

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 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 **EXPENDITURES EXCEEDED APPROPRIATIONS IN FIVE MAJOR CATEGORIES OF THE GENERAL FUND**
(Noncompliance Under Government Auditing Standards)

Expenditures exceeded appropriations approved by the County Commission in the Juvenile Court (\$1,527), Civil Defense (\$12,342), Agricultural Extension Service (\$867), Other Economic and Community Development (\$115,259), and Employee Benefits (\$4,264) major appropriation categories of the General Fund. Section 5-9-401, Tennessee Code Annotated, requires all funds spent by county government to be appropriated by the county legislative body.

RECOMMENDATION

Expenditures should be held within appropriations approved by the County Commission, as required by state statute.

FINDING 03.02 **INVENTORY RECORDS OF COUNTY-OWNED ASSETS DID NOT INCLUDE THE SHERIFF'S DEPARTMENT ASSETS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Records of county-owned assets did not include the assets at the Sheriff's Department. Generally accepted accounting principles require accountability for all county-owned assets, such as equipment, furniture, and vehicles. Without properly maintained inventory records, the county cannot adequately control its assets.

RECOMMENDATION

County officials should maintain inventory records of all county-owned assets, as required by generally accepted accounting principles.

OFFICE OF HIGHWAY SUPERINTENDENT

FINDING 03.03 **RECEIVABLES AND PAYABLES WERE NOT DETERMINED AND RECORDED IN THE HIGHWAY/PUBLIC WORKS FUND**
(Noncompliance Under Government Auditing Standards)

Receivables and payables at June 30, 2003, were not determined and recorded on the accounting records of the Highway/Public Works Fund, as required by generally accepted accounting principles. Audit adjustments have been posted to properly reflect the receivables and payables of the Highway/Public Works Fund in the financial statements of this report.

RECOMMENDATION

Receivables and payables should be properly determined and recorded on the accounting records of the Highway/Public Works Fund at June 30 of each year.

FINDING 03.04 **THE OFFICE HAD DEFICIENCIES IN ITS PURCHASING PROCEDURES**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our examination disclosed the following deficiencies in internal controls over purchasing:

- A. In several instances, invoices were paid without documentation that goods had been received and/or services had been rendered. This practice weakens controls over the purchasing process. We extended our audit procedures and determined that these goods were received and services were rendered.
- B. Invoices were not always cancelled. Canceling invoices after payment reduces the possibility of duplicate payment.

RECOMMENDATION

Documentation should be obtained indicating that goods have been received and/or services have been rendered before invoices are paid. Also, all invoices should be cancelled when paid.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 03.05 THE CENTRAL CAFETERIA FUND OPERATED WITHOUT A BUDGET ADOPTED BY THE COUNTY COMMISSION
(Material Noncompliance Under Government Auditing Standards)

The Central Cafeteria Fund was not operated under a formal budget adopted by the County Commission. Section 5-9-401, Tennessee Code Annotated, requires that all funds expended be appropriated by the County Commission.

RECOMMENDATION

The Central Cafeteria Fund should be operated under a formal budget approved by the County Commission, as required by state statute.

FINDING 03.06 CENTRAL CAFETERIA FUND TRANSACTIONS WERE NOT CHanneled THROUGH THE TRUSTEE'S OFFICE
(Material Noncompliance Under Government Auditing Standards)

Transactions of the Central Cafeteria Fund were not channeled through the Trustee's Office, as required by state statute. Instead, these transactions were channeled through a bank account administered by the director of schools and food service director. Section 49-2-301, Tennessee Code Annotated, requires that school funds be expended by issuing warrants drawn on the county trustee.

RECOMMENDATION

Operating funds of the Central Cafeteria Fund should be deposited with the county trustee and disbursed by county warrant, as required by state statute.

FINDING 03.07 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. In some instances, purchase orders were not issued. 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 some instances, purchases were made that exceeded the amount approved on the purchase order. Purchasing goods and/or services that exceed the approved purchase order amount diminishes the usefulness of the purchase order as an internal control.

RECOMMENDATION

Purchase orders should be issued for all purchases before the purchases are made, and purchases that exceed amounts approved by the purchase order should not be made.

FINDING 03.08 **THE SCHOOL DEPARTMENT DID NOT MAINTAIN INVENTORY RECORDS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The School Department did not maintain inventory records for its assets. Generally accepted accounting principles require accountability for all county-owned assets, such as equipment, furniture, and vehicles. Without properly maintained inventory records, the department cannot adequately control its assets.

RECOMMENDATION

The School Department should maintain inventory records of all department-owned assets, as required by generally accepted accounting principles. Furthermore, personnel independent of maintaining the inventory should periodically verify the inventory records.

FINDING 03.09 **THE OFFICE ENTERED INTO A LEASE-PURCHASE AGREEMENT WITHOUT THE COUNTY COMMISSION'S APPROVAL**
(Noncompliance Under Government Auditing Standards)

The School Department entered into a lease-purchase agreement for computer equipment (\$130,206) without the approval of the County Commission. Section 7-51-904, Tennessee Code Annotated, requires such contracts, leases, or lease-purchase agreements to be approved by resolution of the County Commission. We also noted that the lease-purchase agreement carried a 12 percent interest rate. When compared to the current borrowing rates, this rate appears excessive.

RECOMMENDATION

Lease-purchase agreements should be approved by the County Commission, as required by state statute. Responsible school officials should make every effort to secure the most economical means of financing major purchases.

FINDING 03.10 **THE SCHOOL DEPARTMENT DID NOT REQUIRE A DEPOSITORY TO ADEQUATELY COLLATERALIZE CAFETERIA FUNDS**

(Noncompliance Under Government Auditing Standards)

The School Department did not require a depository holding cafeteria 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 \$123,445. 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.

RECOMMENDATION

The School Department should require all depositories to pledge adequate securities to protect county funds exceeding FDIC coverage, as required by state statute.

OFFICE OF COUNTY CLERK

FINDING 03.11 **FUNDS WERE NOT DEPOSITED WITHIN THREE DAYS**

(Noncompliance Under Government Auditing Standards)

Funds were not deposited to the office bank account within three days of collection. Section 5-8-207, Tennessee Code Annotated, requires county officials to deposit all public funds within three days of collection.

RECOMMENDATION

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

OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK

FINDING 03.12 **DRUG FINES WERE NOT ALLOCATED IN ACCORDANCE WITH STATE STATUTE**

(Noncompliance Under Government Auditing Standards)

Drug fines were not allocated in accordance with state statute. During the year, drug fines collected in General Sessions Court were allocated 100 percent to the drug fund of the arresting agency. However, Section 39-17-428, Tennessee Code Annotated, states that drug fines shall be remitted 50 percent to the drug fund of the arresting agency and 50 percent to the general fund of the arresting agency. By allocating the entire amount of the fine to the county or city Drug Funds, it appears that the county's Drug Fund received drug fines of \$31,000 that should have been remitted to the county's General Fund.

RECOMMENDATION

All fines collected should be allocated in accordance with the provisions authorized by state statute.

OFFICE OF SHERIFF

FINDING 03.13 **THE DEPARTMENT HAD ACCOUNTING DEFICIENCIES**

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

We noted the following deficiencies during our examination of the Sheriff's Department:

- A. The cash journal was not maintained on a current basis. The last entry we noted in the cash journal was made on February 24, 2004, and was for collections made on November 30, 2003. It should also be noted that the failure to maintain the cash journal currently resulted in the overpayment of vending machine collections and telephone commissions to the county in May 2003. Audit adjustments have been made to correct these overpayments.
- B. The office did not issue official receipts when funds were collected. Instead, the bookkeeper kept a list of funds collected, then issued the receipts at a later date. Section 9-2-103, Tennessee Code Annotated (TCA), requires that official, prenumbered receipts be issued when funds are collected.
- C. For three months during the year, the office did not report and pay fees to the county in compliance with Section 8-24-103, TCA. This statute requires that all fees be reported and paid to the county monthly.

RECOMMENDATION

All official records of the office should be maintained on a current basis. Receipts should be issued when funds are collected, and fees should be reported and paid to the county trustee monthly, as required by state statutes.

FINDING 03.14 **FUNDS WERE NOT DEPOSITED WITHIN THREE DAYS**
(Noncompliance Under Government Auditing Standards)

Funds were not deposited to the office bank account within three days of collection. Section 5-8-207, Tennessee Code Annotated, requires county officials to deposit all public funds within three days of collection.

RECOMMENDATION

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

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 03.15 **RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED ASSETS**
(Internal Control – Material Weakness Under Government Auditing Standards)

Polk 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 Polk 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

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

FINDING 03.16 THE PROVISIONS OF THE FISCAL CONTROL ACTS OF 1957 WERE NOT FOLLOWED
(Material Noncompliance Under Government Auditing Standards)

The Highway Department maintained its own funds in violation of the County Fiscal Procedure Law of 1957, Section 5-13-101 et seq., Tennessee Code Annotated. Polk County operates under provisions of the Fiscal Control Acts of 1957, which provide for a system of central accounting, budgeting, and purchasing covering all funds administered by the county executive and the highway superintendent. The director of accounts and budgets is responsible for maintaining this centralized system.

RECOMMENDATION

In accordance with state statutes, the director of accounts and budgets should maintain Highway Department funds.

FINDING 03.17 DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF COUNTY EXECUTIVE, 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, 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.