

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. Management did not offer written responses to the findings and recommendations. Officials did offer 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 DEFICIENCIES WERE NOTED IN THE ADMINISTRATION OF THE SOLID WASTE DISPOSAL PROGRAM
(A., C. Internal Control – Reportable Condition and B. Noncompliance Under Government Auditing Standards)

The following deficiencies were noted in the administration of the solid waste disposal program:

- A. Employees' incompatible duties were not segregated. One employee collected funds, issued receipts, posted accounting records, and deposited funds with the county trustee.
- B. Funds collected at the transfer station were not deposited to the county trustee within three days, as required by Section 5-8-207, Tennessee Code Annotated.
- C. Collections were not reconciled with deposits made with the county trustee. Reconciling collections with deposits is an effective internal control procedure to ensure that all collections are properly deposited with the county trustee.

RECOMMENDATION

The county executive should segregate incompatible duties of solid waste program employees so that no one employee has full control over cash receipts. All collections should be deposited with the county trustee within three days, as required by state statute. In addition, all collections should be reconciled with amounts deposited with the county trustee.

FINDING 03.02 PURCHASE ORDERS WERE NOT ISSUED PROPERLY
(Internal Control – Reportable Condition Under Government Auditing Standards)

The following deficiencies were noted in the issuance of purchase orders:

- A. Purchase orders were not issued in some required instances. Purchase orders are necessary to control who has purchasing authority for the county and to document purchasing commitments.

- B. In several instances, purchase orders were issued after the purchases were made. The practice of issuing purchase orders after the purchases are made defeats the purpose of the purchase order and makes it an approval of payment rather than an approval of the purchase.
- C. In a few instances, purchase orders were issued without the signature of the county's purchasing agent. Section 5-14-111, Tennessee Code Annotated, requires the purchasing agent to approve all purchase orders.

RECOMMENDATION

Purchase orders should be issued for all purchases before the purchases are made and should be approved by the county purchasing agent.

FINDING 03.03 **CONTROLS OVER INVENTORY WERE INADEQUATE**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit revealed the following deficiencies in controls over the county's assets:

- A. Although the county maintained inventory records, several items were not identified adequately by property tags, bar codes, serial numbers, or other means of identification.
- B. An inventory was not maintained of ambulances or the equipment in the ambulances.
- C. No procedures were in place to ensure that personnel independent of maintaining inventory records verified the records periodically.

Generally accepted accounting principles require accountability for all county-owned assets.

RECOMMENDATION

Inventory records should adequately describe all county property by tags, bar codes, serial numbers, and/or other means of identification. Inventory records should be maintained for ambulances and equipment. Furthermore, personnel independent of maintaining the inventory should periodically verify these records.

FINDING 03.04 THE SOLID WASTE SOFTWARE DID NOT HAVE ADEQUATE APPLICATION CONTROLS
(Internal Control – Reportable Condition Under Government Auditing Standards)

The following weaknesses regarding the office's solid waste accounting software were identified:

- A. Users could overwrite transactions. This capability should be removed.
- B. Cash receipts and charge tickets were not numbered sequentially.
- C. Receipts for collections of accounts receivable were not numbered sequentially.
- D. A report displaying all collections (cash customers and accounts receivable payments) was not available by date.
- E. An aged accounts receivable report was not available.
- F. Formal user documentation for the software vendor's solid waste billing software was not maintained. Inadequate documentation can jeopardize the efficiency and accuracy with which applications are processed.

RECOMMENDATION

The vendor should remove the capability to overwrite transactions. Cash receipts, charge tickets, and receipts issued for accounts receivable collections should be sequentially numbered. The system should be able to generate a daily report of all collections and an aged accounts receivable report. Also, formal user documentation for the billing software should be maintained.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 03.05 THE SCHOOL FEDERAL PROJECTS FUND HAD A CASH OVERDRAFT
(Internal Control – Reportable Condition Under Government Auditing Standards)

The School Federal Projects Fund had a cash overdraft of \$13,722 at June 30, 2003. 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.

FINDING 03.06 **INVENTORY RECORDS OF DEPARTMENT ASSETS WERE NOT VERIFIED BY INDEPENDENT PERSONNEL**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Although the School Department maintained lists of its assets, these lists were not periodically verified by personnel independent of maintaining the inventory. Generally accepted accounting principles require accountability for all county-owned assets, such as vehicles, furniture, and equipment. The failure to adequately maintain inventory records results in a loss of control over the assets.

RECOMMENDATION

Personnel independent of maintaining the department's inventory should periodically verify these records.

OFFICE OF COUNTY CLERK

FINDING 03.07 **THE COUNTY CLERK DID NOT REQUIRE A DEPOSITORY TO COLLATERALIZE FUNDS THAT EXCEEDED FDIC COVERAGE**
(Noncompliance Under Government Auditing Standards)

The county clerk did not require the depository holding his county funds to pledge securities to protect funds that exceeded Federal Deposit Insurance Corporation (FDIC) coverage. At June 30, 2003, funds on deposit exceeded FDIC coverage by \$40,836. 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.

RECOMMENDATION

County officials should require all depositories to pledge securities to protect county funds exceeding FDIC coverage, as required by state statute.

FINDING 03.08 FUNDS WERE NOT DEPOSITED INTACT WITHIN THREE DAYS OF COLLECTION
(Noncompliance Under Government Auditing Standards)

Funds were not deposited to the office bank account intact within three days of collection, as required by Section 5-8-207, Tennessee Code Annotated. This statute requires that county officials deposit all funds within three days of collection.

RECOMMENDATION

Funds should be deposited to the office bank account intact within three days of collection, as required by state statute.

OFFICE OF GENERAL SESSIONS COURT CLERK

FINDING 03.09 RECEIPTS WERE NOT ISSUED FOR TRAFFIC SCHOOL PAYMENTS
(Noncompliance Under Government Auditing Standards)

Receipts were not issued for collections received from individuals attending the county's traffic school. The traffic school was conducted at the courthouse after normal business hours, and office employees collected payments at the time the class was conducted. On the day following the class, the payments were receipted in General Sessions Court on a single receipt for the total amount collected. Section 9-2-103, Tennessee Code Annotated, requires that receipts be issued for all collections as they are received.

RECOMMENDATION

Individual receipts should be issued for all traffic school collections when the payments are received, as required by state statute.

FINDING 03.10 FUNDS WERE NOT DEPOSITED INTACT WITHIN THREE DAYS OF COLLECTION
(Noncompliance Under Government Auditing Standards)

Funds were not deposited to the office bank account intact within three days of collection, as required by Section 5-8-207, Tennessee Code Annotated. This statute requires that county officials deposit all funds within three days of collection.

RECOMMENDATION

Funds should be deposited to the office bank account intact within three days of collection, as required by state statute.

OFFICE OF SHERIFF

**FINDING 03.11 THE OFFICE HAD DEFICIENCIES IN THE ADMINISTRATION OF DRUG CONTROL FUNDS
(Noncompliance Under Government Auditing Standards)**

The following deficiencies were noted in the administration of drug control funds:

- A. Several forms and reports required by the Office of the Comptroller of the Treasury to account for drug control funds were not completed. These forms and reports are necessary to document the administration of confidential drug funds and to account for cash transactions related to undercover investigative operations.
- B. Forms documenting drug buys and payments to informants were not witnessed and signed by two officers. This procedure is required by the Office of the Comptroller of the Treasury as an internal control over cash disbursements.

RECOMMENDATION

The sheriff should ensure that the office completes all forms and reports required by the Office of the Comptroller of the Treasury. Also, forms documenting drug buys and payments to informants should be witnessed by two officers.

OTHER FINDINGS AND RECOMMENDATIONS

**FINDING 03.12 RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED ASSETS
(Internal Control – Material Weakness Under Government Auditing Standards)**

Overton 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 Overton 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

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

FINDING 03.13 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF COUNTY EXECUTIVE, DIRECTOR OF ACCOUNTS AND BUDGETS, HIGHWAY SUPERINTENDENT, DIRECTOR OF SCHOOLS, 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 the officials and employees in the Offices of County Executive, Director of Accounts and Budgets, Highway Superintendent, Director of Schools, Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff. Officials and employees responsible for maintaining accounting records 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.

FINDING 03.14 **SHERIFF'S OFFICE TIME RECORDS DID NOT ACCURATELY REFLECT ALL HOURS WORKED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The time records submitted to the County Executive's Office for Sheriff's Office employees did not reflect all hours these employees worked. The County Executive's Office became aware that Sheriff's Office employees had worked hours for which they were not compensated when five Sheriff's Office employees requested payment for additional hours. Upon investigation, the county determined that the hours worked beyond the standard workweek were maintained by each employee separate from their standard time sheets. These separate time records were not approved by the employees' supervisor. The county subsequently paid all employees at the Sheriff's Office who had documented overtime hours. The federal Department of Labor is reviewing labor practices at the Sheriff's Office.

RECOMMENDATION

County officials should take steps to ensure that all time records are accurate and complete, and comply with the established personnel policies and procedures.