFICE OF CLERK AND MASTER

FINDING 03.14 DELINQUENT TAX AGGREGATES WERE NOT DETERMINED AND RECONCILED
(Internal Control – Reportable Condition Under Government Auditing Standards)

The clerk and master did not determine the unpaid balance of each year’s delinquent tax aggregate on file in Chancery Court and therefore could not reconcile the unpaid balance with amounts collected and adjusted. As a result, internal controls over delinquent property tax collections were weakened.

RECOMMENDATION

To strengthen internal controls over delinquent property tax collections, the clerk and master should reconcile each year’s delinquent tax aggregate on file in Chancery Court.

OFFICE OF REGISTER

FINDING 03.15 THE REGISTER ALLOWED INDIVIDUALS UNSUPERVISED ACCESS TO HER OFFICE AFTER BUSINESS HOURS
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our examination disclosed that the register did not adequately control access to her office. Individuals who were not office employees had unsupervised access to the Register’s Office

after business hours. Allowing persons who are not employees to have unsupervised access to an office after business hours seriously weakens internal controls over assets.

RECOMMENDATION

Individuals who are not office employees should not be allowed unsupervised access to the office after business hours.

OFFICE OF SHERIFF

FINDING 03.16 **DUTIES WERE NOT SEGREGATED ADEQUATELY**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among employees in the Sheriff's Office. One employee was responsible for receipting, preparing bank deposits, posting entries to the cash journal, and 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.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 03.17 **RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED ASSETS**
(Internal Controls – Material Weakness Under Government Auditing Standards)

Lauderdale 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 for Lauderdale 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

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

FINDING 03.18

A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED

(Internal Control – Reportable Condition Under Government Auditing Standards)

Lauderdale 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

Lauderdale 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 03.19

THE COUNTY COMMISSION HAD NOT ADOPTED A FORMAL TRAVEL POLICY

(Internal Control – Reportable Condition Under Government Auditing Standards)

The Lauderdale County Commission had not adopted formal policies and procedures governing travel reimbursements for county employees. During the period under examination, the county paid employees and officials actual cost for meals and lodging. Without a formal travel policy, employees have no limitations placed on their lodging and meal expenses.

RECOMMENDATION

The Lauderdale County Commission should adopt formal policies and procedures for the payment of travel expenses. These policies and procedures should establish maximum limits for the reimbursement of lodging and meal expenses.