

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 findings and recommendations; however, these oral responses have not been included in this report.

DEKALB COUNTY AND DEKALB COUNTY SCHOOL DEPARTMENT

FINDING 04.01 **GOVERNMENT-WIDE FINANCIAL STATEMENTS WERE NOT PRESENTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**
(Material Noncompliance Under Government Auditing Standards)

DeKalb County and the DeKalb County School Department did not identify and determine the historical value of their capital assets and the related depreciation amounts of these assets. Therefore, DeKalb County and the DeKalb County School Department were unable to provide the information necessary to prepare government-wide financial statements for all of their 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, DeKalb County and the DeKalb County School Department’s financial statements are not presented in accordance with generally accepted accounting principles; thus, we have issued an adverse opinion on the county’s 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. DeKalb County and the DeKalb County School Department’s financial statements are presented in compliance with these requirements.

RECOMMENDATION

DeKalb County and the DeKalb County 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 their capital assets. These records should document the historical cost of their capital assets and the related depreciation amounts of these assets. This information is necessary to present the county’s financial statements in accordance with generally accepted accounting principles.

OFFICE OF COUNTY MAYOR

FINDING 04.02 **THE OFFICE DID NOT FILE THE DEBT OBLIGATIONS REPORT WITH THE STATE DIRECTOR OF LOCAL FINANCE (Noncompliance Under Government Auditing Standards)**

The office did not file a Report of Debt Obligations with the state director of Local Finance for a \$960,000 capital outlay note issued during the year. Section 9-21-151, Tennessee Code Annotated, requires that within 45 days following the issuance of debt, a county must provide to the state director of Local Finance certain information, such as a description of the purchase for which the debt is issued, a description of the debt obligation and an itemized description of the cost of issuance.

RECOMMENDATION

All debt obligations should be reported to the state director of Local Finance, as required by state statute.

FINDING 04.03 **THE OFFICE DID NOT PROPERLY MAINTAIN THE SOLID WASTE DISPOSAL FUND ON THE ACCRUAL BASIS OF ACCOUNTING (Material Noncompliance Under Government Auditing Standards)**

The Solid Waste/Disposal Fund was presented on the accounting records of the County Mayor's Office as an enterprise fund; however, our audit revealed the following deficiencies in the maintenance of the fund:

- A. County officials did not maintain a schedule of capital assets and depreciation for the year. The capital assets and accumulated depreciation on the county's balance sheet had not been adjusted from the prior year's audit report. During the year, officials did not determine and record depreciation expense and accumulated depreciation of \$122,976 on the fund accounting records and posted the cost of capital assets totaling \$459,021 as expenses instead of including them as assets on the balance sheet. We determined these amounts using information from prior audit working papers, discussions with county officials, and routine audit procedures.
- B. County officials did not determine and record landfill closure and postclosure care costs of \$140,913 on the accounting records of the Solid Waste Disposal Fund for the year. We determined this amount from information obtained from records on file from the county's landfill engineer and prior audit working papers. State and federal laws and regulations require the county to place a final cover on its landfill site when it stops accepting waste

and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although these closure and postclosure care costs will be paid near or after the date that the landfill stops accepting waste, generally accepted accounting principles require county officials to accrue and report a portion of these closure and postclosure care costs as a liability and as an operating expense in each year of operation based on the estimated landfill capacity used.

- C. County officials did not reflect a \$520,000 note issued during the year and a \$17,104 capital lease principal payment made during the year on the balance sheet at June 30, 2004. Instead, these amounts were shown as revenues and expenditures of the fund on the county's financial statements.

We presented audit adjustments to county officials for them to approve and post to the general ledger for proper financial statement presentation.

RECOMMENDATION

County officials should maintain the Solid Waste Disposal Fund on the accrual basis of accounting, as required by generally accepted accounting principles. All assets, liabilities, and fund equity accounts associated with the operation of this fund should be included on the balance sheet. Expenditures for postclosure care costs should be charged to the appropriate accounts provided by the Uniform Chart of Accounts.

FINDING 04.04 INVENTORY RECORDS WERE NOT MAINTAINED
(Internal Control – Reportable Condition Under Government Auditing Standards)

Inventory records were not maintained for assets owned by the general county government. Generally accepted accounting principles require accountability for all county-owned assets, such as equipment, furniture, and vehicles.

RECOMMENDATION

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

OFFICE OF HIGHWAY SUPERINTENDENT

**FINDING 04.05 RECEIVABLES WERE NOT DETERMINED AND POSTED TO
THE ACCOUNTING RECORDS**
(Material Noncompliance Under Government Auditing Standards)

Receivables were not determined and recorded on the accounting records, as required by generally accepted accounting principles. We performed additional audit procedures to determine receivables at June 30, 2004. Adjustments totaling \$132,645 were presented to management for approval and posting to properly present these receivables in the financial statements of this report.

RECOMMENDATION

Receivables should be determined and recorded on the accounting records in accordance with generally accepted accounting principles.

**FINDING 04.06 A VEHICLE WAS NOT NUMBERED AND LABELED AS
PROPERTY OF THE HIGHWAY DEPARTMENT**
(Noncompliance Under Government Auditing Standards)

The county-owned pickup truck assigned to the highway superintendent was not numbered and labeled as property of the Highway Department. The County Uniform Road Law, Section 54-7-112, Tennessee Code Annotated, requires that “all machinery, equipment, and tools shall be plainly marked as property of the ... department and each item shall be numbered ...”

RECOMMENDATION

The county-owned pickup truck assigned to the highway superintendent should be plainly numbered and labeled as property of the Highway Department, as required by state statute.

**FINDING 04.07 CONTROLS OVER CONSUMABLE ASSETS WERE
INADEQUATE**
(Internal Control – Reportable Condition Under Government
Auditing Standards)

The office did not maintain adequate controls over consumable assets. Our audit disclosed the following weaknesses:

- A. Fuel consumption records were not maintained for fuel dispensed from Highway Department fuel pumps.
- B. Records were not maintained documenting the number and use of consumable assets on hand, such as tires, repair parts, and tire.

The failure to maintain adequate records for consumable assets results in a loss of control over the assets and increases the risk of inventory loss.

RECOMMENDATION

The office should maintain records of the number and use of all consumable assets.

FINDING 04.08 **DEFICIENCIES WERE NOTED IN 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, the office issued purchase orders after purchases were made. This practice defeats the purpose of issuing purchase orders and makes the purchase orders approvals for payment rather than authorizations to purchase. Also, some purchase orders did not identify the items or services being purchased. Purchase orders are a necessary internal control procedure to control purchasing authority and to document purchasing commitments.
- B. In several instances, invoices were paid without documentation that goods or services were received. This practice weakens controls over the purchasing process. We extended our audit procedures and determined that these goods and services were received.

RECOMMENDATION

The office should issue purchase orders before purchases are made, and purchase orders should identify the item or service to be purchased. Furthermore, the receipt of goods or services should be documented before invoices are paid.

FINDING 04.09 A COUNTY ROAD LIST WAS NOT SUBMITTED TO THE COUNTY COMMISSION FOR APPROVAL
(Noncompliance Under Government Auditing Standards)

The highway superintendent did not submit a list of county roads to the County Commission for approval, as required by Section 54-10-103, Tennessee Code Annotated. This statute requires that a list of county roads be submitted to the County Commission for approval in January of each year and that the list be maintained in the County Clerk's Office.

RECOMMENDATION

The highway superintendent should submit a list of county roads to the County Commission for approval in January of each year, as required by state statute.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 04.10 COMPENSATION PAID TO MEMBERS OF THE BOARD OF EDUCATION WAS INCREASED WITHOUT PROPER APPROVAL
(Noncompliance Under Government Auditing Standards)

Compensation paid to members of the DeKalb County Board of Education for their attendance at regular and called meetings was increased from \$25 per meeting to \$50 per meeting during the year. This increase was not approved by the DeKalb County Commission, as required by Section 49-2-202(d), Tennessee Code Annotated. This statute provides for the compensation of the members of the Board of Education to be fixed by the County Commission.

RECOMMENDATION

Compensation paid to the members of the Board of Education should be fixed by the County Commission, as required by state statute.

OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK

**FINDING 04.11 THE CLERK DID NOT PROPERLY POST SHORT-TERM ACCOUNT ACTIVITY TO THE CASH JOURNAL
(Internal Control – Reportable Condition Under Government Auditing Standards)**

Short-term account activity in Circuit Court was not properly posted to the cash journal during the year, and the clerk did not reconcile the investment ledger with the cash journal. Our examination of the clerk's subsidiary investment ledger revealed that an investment of \$25,633 had not been posted on the cash journal and interest totaling \$11,851 had been reflected on the cash journal twice. These errors would have been detected if the clerk had periodically reconciled the subsidiary investment ledger with the cash journal totals. We provided audit adjustments to county officials for them to approve and post so that the office's account balances would be presented properly in the financial statements of this report.

RECOMMENDATION

The clerk should post all short-term account activity to the accounting records and should reconcile the subsidiary investment ledger with the cash journal totals on a regular basis.

**FINDING 04.12 EXECUTION DOCKET TRIAL BALANCES DID NOT RECONCILE WITH CASH JOURNAL ACCOUNTS
(Material Noncompliance Under Government Auditing Standards)**

The clerk prepared execution docket trial balances as of June 30, 2004, as required by Section 18-2-103, Tennessee Code Annotated (TCA). However, these trial balances did not reconcile with cash balances on the accounting records of Circuit and General Sessions Courts by \$99,947 and \$5,623, respectively. 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 courts 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 prepare and reconcile execution docket trial balances with cash journal accounts, as required by state statute. To further comply with state statutes, the clerk should report and pay to the state Treasurer's Office any unclaimed funds held for more than one year.

OFFICE OF REGISTER

FINDING 04.13 EXCESS FEES AND COMMISSIONS WERE NOT REPORTED AND PAID TO THE COUNTY IN COMPLIANCE WITH STATE STATUTE
(Noncompliance Under Government Auditing Standards)

Excess fees and commissions were not reported and paid to the county in compliance with Section 8-22-104, Tennessee Code Annotated. This statute requires that fees be reported and paid to the county quarterly and that the register retain sufficient fees to operate the office for three months. During the year, excess fees and commissions of \$58,000 were reported and paid to the county. However, excess fees and commissions the register retained exceeded statutory limits by amounts ranging from \$22,000 to \$37,000 at the end of three of four reporting periods.

RECOMMENDATION

Excess fees and commissions should be reported and paid to the county in compliance with state statute.

OFFICE OF SHERIFF

FINDING 04.14 COMMISSARY ACCOUNT TRANSACTIONS WERE NOT MAINTAINED ON THE CASH JOURNAL
(Noncompliance Under Government Auditing Standards)

The Sheriff's Office maintained accounting records for commissary funds but did not include commissary transactions on the office cash journal. The cash journal is the official cash control record and should reflect all financial activity of the office.

RECOMMENDATION

All accounting transactions of the office should be reflected on the cash journal.

FINDING 04.15 DEFICIENCIES WERE NOTED IN THE ADMINISTRATION OF DRUG CONTROL FUNDS
(Noncompliance Under Government Auditing Standards)

We noted the following deficiencies during our examination of the office's drug control funds:

- A. The transactions of drug control funds were not reflected on the cash journal.

- B. Official, prenumbered receipts were not issued for drug control collections, as required by Section 9-2-103, Tennessee Code Annotated.

RECOMMENDATION

Transactions of drug control funds should be reflected on the cash journal. Also, official, prenumbered receipts should be issued for all collections, as required by state statute.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 04.16 **A SYSTEM OF CENTRAL ACCOUNTING AND BUDGETING HAD NOT BEEN ADOPTED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

DeKalb County officials had not adopted a system of central accounting and budgeting. Establishing a central system would significantly improve internal controls over the accounting and budgeting processes.

RECOMMENDATION

DeKalb County officials should consider adopting the County Financial Management System of 1981 or a private act which would provide for a system of central accounting and budgeting covering all county departments.

FINDING 04.17 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF COUNTY MAYOR, 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 officials and employees in the Offices of County Mayor, 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 the accounting records in these offices 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.