

## **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 responses of the director of accounts and budgets 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 DIRECTOR OF ACCOUNTS AND BUDGETS**

#### **FINDING 04.01      **THE DIRECTOR OF ACCOUNTS AND BUDGETS DID NOT MAINTAIN ACCOUNTING RECORDS FOR THE ROAD DEPARTMENT****

(Material Noncompliance Under Government Auditing Standards)

Cheatham County operates under the Fiscal Control Acts of 1957, which require the director of accounts and budgets to maintain accounting records for funds administered by the county mayor and road superintendent. However, the director of accounts and budgets did not maintain accounting records for the Road Department. Road Department personnel entered all of the department's accounting data into the computer system, reconciled the accounts, generated the reports, and stored the accounting records.

#### **RECOMMENDATION**

The director of accounts and budgets should maintain all accounting records of the Road Department, as required by the Fiscal Control Acts of 1957.

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#### **FINDING 04.02      **THE OFFICE HAD ACCOUNTING DEFICIENCIES**** (Internal Control – Reportable Condition Under Government Auditing Standards)

As noted in finding 04.01, the director of accounts and budgets is responsible for maintaining the financial records of the County Mayor's Office and Road Department. Our audit revealed the following accounting deficiencies in these offices:

- A. Payroll deduction accounts were not reconciled on a current basis in the General Fund and Highway/Public Works Fund. The failure to reconcile payroll deduction accounts on a current basis allowed errors to remain undiscovered and uncorrected for several months.
- B. Finance Office personnel did not reconcile the trustee's cash balances with fund accounting records in a timely manner. As a result, errors were not detected and corrected promptly.
- C. Encumbrances totaling \$416,113 were reflected on the general ledger of the General Fund at June 30, 2004. However, the director of accounts and budgets did not generate an itemized list of outstanding purchase orders at June 30, 2004, to support the general ledger account. The computer accounting system maintains this information in real time; therefore, the list

must be generated each June 30. Our audit indicated that these encumbrances appear to be materially correct.

**RECOMMENDATION**

To correct these accounting deficiencies, the office should reconcile all payroll deduction accounts monthly and should reconcile the trustee’s cash balance with fund accounting records monthly. Also, each June 30 the director of accounts and budgets should generate detailed lists of encumbrances reconciled with the general ledger.

**MANAGEMENT’S RESPONSE – DIRECTOR OF ACCOUNTS AND BUDGETS**

Changes have been made in procedures to reconcile trustee cash balances with fund accounting records. Payroll deductions will be reconciled on a monthly basis to ensure errors are detected and corrected on a timely basis. Encumbrance listings will be prepared at year-end and reconciled with the general ledger.

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**FINDING 04.03**      **THE OFFICE HAD DEFICIENCIES IN BUDGET OPERATIONS**  
(A. Noncompliance Under Government Auditing Standards; B. and C. Internal Control – Reportable Condition Under Government Auditing Standards)

Our examination revealed the following deficiencies in the office’s budget operations:

- A. Expenditures exceeded appropriations in the major categories of the following funds:

General Fund:	
Other Boards and Committees	\$ 400
Register of Deeds	542
Drug Court	2,344
Local Health Center	19,211
Parks and Fair Boards	72,973
Other Charges	8,919
Miscellaneous	37,258
Solid Waste/Sanitation Fund:	
Convenience Centers	4,872
Miscellaneous	176
Education Debt Service Fund:	
General Government - Other General Administration	21,103
Principal - Education	189,932
Other Debt Service - Education	312

Section 5-9-401, Tennessee Code Annotated, states that “all funds ... including, but not limited to ... taxes, county aid funds, federal funds, and fines, which are to be used in the operation and respective programs of the various departments, commissions, institutions, boards, offices, and agencies of county governments shall be appropriated to such use by the county legislative bodies.”

- B. The Education Debt Service Fund's actual fund balance at July 1, 2003, was \$4,439,831; however, the estimated fund balance reflected in the county's budget for July 1, 2003, was only \$3,635,570. Therefore, the actual fund balance was \$804,261 more than the estimated fund balance presented to the County Commission.
- C. The Highway Public Works Fund's actual fund balance at July 1, 2003, was \$1,872,030; however, the estimated fund balance reflected in the county's budget for July 1, 2003, was only \$1,331,203. Therefore, the actual fund balance was \$540,827 more than the estimated fund balance presented to the County Commission.

### RECOMMENDATION

Expenditures should be held within appropriations approved by the County Commission, as required by state statute. The estimated beginning fund balance should be made on a more realistic basis to provide county officials with accurate information on which to base funding decisions.

### MANAGEMENT'S RESPONSE – DIRECTOR OF ACCOUNTS AND BUDGETS

The director of accounts and budgets made the following responses:

- A. A large portion of these expenditures exceeding appropriations was funded by the receipt of grant proceeds of \$72,975 for a parks grant and \$19,211 for a local health department grant for which we did not amend the budget.
- B. The Education Debt Service Fund's estimated beginning fund balance was miscalculated because an expenditure did not materialize. The estimated beginning balances will be reconciled with audit balances in the future.

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

The Office of Director of Accounts and Budgets 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 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.

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## **OFFICE OF DIRECTOR OF SCHOOLS**

### **FINDING 04.05      **GOVERNMENT-WIDE FINANCIAL STATEMENTS WERE NOT PRESENTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES** (Material Noncompliance Under Government Auditing Standards)**

The Cheatham County School Department did not identify and determine the historical value of its capital assets and the related depreciation amounts of these assets. Therefore, the School Department was unable to provide the information necessary to prepare government-wide financial statements for all of its activities, as required by Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. GASB is the standard-setting body for accounting principles that state and local governments are required to follow. As a result of this omission, the School Department’s financial statements are not presented in accordance with generally accepted accounting principles; thus, we have issued an adverse opinion on the financial statements.

The Office of the Comptroller of the Treasury, State of Tennessee, requires counties that do not implement GASB Statement 34 to issue a financial report in compliance with Financial Reporting Standards for County Governments, Component Units of County Governments, and Special School Districts That Do Not Implement Governmental Accounting Standards Board Statement 34, established by the Comptroller of the Treasury. The School Department’s financial statements are presented in compliance with these requirements.

### **RECOMMENDATION**

The School Department should present government-wide financial statements in conformity with generally accepted accounting principles, and should compile and maintain records that properly account for its capital assets. These records should document the historical cost of the School Department’s capital assets and the related depreciation amounts of these assets. This information is necessary to present the School Department’s financial statements in accordance with generally accepted accounting principles.

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### **FINDING 04.06      **EXPENDITURES EXCEEDED APPROPRIATIONS** (Noncompliance Under Government Auditing Standards)**

The following deficiencies were noted during our examination of the office’s budget operations:

- A. General Purpose School Fund expenditures exceeded appropriations in the Operation of Plant (\$23,599) major appropriation category.

- B. Expenditures exceeded appropriations approved by the County Commission in the Central Cafeteria Fund by \$19,213.

Section 5-9-401, Tennessee Code Annotated, states that “all funds ... including, but not limited to ... taxes, county aid funds, federal funds, and fines, which are to be used in the operation and respective programs of the various departments, commissions, institutions, boards, offices, and agencies of county governments shall be appropriated to such use by the county legislative bodies.”

**RECOMMENDATION**

Expenditures should be held within appropriations approved by the County Commission.

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**FINDING 04.07**      **THE OFFICE DID NOT ACCEPT THE LOW BID FOR CUSTODIAL SERVICES**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Board of Education did not adequately document its reasons for not accepting the lowest bid for custodial services for the School Department. Five bids ranging from \$1,153,069 to \$1,932,216 were received. The director of schools and two employees evaluated the proposals using a predetermined rating system with a maximum possible score of 1,575 points. The Board of Education awarded the contract to the third lowest bidder (\$1,191,506), who also received the third highest rating (1,247). Documentation was not on file detailing reasons for rejecting the lowest bidder (\$1,153,069), who was also the highest rated (1,277) company.

In *Owen of Georgia, Inc., versus Shelby County*, 442F. Supp. 314 (w.b. Tenn. 1977), the court stated that “to reject the bid of the lowest bidder there must be such evidence of the irresponsibility of the bidder as would cause fair-minded and reasonable men to believe that it was not for the best interest of the municipality to award the contract to the lowest bidder.”

**RECOMMENDATION**

Purchases should be made from the vendor with the lowest price that meets bid specifications unless adequate documentation is on file supporting the decision to reject the lowest bid.

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**OTHER FINDINGS AND RECOMMENDATIONS**

**FINDING 04.08**      **COUNTY OFFICIALS HAD NOT HELD A DELINQUENT PROPERTY TAX SALE IN RECENT YEARS**  
(Material Noncompliance Under Government Auditing Standards)

County officials had not held a delinquent property tax sale in approximately eight years. Section 67-5-1806, Tennessee Code Annotated, provides that all delinquent property taxes

become discharged and uncollectible after ten years from the date when the delinquency originated. The clerk and master's tax aggregate list (1993-2002) reflects uncollected delinquent county property taxes of \$573,357 filed in Chancery Court.

RECOMMENDATION

County officials should hold a delinquent property tax sale in an effort to collect delinquent taxes, as provided by state statute.

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OFINDING 04.09      **THE CHEATHAM COUNTY LIBRARIES WERE NOT AUDITED**  
(Noncompliance Under Government Auditing Standards)

The county did not require audits of the Cheatham County libraries (Ashland City and Kingston Springs), in accordance with state statute. Audits are necessary to ensure proper accountability for the libraries. Because audits were not performed, the libraries were omitted from the financial statements of this report.

RECOMMENDATION

Cheatham County officials should require annual audits of the Ashland City and Kingston Springs libraries, in accordance with state statutes.

MANAGEMENT'S RESPONSE – DIRECTOR OF ACCOUNTS AND BUDGETS

This finding relates to bank accounts maintained by the libraries for small purchases. We plan to liquidate these accounts and process all library related financial activity through the county's General Fund.

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FINDING 04.10      **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE**  
**OFFICES OF TRUSTEE AND SHERIFF**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among the officials and employees in the Offices of Trustee and Sheriff. Officials and employees responsible for maintaining the accounting records were also involved in receipting, depositing, and/or disbursing funds.

RECOMMENDATION

To strengthen internal controls over operations, officials of these offices should segregate duties adequately among their employees.