

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. The written responses of the road supervisor, county clerk, and general sessions court clerk have been included 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 COUNTY MAYOR

FINDING 04.01 REQUISITIONS AND PURCHASE ORDERS WERE NOT ISSUED FOR SOME PURCHASES
(Internal Control – Reportable Condition Under Government Auditing Standards)

The County Mayor's Office did not issue requisitions and purchase orders for some purchases. Requisitions and purchase orders are necessary to control who has purchasing authority for the county and to document purchasing commitments. Chapter 541, Private Acts of 1939, as amended, provides for the issuance of requisitions and purchase orders for all general county purchases of equipment, supplies, and materials.

RECOMMENDATION

Requisitions and purchase orders should be issued for all applicable purchases in accordance with controlling statutes.

FINDING 04.02 ACCOUNTING DEFICIENCIES WERE NOTED IN FUNDS ADMINISTERED BY THE COUNTY MAYOR
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit revealed the following weaknesses:

- A. General ledger payroll deduction accounts for the General Fund were not reconciled with subsidiary payroll records. As a result, unidentified balances were allowed to accumulate in numerous withholding accounts. Routine reconciliation procedures would have identified problems quickly and allowed for correction. Management has approved and posted our audit adjustments to properly reflect the payroll deduction accounts in the financial statements of this report.
- B. Receivables and payables were established in the General Fund at year-end for the 2004 fiscal year. However, when these receivables were received and payables were paid subsequent to the end of the fiscal year, they were erroneously recorded on the books as revenues and expenditures of the

current year. Management has approved and posted our audit adjustments to correct the improper recording of receivables and payables.

RECOMMENDATION

Payroll deduction accounts should be reconciled with subsidiary payroll records. Also, transactions reflecting the receipt of receivables and the payment of payables should be recorded properly in the accounting records.

FINDING 04.03 **RETAINAGE WITHHELD FROM CONTRACTOR PAYMENTS WAS NOT DEPOSITED TO AN ESCROW ACCOUNT IN COMPLIANCE WITH STATE STATUTE**
(Noncompliance Under Government Auditing Standards)

The office did not deposit retainage of \$17,300 withheld from contractor payments into an escrow account. Section 66-11-144, Tennessee Code Annotated, requires that retainage withheld from contractor payments be deposited into an escrow account for contracts of \$500,000 or more.

RECOMMENDATION

Retainage withheld from contractor payments on contracts of \$500,000 or more should be deposited into an escrow account in compliance with state statute.

FINDING 04.04 **THE OFFICE DID NOT DEVELOP A DISASTER RECOVERY PLAN**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Office of County Mayor did not develop a disaster recovery plan to assist in re-creating its data processing environment in the event of a disaster. Without a formal, written plan, critical computerized applications could be disrupted indefinitely until the system could be repaired or a back-up facility could be found and made operational.

RECOMMENDATION

Management should develop and regularly update a disaster recovery plan defining procedures for personnel to follow in the event of a major hardware or software failure, or temporary or permanent destruction of facilities. The plan should contain provisions for a contingency operations site, as well as for the adequate backup of data files, system programs, user documentation, supplies, and computer hardware so that operations could continue as normally as possible. A copy of the plan should be kept in a secure area within the office, as well as at a secure, off-site location.

FINDING 04.05 CONTRIBUTIONS TO NONPROFIT ORGANIZATIONS WERE NOT MADE IN COMPLIANCE WITH STATE STATUTE
(Noncompliance Under Government Auditing Standards)

Some nonprofit organizations receiving county funds had filed financial reports with the County Mayor's Office, while other nonprofit organizations receiving county funds had not filed a financial report with the county. Section 5-9-109, Tennessee Code Annotated, provides for all nonprofit organizations receiving county funds to file a financial report with the county. This statute further provides for these financial reports to be filed with the county clerk and not the county mayor.

RECOMMENDATION

County officials should require all nonprofit organizations receiving county funds to file financial reports with the county clerk.

OFFICE OF ROAD SUPERVISOR

FINDING 04.06 THE OFFICE PAID INVOICES WITHOUT DOCUMENTATION THAT GOODS AND SERVICES HAD BEEN RECEIVED
(Internal Control – Reportable Condition Under Government Auditing Standards)

In several instances, invoices were paid without documentation that goods and services had been received. This practice weakens controls over the purchasing process. We extended our audit procedures and determined that these goods and services were received.

RECOMMENDATION

Documentation should be obtained indicating goods and services have been received before invoices are paid.

FINDING 04.07 THE COUNTY ROAD LIST WAS NOT PREPARED IN COMPLIANCE WITH STATUTORY REQUIREMENTS
(Noncompliance Under Government Auditing Standards)

The road supervisor submitted the county road list to the County Commission; however, this list did not include the road classification and the required summary of changes from the prior year. Section 54-10-103, Tennessee Code Annotated, requires the road supervisor to submit a list of county roads to the County Commission for approval at the commission's January session each year. This list must include the classification, width, and distance of each county-maintained road and a summary of changes from the prior year.

RECOMMENDATION

The road supervisor should submit to the County Commission a list of county roads that includes the road classification and a summary of changes from the prior year, as required by state statute.

OFFICE OF COUNTY CLERK

FINDING 04.08 **THE CLERK PROCESSED A FRAUDULENT DOCUMENT** (Noncompliance Under Government Auditing Standards)

On April 8, 2004, Jerry Ward (husband of the county clerk) signed and submitted a document stating that he purchased a boat for \$6,000. The clerk's signature was affixed to the document, and the sale was reported to the Tennessee Department of Revenue. The Department of Revenue noted that the reported sales price appeared to be significantly below market price for the boat, conducted an investigation, and discovered Mr. Ward had actually paid \$21,500 for the boat. The department then assessed Mr. Ward additional sales tax, penalty, and interest of \$1,133.22 for the amount owed on the difference between the sales price reported to the department and the actual sales price. On September 8, 2004, Mr. Ward submitted payment of \$1,133.22 to the Department of Revenue. We have reviewed this improper transaction with the district attorney general.

RECOMMENDATION

The county clerk should not knowingly accept fraudulent documents in the performance of her duties.

MANAGEMENT'S RESPONSE – COUNTY CLERK (Paraphrase)

A notarized bill of sale will now be required for the registration of all watercraft vessels. In the past, the only document the TWRA required for boat registration was the previous owner's registration card. I will post a sign in the office to let all customers know they must have a notarized bill of sale and the previous owner's registration card. There was not a fraudulent document presented. The document used in the registration of the boat was the previous owner's registration card. The county clerk's signature is on all documents that go through the office which may be signed by the clerk or a deputy clerk. I feel that including the price of a boat is irrelevant to the finding. The county clerk's office has never had a finding of any person who has been assessed additional sales tax, penalty, and interest by the Department of Revenue.

REBUTTAL

The steps the clerk is taking will help ensure that the proper tax is paid on the sale of boats. However, in discussions with the clerk, she stated that she was aware when this sale was reported to the Tennessee Department of Revenue that the sales price of the boat was underreported. Therefore, the County Clerk's Office knowingly filed a document with the Tennessee Department of Revenue with an underreported sales price.

OFFICE OF GENERAL SESSIONS COURT CLERK

FINDING 04.09 **BANK STATEMENTS WERE NOT RECONCILED WITH CASH JOURNAL ACCOUNTS, AND ACCURATE OUTSTANDING CHECK LISTS WERE NOT PREPARED MONTHLY**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Bank statements were not reconciled with cash journal accounts, and lists of outstanding checks were not prepared accurately for April, May, and June 2004. The reconciliation of bank statements with cash journal accounts and the preparation of accurate outstanding check lists are necessary procedures to ensure that all cash collections and disbursements are recorded accurately on the accounting records.

RECOMMENDATION

The office should reconcile bank statements with cash journal accounts and prepare an accurate list of outstanding checks each month.

FINDING 04.10 **THE EXECUTION DOCKET TRIAL BALANCE DID NOT RECONCILE WITH CASH JOURNAL ACCOUNTS**
(Noncompliance Under Government Auditing Standards)

At June 30, 2004, the general sessions court clerk had prepared a trial balance of execution docket cause balances, as required by Section 18-2-103, Tennessee Code Annotated (TCA). However, the trial balance did not reconcile with cash journal accounts by a substantial amount. Therefore, we were unable to determine if the clerk had complied 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 execution docket trial balance should be reconciled with cash journal accounts. Any funds held by the court for one year and unclaimed by the owner are considered abandoned and should be reported and paid to the state Treasurer's Office in compliance with state statutes.

MANAGEMENT'S RESPONSE TO FINDINGS 04.09 AND 04.10 – GENERAL SESSIONS COURT CLERK – (Paraphrase)

The deputy clerk handling my bookkeeping had a problem with the Local Government Data Processing Corporation (LGDPC) system and had receipted some money into the wrong account. A representative of LGDPC came by and helped her correct the problem. The problem with the reconciliation and trial balance accounts has now been corrected.

REBUTTAL

As of October 4, 2004, the bank statement for August 2004 had not been reconciled with cash journal accounts. Also, the docket trial balance prepared by the general sessions court clerk did not reconcile with cash journal accounts by \$9,973 at August 31, 2004.

FINDING 04.11 **DEFICIENCIES WERE NOTED IN THE COLLECTION OF FINES, COSTS, AND LITIGATION TAXES** (Noncompliance Under Government Auditing Standards)

During July 2004, a part-time employee of the General Sessions Court Clerk's Office was paid at an hourly rate through the county's General Fund and was paid a collection fee of 30 percent (\$867) of the total funds collected by this employee on old cases that had fines, costs, or litigation taxes in default by the general sessions court clerk. Section 40-24-105, Tennessee Code Annotated (TCA), provides that after fines, costs, or litigation taxes have been in default for at least six months, the general sessions court clerk may retain an agent to collect, or institute proceedings to collect, or establish an in-house collection procedure to collect fines, costs, and litigation taxes. This statute further states that if an in-house collection procedure is established, the proceeds will be treated as other fees of the office. Since the clerk has established an in-house collection process by hiring a part-time employee of the office to make these collections, all collections made by this individual should be treated as other fees of the General Sessions Court Clerk's Office, as required by state statute.

RECOMMENDATION

Funds received from in-house collection processes should be treated as other fees of the office, as required by state statute.

MANAGEMENT'S RESPONSE – GENERAL SESSIONS COURT CLERK (Paraphrase)

In regard to my part-time employee working collections on older cases, the county did not pass a budget by July 1, and there was no money to fund her position, other than the small amount available in the continuing budget. When I questioned the county mayor and chairman of the Budget Committee, they suggested that this employee collect older cases and that I pay her a percentage of the collections. I believed that to continue to run my office in the proper manner, I needed to pay her in this way. I have yet to find anywhere where it says I could not pay her in this manner.

REBUTTAL

Section 40-24-105(c), TCA, provides two methods the clerk can follow for collection of delinquent fines, costs, and litigation taxes that have been in default at least six months. The first method allows that clerk to contract to retain an agent (an outside collection agency) to collect, or institute proceedings to collect, the delinquent fines, costs, and litigation taxes. If an outside collection agency is used, "the criminal or general sessions court shall request the county purchasing agent to utilize normal competitive bidding

procedures applicable to the county to select and retain the agent.” The second method allows the clerk to establish an in-house collection system to collect delinquent fines, costs, and litigation taxes. If an in-house collection system (collected by employees of the clerk’s office) is established, “the proceeds shall be treated as other fees of the office.” Since the clerk is using an office employee to make these collections, he is using an in-house collection system. Therefore, paying this employee a collection fee of 30 percent (\$867) in addition to the employee’s salary directly violated Section 40-24-105(c), TCA.

OFFICE OF SHERIFF

FINDING 04.12 **THE OFFICE HAD DEFICIENCIES IN THE
ADMINISTRATION OF DRUG CONTROL FUNDS**
(Noncompliance Under Government Auditing Standards)

The Sheriff’s Office had deficiencies in maintaining drug control funds. Several required forms and reports were not completed, as required by the Office of the Comptroller of the Treasury. 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.

RECOMMENDATION

The sheriff should ensure that the office completes all forms and prepares reports required by the Office of the Comptroller of the Treasury.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 04.13 **IT COULD NOT BE DETERMINED IF ALL APPLICABLE
SEVERANCE TAXES WERE COLLECTED IN ACCORDANCE
WITH PROVISIONS OF A PRIVATE ACT**
(Noncompliance Under Government Auditing Standards)

Effective July 1, 1997, Benton County enacted Chapter 55 of the private Acts of 1997, which levied a fifteen cent (\$.15) severance tax per ton on all pulpwood products severed from the ground in Benton County. The tax levied by this private act is to be reported and paid to the Benton County Trustee on forms provided by the Trustee. The proceeds of the tax are to be deposited into Benton County’s General Fund. It could not be determined from the examination of available records if all applicable taxes were being collected as required by the above-noted private act.

RECOMMENDATION

County officials should take steps to ensure that all applicable pulpwood severance taxes are collected in accordance with provisions of the private act.

FINDING 04.14 A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED
(Internal Control – Reportable Condition Under Government Auditing Standards)

Benton 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

Benton County officials should consider adopting either 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.

MANAGEMENT’S RESPONSE – ROAD SUPERVISOR (Direct Quote)

Establishing a Central System of Accounting for the Highway Department would appear to be a hindrance of the operations of this county department. Our work day starts at 6:30 A.M. and we also have a night shift. This accounting system would not be available to us early mornings or after hours in the evenings. The night shift has to be able to get parts and materials for the maintenance of equipment. If the Central Office that issues purchase orders were in the courthouse, it would involve several trips a day as things are needed. Having the purchase orders at our office makes them available when needed, especially for our night shift.

REBUTTAL

Administrative staff who issue purchase orders for the Highway Department end their workday at 3:00 P.M. Also, in certain instances, blanket purchase orders are issued to vendors of the Highway Department so that purchases might be made from vendors outside of the hours administrative staff work. In addition, the administrative staff was unable to provide us with a list of vendors whose business hours extend past 5:00 P.M. Therefore, it does not appear that a central system of accounting, budgeting, and purchasing would have an adverse effect on the night-shift operations of the Highway Department.

FINDING 04.15 DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF 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 Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff. Officials and employees responsible for maintaining accounting records in these offices were also involved in receipting, depositing, disbursing funds, posting receipts to the cash journal, reconciling bank statements, reconciling receipts with cash, and/or preparing bank

deposits. 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.