

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. The written responses of the finance director, assessor of property, and sheriff are paraphrased in this report. Other officials offered oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

OFFICE OF FINANCE DIRECTOR

FINDING 03.01 **GENERAL JOURNAL ENTRIES WERE NOT SUPPORTED WITH DETAILED DOCUMENTATION**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Finance Office posted several general journal entries (\$151,139) to the General Fund in June 2003 to reclassify expenditures. These reclassifications did not have adequate documentation to support the entries; therefore, these general journal entries have not been reflected in the financial statements of this report.

RECOMMENDATION

General journal entries should be supported with detailed documentation to support the entries.

MANAGEMENT'S RESPONSE – FINANCE DIRECTOR

These general journal entries were made to charge payroll expenditures to the proper budgetary codes.

REBUTTAL

General journal entries should be supported with detailed documentation as evidence that coding errors had occurred and were corrected.

OFFICE OF TRUSTEE

FINDING 03.02 **THE TRUSTEE INVESTED IN A REPURCHASE AGREEMENT WITHOUT OBTAINING PROPER APPROVALS AND AT A PRICE EXCEEDING THE ALLOWABLE MARKET VALUE**
(Noncompliance Under Government Auditing Standards)

The trustee invested \$500,000 in a repurchase agreement without the prior approval of the state director of Local Finance and the County Commission. In addition, the securities included in this repurchase agreement were not priced at least two percent below the

market value of the securities on the day of purchase. Section 5-8-301, Tennessee Code Annotated, provides that repurchase agreements must be approved by the state director of Local Finance and County Commission and executed in accordance with procedures established by the state Funding Board. This statute also requires that when repurchase agreements are executed, the purchase of the securities must be priced at least two percent below the market value of the securities on the day of purchase.

RECOMMENDATION

Repurchase agreements should be purchased in compliance with state statute.

OFFICE OF ASSESSOR OF PROPERTY

FINDING 03.03 **NEW CONSTRUCTION ASSESSMENTS WERE NOT PRORATED ON THE TAX ROLLS** (Noncompliance Under Government Auditing Standards)

Monitoring reports prepared by the state Division of Property Assessments disclosed that the assessor of property did not include on the tax rolls a prorated portion of the assessment of new construction. Section 67-5-603(b)(1), Tennessee Code Annotated (TCA), requires that “for the year in which [an] improvement or building is completed, the assessment, or increase in assessment, of the improvement shall be prorated for the portion of the year following the date of its completion.”

RECOMMENDATION

Assessments for new construction should be prorated in compliance with state statute.

MANAGEMENT’S RESPONSE – ASSESSOR OF PROPERTY

I disagree with the finding. We do prorate new construction on residential after the shutdown from the state for half the year. We prorate new commercial construction quarterly. Taxpayers do not understand why their appraisal increases from the past year; that is why we try to assess for the full year.

REBUTTAL

Monitoring performed by the state Division of Property Assessments discovered properties with new construction completed in 2003, but not added to the tax roll until 2004. Section 67-5-603(b)(1), TCA, requires these properties to be added to the current year’s tax roll. The failure to prorate these improvements allows these properties to escape taxation for the current year.

OFFICE OF COUNTY CLERK AND JUVENILE AND PROBATE COURTS CLERK

FINDING 03.04 **THE COUNTY CLERK'S OFFICE HAD A CASH SHORTAGE OF AN UNDETERMINABLE AMOUNT**

(Internal Control – Material Weakness Under Government Auditing Standards)

On December 9, 2003, the county clerk informed us that some customers had paid the office for titles but had never received them. In each of these instances, the clerk examined his records and could not find these transactions listed, although several customers presented documentation from the office showing they had paid for the titles. Further examination of the clerk's records and a police investigation revealed that some transactions were altered within the computer system, and other transactions were entered into the computer system, the paperwork printed, and then the transactions voided. We reviewed the office's internal control system and flow of office transactions and determined that the office's software had application controls built into the computer system that would have identified transactions entered into the system and subsequently altered and/or voided. However, office personnel did not use the internal control features built into the system. Had personnel used these internal control features they would have detected the theft in a more timely manner.

As of the date of this report, the county clerk has identified transactions totaling \$9,789.91 that customers paid for but that were not accounted for in the office records. An office employee who has admitted to taking funds has repaid the identified cash shortage of \$9,789.91. However, the total extent of the cash shortage may not be known because of the lack of documentation necessary to determine the number of unreported transactions and their related dollar amounts. Any additional cash shortage and/or the results of the investigation will be disclosed in a subsequent report.

It should be noted that the county clerk did initiate the police investigation and has now taken steps to correct some control weaknesses. We have reported this shortage to the district attorney general.

RECOMMENDATION

The office should use the control features available in its accounting system. Furthermore, the county clerk and his staff should continue their efforts to determine the extent of the cash shortage.

FINDING 03.05 **THE JUVENILE AND PROBATE COURTS' EXECUTION DOCKET TRIAL BALANCE DID NOT RECONCILE WITH CASH JOURNAL ACCOUNTS**

(Noncompliance Under Government Auditing Standards)

The office prepared a trial balance of execution docket cause balances as of June 30, 2003, as required by Section 18-2-103, Tennessee Code Annotated (TCA). However, this trial balance did not reconcile with cash journal accounts by \$7,456. Without this reconciliation, we could not determine the propriety of all transactions and the clerk's compliance with provisions of the Unclaimed Property Act, Section 66-29-110, TCA. This statute provides that any funds held by the court for one year and unclaimed by the owner are considered abandoned. Section 66-29-113, TCA, further requires these funds to be reported and paid to the state Treasurer's Office.

RECOMMENDATION

The clerk should reconcile the execution docket trial balance with cash journal accounts. Furthermore, any funds held by the court for one year and unclaimed by the owner should be reported and paid to the state Treasurer's Office in compliance with state statute.

OFFICE OF SHERIFF

FINDING 03.06 **THE OFFICE HAD A CASH SHORTAGE OF \$24,155.15 IN THE INMATE AND COMMISSARY ACCOUNT**

(Internal Control – Material Weakness Under Government Auditing Standards)

The office had a cash shortage of \$24,155.15 at January 13, 2004, that resulted from office personnel's failure to deposit or otherwise account for some inmate and commissary account collections of \$21,655.15 and from the unauthorized disbursement of \$2,500 in commissary funds. Our examination was originally scheduled to cover commissary transactions for the period July 1, 2002, through June 30, 2003. However, because of irregularities noted in the maintenance of the commissary account, our examination was expanded to cover commissary transactions through January 13, 2004. Therefore, our examination covers commissary transactions for the period July 1, 2002, through January 13, 2004.

The office provides commissary operations to inmates through a contract with a service company. When prisoners are booked into the jail, their personal funds are taken from them and placed in the commissary account in their names. The prisoner or other individuals may also make additional deposits to a prisoner's account. If prisoners need to purchase items from the commissary, monies are withdrawn from their accounts to pay for the items. Any unused funds in their accounts are returned to them upon their release from jail.

Our examination disclosed that duties were not segregated adequately among employees. One employee had access to cash, maintained the accounting records, prepared and made deposits, and reconciled the bank account. These duties were performed with little or no review by supervisory personnel. Other deficiencies in the operation of the inmate and commissary account are explained in finding 03.07.

The following table summarizes the cash shortage with details noted below:

A.	Difference between deposits posted to the accounting records and actual bank deposits	\$ 17,883.15
B.	Cash drawer shortage January 13, 2004	3,772.00
C.	Unauthorized disbursement of commissary funds	<u>2,500.00</u>
		<u>\$ 24,155.15</u>

- A. Each time the commissary bookkeeper posted cash collection entries to the commissary's accounting software, the system automatically calculated the deposit amount. We noted 11 deposits totaling \$50,976.52 that should have been made to the bank account; however, only ten deposits totaling \$33,093.37 were actually made to the bank account. We have included these undeposited funds of \$17,883.15 (\$50,976.52 less \$33,093.37) as a part of the cash shortage.
- B. On January 9, 2004, the sheriff dismissed the bookkeeper and stopped all activity of the commissary. On January 13, 2004, upon phone instructions from the software vendor and in the presence of auditors, the chief deputy performed closeout procedures for the cash drawer. The records indicated that the cash drawer should have had cash collections totaling \$3,772; however, the cash drawer contained no cash. Therefore, we have included this amount in the cash shortage.
- C. In some instances the commissary bookkeeper issued receipts for cash bonds. The office's policy is to carry all cash bonds collected directly to General Sessions Court and not handle the funds through the sheriff's official checking account. The commissary bookkeeper failed to remit a cash bond of \$2,500 directly to General Sessions Court. The commissary bookkeeper subsequently issued a check drawn on the commissary account in the amount of \$2,500 to General Sessions Court to pay the cash bond. The commissary bookkeeper used commissary funds to pay a cash bond that she had failed to account for. Therefore, this \$2,500 payment was an unauthorized disbursement from commissary funds and has been included as part of the cash shortage.

Details of this cash shortage have been reviewed with the sheriff and the district attorney general.

RECOMMENDATION

The sheriff should take steps to liquidate the cash shortage of \$24,155.15 and should establish controls over office cash collections and disbursements. These controls should include the adequate segregation of duties among employees and adequate supervision of employees who perform accounting duties.

MANAGEMENT'S RESPONSE – SHERIFF

My assistant chief deputy found the initial cash shortage, and at that time I notified auditors, the county attorney, and the district attorney general. Auditors then conducted a full audit of the account for the period involved.

FINDING 03.07 **DEFICIENCIES WERE NOTED IN THE OPERATIONS OF THE INMATE AND COMMISSARY ACCOUNT**
(A.,B.,C. Noncompliance Under Government Auditing Standards; D. Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit revealed the following deficiencies in the operation of the inmate and commissary account:

- A. Commissary funds were not deposited to the office bank account within three days of collection, as required by Section 5-8-207, Tennessee Code Annotated (TCA).
- B. The office did not remit the \$29,053 in profits earned from its jail commissary operations to the county. Instead, the office used the commissary profits to purchase miscellaneous items. The State Attorney General opined in November, 1989 that profits earned from commissary operations are local revenues and should be administered as any other local revenue. Section 5-9-401, TCA, requires all county funds from whatever source to be appropriated by the county legislative body.
- C. Sales tax was not remitted to the state Department of Revenue by the twentieth day of the month for the preceding month's tax collections, as required by Section 67-6-504, TCA.
- D. Several checks issued from the commissary were not coded to the proper general ledger account; therefore, account balances were incorrect.

RECOMMENDATION

Funds should be deposited to the office bank account within three days, as required by Section 5-8-207, TCA. Profits generated from the operation of the jail commissary should

be remitted to the county on a monthly basis, and all operating expenses of the office should be appropriated by the County Commission and paid through the county's budgetary process. Furthermore, sales tax should be remitted to the state on a current basis, and disbursements should be coded to the appropriate general ledger account.

FINDING 03.08

BANK STATEMENTS WERE NOT RECONCILED WITH CASH JOURNAL ACCOUNTS

(Internal Control – Reportable Condition Under Government Auditing Standards)

Operating bank statements for the Sheriff's Office were not reconciled with cash journal accounts for eight of the 12 months examined. This could result in posting errors or other irregularities going undetected for several months.

RECOMMENDATION

Bank statements should be reconciled with cash journal accounts monthly.