

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 highway superintendent are quoted directly in this report. Other officials offered oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

FENTRESS COUNTY AND THE FENTRESS 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)

Fentress County and the Fentress County School Department did not identify and determine the historical value of their capital assets and the related depreciation amounts of these assets. Therefore, Fentress County and the Fentress 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, Fentress County’s and the Fentress County School Department’s financial statements are not presented in accordance with generally accepted accounting principles; thus, we have issued adverse opinions on their financial statements.

The Office of the Comptroller of the Treasury, State of Tennessee, requires governments 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. Fentress County’s and the Fentress County School Department’s financial statements are presented in compliance with these requirements.

RECOMMENDATION

Fentress County and the Fentress 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 financial statements in accordance with generally accepted accounting principles.

MANAGEMENT’S RESPONSE – HIGHWAY SUPERINTENDENT (DIRECT QUOTE)

The Fentress County Highway Department has identified and determined historical value of its capital assets.

AUDITOR'S COMMENT

The Highway Department identified and determined the historical value of its capital assets, but did not have the required depreciation amounts of these assets. The historical cost of the assets in the remainder of the county has not been determined; therefore, all of the information necessary to present government-wide statements for Fentress County was not available.

OFFICE OF COUNTY MAYOR

FINDING 04.02 **RECEIVABLES AND PAYABLES WERE NOT DETERMINED AND POSTED TO THE ACCOUNTING RECORDS** (Material Noncompliance Under Government Auditing Standards)

Receivables and payables were not properly determined and recorded on the accounting records of the General (receivables - \$120,852; payables - \$12,300), Solid Waste/Sanitation (receivables - \$100,351), and General Debt Service Funds (receivables - \$26,193), as required by generally accepted accounting principles. We presented audit adjustments to management for their approval and posting to properly present these receivables and payables in the financial statements of this report.

RECOMMENDATION

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

FINDING 04.03 **DEFICIENCIES WERE NOTED IN PURCHASING PROCEDURES** (A. Internal Control – Reportable Condition Under Government Auditing Standards; B. Noncompliance Under Government Auditing Standards)

Our examination disclosed the following deficiencies in purchasing procedures:

- A. The office paid invoices that exceeded the amount authorized on the purchase order.
- B. Competitive bids were not solicited for the purchase of a patrol car for \$8,500. Sections 5-14-201 to 5-14-206, Tennessee Code Annotated, require purchases of \$5,000 or more to be made after public advertisement and solicitation of competitive bids.

RECOMMENDATION

To strengthen internal controls over the purchasing process and to document purchasing commitments, goods and/or services purchased should not exceed the amount authorized on purchase orders. Furthermore, competitive bids should be solicited for purchases of \$5,000 or more, as required by state statutes.

FINDING 04.04 THE OFFICE DID NOT PROPERLY MAINTAIN INVENTORY RECORDS AND CONTROLS OVER ASSETS
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit revealed the following deficiencies in records of and controls over assets owned by the general county government:

- A. Assets were not tagged or otherwise clearly marked as county property.
- B. The inventory records did not include the serial numbers of some equipment.
- C. The office did not have procedures to ensure that persons independent of inventory recordkeeping verified the inventory.

Generally accepted accounting principles require accountability for all county-owned assets.

RECOMMENDATION

County officials should improve controls over assets by establishing policies and procedures for tagging or labeling all assets as county property, including serial numbers for all equipment, and ensuring that personnel independent of recordkeeping verify the inventory.

FINDING 04.05 A REPORT ON DEBT OBLIGATIONS WAS NOT FILED WITH THE STATE DIRECTOR OF LOCAL FINANCE
(Noncompliance Under Government Auditing Standards)

The office did not file a Report on Debt Obligations with the state director of Local Finance for a capital lease of \$84,000 for five patrol cars. Section 9-21-151, Tennessee Code Annotated, requires that within 45 days following the issuance of debt, a county must provide this report to the state director of Local Finance.

RECOMMENDATION

The office should file a Report on Debt Obligations with the state director of Local Finance for all debt issues, as required by state statute.

OFFICE OF HIGHWAY SUPERINTENDENT

FINDING 04.06 **DEFICIENCIES WERE NOTED IN PURCHASING PROCEDURES**

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

Our examination disclosed the following deficiencies in purchasing procedures:

- A. 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.
- B. Competitive bids were not solicited for the purchase and installation of two dump truck beds totaling \$10,740 and highway signs totaling \$6,106. Section 54-7-113, Tennessee Code Annotated (TCA) requires purchases of \$5,000 or more to be made after public advertisement and solicitation of competitive bids.

RECOMMENDATION

Documentation should be obtained indicating goods and/or services have been received before invoices are paid. Competitive bids should be solicited for purchases of \$5,000 or more, as required by state statutes.

MANAGEMENT'S RESPONSE – HIGHWAY SUPERINTENDENT — DIRECT QUOTE

The total invoice cost was (\$10,740). This amount included the cost of (2) R 40 pintle hitches w/3/4" hitch plates & (2) D rings (\$1,000), (2) air lines (\$140) and (2) dump beds installed (\$4,800) each. T.C.A. 54-7-113, states repair of heavy road building machinery for which limited repair facilities are available need not be bid.

REBUTTAL

This purchase was not for the repair of heavy road building machinery, but was instead for the purchase and installation of dump truck beds on two new trucks. Therefore, this purchase should have been competitively bid, as required by Section 54-7-113, TCA.

FINDING 04.07

THE OFFICE DID NOT MAINTAIN ADEQUATE INVENTORY RECORDS AND CONTROLS OVER ASSETS

(Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit revealed the following deficiencies in records of and controls over assets owned by the Highway Department:

- A. Some assets were not tagged or otherwise clearly marked as county property.
- B. The inventory records did not include the serial numbers of some equipment.
- C. The office did not have procedures to ensure that persons independent of inventory recordkeeping verified the inventory.

Generally accepted accounting principles require accountability for all county-owned assets.

RECOMMENDATION

The Highway Department should improve controls over assets by establishing policies and procedures for tagging or labeling all assets of the Highway Department as county property, including serial numbers for all equipment, and ensuring that personnel independent of recordkeeping verify the inventory.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 04.08

PAYABLES WERE NOT DETERMINED AND POSTED TO THE ACCOUNTING RECORDS

(Material Noncompliance Under Government Auditing Standards)

Contracts payable of \$78,743 and retainage payable of \$25,897 were not determined and recorded on the accounting records of the General Purpose School Fund, as required by generally accepted accounting principles. We presented audit adjustments to management for their approval and posting to present these payables in the financial statements of this report.

RECOMMENDATION

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

FINDING 04.09 INVENTORY RECORDS OF SCHOOL DEPARTMENT ASSETS WERE NOT UPDATED OR VERIFIED
(Internal Control – Reportable Condition Under Government Auditing Standards)

School officials maintained inventory records of School Department assets; however, these inventory records had not been updated or verified in three years. As a result, the inventory did not accurately reflect the department’s assets. Generally accepted accounting principles require accountability for all department-owned assets, such as equipment, furniture, and vehicles.

RECOMMENDATION

The department 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.

FINDING 04.10 DEFICIENCIES WERE NOTED IN PURCHASING PROCEDURES
(A., B. Internal Control – Reportable Condition Under Government Auditing Standards; C., D. Noncompliance Under Government Auditing Standards)

Our examination disclosed the following deficiencies in purchasing procedures:

- A. Purchase orders were not issued properly. In some required instances, purchase orders were not issued, and in other instances, purchase orders were issued after purchases were made. The practice of issuing a purchase order after the purchase defeats the purpose of issuing a purchase order and makes the purchase order an approval for payment, rather than approval for the purchase.
- B. 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.
- C. Competitive bids were not solicited for the purchase and installation of cafeteria kitchen tile (\$20,712), the purchase of a van (\$10,000), and the reinstallation of school zone traffic lights (\$12,365).
- D. The School Department purchased a gym floor cover and holder for \$4,999.99. The principal at this school stated that he and the vendor negotiated this purchase price to stay below the bid limit of \$5,000.

Section 49-2-203, Tennessee Code Annotated, requires purchases \$5,000 or more to be made

after public advertisement and solicitation of bids.

RECOMMENDATION

To improve purchasing procedures, the office should issue purchase orders before purchases are made, and documentation should be obtained indicating goods and/or services have been received before invoices are paid. Furthermore, the School Department should solicit competitive bids for purchases of \$5,000 or more, as required by state statute, and should not negotiate with vendors to circumvent bidding requirements.

OFFICE OF COUNTY CLERK

FINDING 04.11 **THE OFFICE OF COUNTY CLERK HAD NOT IMPLEMENTED ADEQUATE CONTROLS TO PROTECT ITS INFORMATION RESOURCES AGAINST UNAUTHORIZED ACCESS, MODIFICATION, DESTRUCTION, OR DISCLOSURE**
(Internal Control – Reportable Condition Under Government Auditing Standards)

We observed that the Office of County Clerk had not implemented adequate controls to protect its information resources against unauthorized access, modification, destruction, or disclosure. The failure to provide such controls increases the risk that individuals could inappropriately access and manipulate the county’s computer system, software applications, and sensitive information.

This finding does not identify specific vulnerabilities that could allow someone to exploit the office’s information system or misuse county funds. Disclosing those vulnerabilities could present a potential security risk by providing the readers with information that might be confidential pursuant to Section 10-7-504(i), Tennessee Code Annotated. We provided the official with detailed information regarding the specific vulnerabilities we identified, as well as our recommendations for improvement.

RECOMMENDATION

The Office of County Clerk should ensure that adequate controls over information systems and the resources associated with those systems are implemented. The office should take steps to establish or improve any compensating controls until these conditions are remedied.

OTHER FINDING

FINDING 04.12 **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.

AUDITOR'S OBSERVATION

In prior years, Fentress county's audit reports included findings about the county's failure to adopt a system of central accounting, budgeting, and purchasing.

On April 19, 2004, the Fentress County Commission adopted the County Financial Management System of 1981, that provides for a central system of accounting, budgeting, and purchasing for the Offices of County Mayor, Highway Superintendent, and Director of Schools. As of the date of this report, the county has hired a finance director and is working toward combining the bookkeeping operations of these three offices. The resolution approved by the County Commission requires full implementation of the Financial Management System of 1981 by July 1, 2005.