

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. Written responses from the county clerk and the circuit, general sessions, and juvenile courts clerk are paraphrased in this report. Management offered oral responses to other findings and recommendations; however, these oral responses have not been included in this report.

OFFICE OF SHERIFF

FINDING 01.01 **THE OFFICE HAD A CASH SHORTAGE OF \$16,729.41 IN THE INMATE AND COMMISSARY ACCOUNT (Internal Control – Material Weakness Under Government Auditing Standards)**

The office had a cash shortage of \$16,729.41 at June 30, 2001. This cash shortage resulted from office personnel's failure to deposit or otherwise account for some inmate and commissary account collections. Office personnel also made an effort to conceal the shortage by misplacing or disposing of certain printed receipts. Our examination was originally scheduled to cover transactions for the period July 1, 2000, through June 30, 2001. However, because of irregularities noted in the maintenance of the commissary account, our examination was expanded to cover transactions from the prior period. Therefore, our examination covers transactions for the period July 1, 1999, through June 30, 2001.

The office provides commissary operations to inmates through a contract with a service company. When prisoners are booked, their personal funds are taken from them and credited to accounts in their names. The prisoners or other individuals may also make additional deposits to the accounts. If prisoners need to purchase items from the commissary, monies are withdrawn from their accounts to pay for the items.

Our examination disclosed that duties were not adequately segregated among employees. One employee had access to receipt books and cash, 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 01.02.

The following table details the cash shortage:

	<u>Cash Shortage</u>
A. During the period July 1, 2000, to June 30, 2001, 26 pages of receipts (104 receipts) were torn from the receipt books. We located these pages in the front or the back of their respective receipt books. Collections of \$5,606.38 represented by these 104 receipts were not deposited to the office bank account or accounted for in any manner.	\$ 5,606.38

Cash
Shortage

B. We were unable to locate 16 missing pages of receipts (64 receipts) for the period July 1, 2000, to June 30, 2001. These collections were posted to the commissary computer inmates' account; therefore, we were able to determine these receipt amounts. Collections of \$2,936.03 represented by these 64 receipts were not deposited to the office bank account or accounted for in any manner.	2,936.03
C. We were unable to locate three missing receipt books containing a total of 600 receipts for the period July 1, 2000, through June 30, 2001. These collections were posted to the commissary computer inmates' account; therefore, total collections could be determined. Our comparison of total collections with the deposits for the respective time periods revealed a shortage of \$1,965.57.	1,965.57
D. Four receipts dated December 25, 2000, totaling \$158.15, were not deposited to the office bank account or accounted for in any manner.	158.15
E. For the period July 1, 1999, to June 30, 2000, 36 pages of receipts (144 receipts) were missing. We were able to retrieve from computer records 104 of these receipts with a value of \$6,063.28. Collections represented by these 104 receipts were not deposited to the office bank account or accounted for in any manner. We were unable to retrieve from computer records 40 of these receipts and were therefore unable to assign a value.	<u>6,063.28</u>
Total cash shortage	<u>\$16,729.41</u>

Details of this cash shortage were reviewed with the sheriff, the district attorney general, and the Tennessee Bureau of Investigation. County officials have filed a claim under their employee blanket bond coverage to recover these funds.

RECOMMENDATION

The sheriff should take steps to liquidate the cash shortage of \$16,729.41 and should establish controls over office cash collections. These controls should include the adequate segregation of duties among employees and adequate supervision of employees performing accounting duties. Steps should also be taken to adequately secure and retain receipts.

FINDING 01.02

DEFICIENCIES WERE NOTED IN THE OPERATIONS OF THE INMATE AND COMMISSARY ACCOUNT

(Noncompliance (A, D) and Internal Control – Reportable Conditions (B,C,E,F) Under Government Auditing Standards)

Our audit revealed the following deficiencies:

- 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. Limited subsidiary records were maintained for commissary operations. The subsidiary record was only a summary of bank account activities. The limited accounting records did not properly account for all receipts.
- C. Commissary transactions were not reflected in the office cash journal and reconciled with commissary computer data. The cash journal is the official cash control record and should reflect all financial activity of the office and be reconciled with commissary computer data.
- D. The office did not remit all commissions earned from commissary operations to the county, as required by Section 8-24-103, TCA. This statute requires that fees and commissions earned by the Sheriff's Office be remitted to the county on a monthly basis.
- E. When inmate refund checks were voided, the information was not posted to inmate accounts to ensure that proper liabilities were presented for all inmate account balances.
- F. The office uses generic deposit slips and does not retain a duplicate copy for office files.

RECOMMENDATION

Funds should be deposited to the office bank account within three days, as required by state statute. All receipts should be accounted for on the accounting records. Transactions of the commissary operations should be included on the cash journal and reconciled with commissary computer data. Fees and commissions earned should be remitted to the county. Voided checks for inmate refunds should be credited to inmate accounts on the commissary computer data. The office should maintain duplicate copies of deposit slips, which should be official deposit slips of the Sheriff's Office.

**FINDING 01.03 THE OFFICE HAD DEFICIENCIES IN THE
ADMINISTRATION OF DRUG CONTROL FUNDS**
(Noncompliance Under Government Auditing Standards)

The Sheriff's Office had the following deficiencies in the administration of drug control funds:

- A. The Sheriff's Office used confidential funds of \$20,700 to pay nonconfidential expenditures. These expenditures were paid from a checking account the office maintained. This practice violates Section 39-17-420, Tennessee Code Annotated, which requires nonconfidential expenditures to be paid by warrants drawn on the Drug Control Fund (Special Revenue Fund).
- B. Payments to informants were not always witnessed by a second officer, as required by procedures. Records in the Sheriff's Office indicate that of the 39 payments to informants, only four were witnessed by a second officer.
- C. The Sheriff's Office did not complete several forms required by the Office of the Comptroller of the Treasury. These forms are necessary to document the administration of confidential drug funds and to account for cash transactions related to undercover investigative operations.

RECOMMENDATION

The office should use confidential funds only for confidential purposes, and the county executive should make all disbursements of non-confidential funds through the Drug Control Fund. Furthermore, payments to informants should be witnessed by a second officer, and the sheriff should ensure that the office completes all forms and reports required by the Comptroller's Office.

OFFICE OF HIGHWAY SUPERINTENDENT

**FINDING 01.04 THE HIGHWAY DEPARTMENT HAD DEFICIENCIES IN ITS
PURCHASING PROCEDURES**
(Internal Control – Reportable Condition Under Government Auditing Standards)

We noted the following deficiencies in purchasing procedures during our examination of the Highway Department:

- A. The Highway Department had not established a formal purchase order system. Purchase orders are necessary to control who has purchasing authority for the department and to document purchasing commitments.

- 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. Also, in several instances, the department paid invoices without noting on the invoice that payment had been made. This failure to document payment could result in an invoice being paid more than once.

RECOMMENDATION

The office should establish a formal purchase order system to improve internal controls over the purchasing process and to document purchasing commitments. Documentation should be obtained indicating that goods have been received and/or services have been rendered before invoices are paid, and invoices should be clearly marked to indicate that payment has been made.

OFFICE OF COUNTY CLERK

FINDING 01.05 **THE GENERAL LEDGER SOFTWARE DID NOT HAVE ADEQUATE APPLICATION CONTROLS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Prior to their posting to the general ledger, automated financial transactions could be changed, and an audit trail of these changes would not be maintained. Without an audit trail of system activity, errors and improper changes could occur and go undetected.

RECOMMENDATION

Management should contact their software vendor about adding controls to the accounting software. System users should not have the capability to make changes directly to computer-generated accounting entries, and all changes to the general ledger should be made with journal entries.

MANAGEMENT’S RESPONSE – COUNTY CLERK

I disagree with this finding. The only changes made are before posting. I need the capability to doublecheck work before posting to prevent or reduce errors and inaccuracies and to prevent doubleposting.

REBUTTAL

Users should not have the capability to make changes to computer-generated entries. Any necessary corrections should be made with journal entries.

OFFICE OF CIRCUIT, GENERAL SESSIONS, AND JUVENILE COURTS CLERK

FINDING 01.06 **THE GENERAL LEDGER SOFTWARE DID NOT HAVE ADEQUATE APPLICATION CONTROLS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Users had the capability to reset the receipt numbers. This lack of application control could allow inappropriate system activity.

RECOMMENDATION

The receipt number reset capability should be removed from the system. These controls would help to ensure the reliability and integrity of the information maintained by the system.

MANAGEMENT'S RESPONSE – CIRCUIT, GENERAL SESSIONS, AND JUVENILE COURTS CLERK

I had a conversation with a vendor representative and made him aware of the finding. We discussed various methods of correcting the problem and meeting the audit requirement. Therefore, this office has complied with the recommendation of County Audit officials.

REBUTTAL

Controls should be added to the software so the system does not have the capability to reset receipt numbers.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 01.07 **RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED ASSETS**
(Internal Control – Material Weakness Under Government Auditing Standards)

Coffee County did not inventory, value, and record its general fixed assets (buildings, equipment, etc.), as required by generally accepted accounting principles. The Governmental Accounting Standards Board has adopted Statement 34, which will become effective in Coffee County for the year ending June 30, 2003. Statement 34 places an even greater emphasis on the need to maintain general fixed asset records.

RECOMMENDATION

Coffee County should inventory, value, and record its general fixed assets in accordance with generally accepted accounting principles.

FINDING 01.08 A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED
(Internal Control – Reportable Condition Under Government Auditing Standards)

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

RECOMMENDATION

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

FINDING 01.09 DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF HIGHWAY SUPERINTENDENT, DIRECTOR OF SCHOOLS, TRUSTEE, COUNTY 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 Highway Superintendent, Director of Schools, Trustee, County 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.

FINDING 01.10 COUNTY OFFICIALS HAD NOT HELD A DELINQUENT PROPERTY TAX SALE IN RECENT YEARS
(Noncompliance Under Government Auditing Standards)

Coffee County officials had not held a delinquent property tax sale in recent 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. Table 1 of the statistical section of this report reflects uncollected delinquent property taxes of \$302,235 filed in Chancery Court.

RECOMMENDATION

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

FINDING 01.11 **THE PRACTICE OF PAYING SCHOOL DEPARTMENT WORKERS' COMPENSATION INSURANCE PREMIUMS FROM THE GENERAL FUND IS OF QUESTIONABLE LEGALITY**
(Material Noncompliance Under Government Auditing Standards)

During the year examined, the county expended \$135,895 from the General Fund to pay workers' compensation insurance premiums for the School Department. Opinion No. 77-226A issued by the Tennessee Attorney General's Office states that taxes collected for the county General Fund may not be diverted for education purposes. Therefore, we question the legality of using General Fund monies to pay workers' compensation insurance premiums for the School Department.

RECOMMENDATION

Workers' compensation insurance premiums for the School Department should be appropriated and paid from school funds. General Fund monies should not be used to pay education expenses.

FINDING 01.12 **A PORTION OF SALES TAX COLLECTED OUTSIDE MUNICIPALITIES WAS NOT APPORTIONED WITH CITY SCHOOL SYSTEMS**
(Material Noncompliance Under Government Auditing Standards)

During the year examined, the county placed a designated portion of rural sales tax collections in the General Purpose School Fund. These collections were not apportioned with the city school systems on the basis of "weighted full-time equivalent average daily attendance" (WFTEADA), as required by Section 49-3-315, Tennessee Code Annotated (TCA).

The Board of County Commissioners provided that these designated funds be used to pay the cost of pupil transportation. Section 49-3-315, TCA, does permit a special tax to be levied and placed in a special fund for pupil transportation without those funds being apportioned on the basis of WFTEADA if the special school districts in the county do not operate a pupil transportation system. However, rural sales tax collections are not a special tax, and the General Purpose School Fund is not a special fund. Therefore, these funds are subject to apportionment with the city school systems based on the WFTEADA.

RECOMMENDATION

County officials should apportion the rural sales tax collections, which are placed in the General Purpose School Fund, with the city school systems, as required by state statute.

FINDING 01.13 **PURCHASES FOR THE HIGHWAY DEPARTMENT WERE NOT MADE IN COMPLIANCE WITH THE COUNTY PURCHASING LAW OF 1957**

(Noncompliance Under Government Auditing Standards)

Purchases for the Highway Department were made by the department officials and employees under provisions of Chapter 8, Private Acts of 1971, and the Uniform Road Law. However, the County Commission adopted the County Purchasing Law of 1957, Section 5-14-101, et seq., Tennessee Code Annotated (TCA), which provides for a purchasing agent to make all county purchases. The County Commission attempted to exclude the Highway Department from the provisions of the County Purchasing Law of 1957 when the statute was adopted. However, Section 5-14-115, TCA, provides that only the School Department can be excluded from provisions of this statute.

RECOMMENDATION

The county purchasing agent should make all purchases for the Highway Department in compliance with state statute.