

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. Management did not offer written responses to the findings and recommendations. Officials did offer oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

OFFICE OF HIGHWAY COMMISSIONER

FINDING 01.01 **THE HIGHWAY DEPARTMENT DID NOT ACCOUNT FOR THE USE OF ALL ROAD MATERIALS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Highway Department had a system to determine the use of materials, such as bridge lumber, rock, and asphalt, for state-aid road projects. However, the department did not have a system to account for materials used on other types of road projects. The failure to maintain a system to document the use of road materials results in a loss of control over the assets and increases the risk of inventory loss.

RECOMMENDATION

The Highway Department should develop and implement a system to account for the use of all road materials.

OFFICE OF SCHOOL SUPERINTENDENT

FINDING 01.02 **THE SCHOOL EMPLOYEE INSURANCE FUND HAD A RETAINED EARNINGS DEFICIT**
(Material Noncompliance Under Government Auditing Standards)

At June 30, 2001, the School Employee Insurance Fund had a retained earnings deficit of \$23,183. This fund deficit resulted from the county's incurring medical claim expenditures and liabilities that exceeded self-insurance premiums.

RECOMMENDATION

School officials should establish self-insurance premiums sufficient to liquidate the fund deficit.

**FINDING 01.03 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 after issuing capital outlay notes for energy efficiency improvements. Section 9-21-151, Tennessee Code Annotated, requires that within 45 days following the issuance of debt, the county must provide to the state director of Local Finance certain information, such as a description of the purchase for which the debt was issued, a description of the debt obligation, and an itemized description of the cost of issuance.

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 COUNTY CLERK

**FINDING 01.04 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. All changes to the general ledger should be made with journal entries.

OTHER FINDINGS AND RECOMMENDATIONS

**FINDING 01.05 RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED
ASSETS**
(Internal Control – Material Weakness Under Government Auditing
Standards)

Hardin 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 Hardin 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

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

FINDING 01.06 **A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Hardin 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

Hardin 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, budgeting, and purchasing covering all county departments.

FINDING 01.07 **COUNTY OFFICIALS HAD NOT HELD A DELINQUENT PROPERTY TAX SALE IN RECENT YEARS**
(Noncompliance Under Government Auditing Standards)

County officials had not held a delinquent property tax sale in approximately 29 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 delinquency originated. Table 1 of the Statistical Section of this report reflects uncollected delinquent property taxes of \$328,760 filed in Chancery Court.

RECOMMENDATION

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

FINDING 01.08 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF TRUSTEE, COUNTY CLERK, CIRCUIT AND GENERAL SESSIONS COURTS CLERK, 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 Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Register, and Sheriff. Officials and employees responsible for maintaining accounting records were also involved in receipting, depositing, and/or disbursing funds. We realize that due to the 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.