

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 COUNTY EXECUTIVE

FINDING 01.01 **THE OFFICE HAD DEFICIENCIES IN ISSUING PURCHASE ORDERS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The County Executive's Office did not always follow sound purchasing procedures. Our audit revealed the following deficiencies:

- A. The office did not issue purchase orders for all applicable purchases. Purchase orders are necessary to control who has purchasing authority for the county and to document purchasing commitments.

- B. In most instances when the office issued purchase orders, the dollar amount of the purchase was not listed on the purchase order. Including dollar amounts on purchase orders is necessary to quantify purchasing commitments.

RECOMMENDATION

The office should improve purchasing procedures by issuing purchase orders for all applicable purchases and including the dollar amount on all purchase orders.

OFFICE OF HIGHWAY COMMISSIONER

FINDING 01.02 **THE HIGHWAY DEPARTMENT DID NOT ISSUE PURCHASE ORDERS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Highway Department did not issue purchase orders. Purchase orders are necessary to control who has purchasing authority for the county and to document purchasing commitments.

RECOMMENDATION

The Highway Department should issue purchase orders to strengthen internal controls over the purchasing process and to document purchasing commitments.

FINDING 01.03 **THE HIGHWAY DEPARTMENT DID NOT RECONCILE
GASOLINE USAGE WITH GASOLINE PURCHASES**
(Internal Control – Reportable Condition Under Government Auditing
Standards)

The Highway Department maintained a log of fuel disbursed from pumps located at the department. This log listed the type of fuel, the amount of fuel dispensed, and the vehicle number. However, during the period under examination, the department did not reconcile amounts used with amounts purchased and on hand.

RECOMMENDATION

The Highway Department should reconcile the gasoline usage log with gasoline purchased and on hand, as well as with gallons pumped as indicated on the fuel pump meter.

FINDING 01.04 **THE HIGHWAY DEPARTMENT DID NOT ACCOUNT FOR THE
USE OF ROAD MATERIALS**
(Internal Control – Reportable Condition Under Government Auditing
Standards)

The Highway Department had a system to determine the use of road materials, such as 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 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.

FINDING 01.05 COUNTY ROAD LIST WAS NOT PREPARED AND SUBMITTED TO THE COUNTY COMMISSION FOR APPROVAL
(Noncompliance Under Government Auditing Standards)

The highway commissioner did not prepare and submit a list of county roads to the County Commission for its 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 at the commission's January session each year and that the list be maintained in the County Clerk's Office. Highway Department officials need a current, approved list of county roads to determine roads on which the department is authorized to work.

RECOMMENDATION

The highway commissioner should submit a list of county roads to the County Commission for approval at the commission's January session each year, as required by state statute.

OFFICE OF TRUSTEE

FINDING 01.06 DELINQUENT TAXES WERE NOT FILED WITH A DELINQUENT TAX ATTORNEY
(Noncompliance Under Government Auditing Standards)

The trustee did not file delinquent 1999 taxes with a delinquent tax attorney, as required by Section 67-5-2404, Tennessee Code Annotated (TCA). The trustee delivered these delinquent taxes to the clerk and master for collection without filing suit. Section 67-5-2406(a), TCA, provides that if the county trustee and county executive do not employ a delinquent tax attorney to institute suits for the collection of delinquent taxes by April 1 of each year, then the district attorney general can employ an attorney to institute and prosecute suits to collect the delinquent taxes.

RECOMMENDATION

The county trustee and county executive should employ a delinquent tax attorney to file suit for the collection of delinquent taxes, as required by state statute.

FINDING 01.07 THE OFFICE HAD DEFICIENCIES IN INTERNAL CONTROLS OVER CASH COLLECTIONS
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit disclosed the following deficiencies in internal controls over cash collections:

- A. Collections were not deposited intact to the office bank account. Depositing collections intact strengthens internal controls over cash collections and aids in determining that all funds have been accounted for properly and deposited on a current basis.
- B. Checks were not restrictively endorsed at the time of collection.

RECOMMENDATION

The office should deposit all collections intact and should restrictively endorse all checks at the time of collection.

FINDING 01.08 **THE TRUSTEE’S DEPOSITORY USED AN UNAUTHORIZED METHOD FOR PAYMENT OF WARRANTS**
(Noncompliance Under Government Auditing Standards)

The office’s depository deducted warrants from the office’s bank account before the bank presented the warrants to the trustee for payment. Section 8-11-104, Tennessee Code Annotated (TCA), states that the trustee should “pay all just claims against the county as they are presented, if he has a sufficient sum of money ... not otherwise appropriated.” The depository’s practice did not provide a method for the trustee to verify the availability of funds for paying warrants. Section 5-8-210, TCA, provides an alternative method for the trustee to determine that adequate funds are available and for the bank to charge the trustee’s account directly. This section authorizes the county trustee to implement a checking system instead of a warrant system for disbursing funds.

RECOMMENDATION

The office’s depository should not deduct warrants from the office’s bank account until the warrants have been presented to the trustee for payment. As an alternative to this practice, the trustee should consider implementing a checking system for disbursing county funds, as authorized by state statute.

OFFICE OF COUNTY CLERK

FINDING 01.09 **THE GENERAL LEDGER SOFTWARE DID NOT HAVE ADEQUATE APPLICATION CONTROLS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The following weaknesses regarding the office’s accounting software were identified:

- A. The general ledger software application did not require users to close accounting periods.

- B. 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. The software should require users to close an accounting period within 30 days following its completion. Also, 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.

OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK

FINDING 01.10 **THE EXECUTION DOCKET TRIAL BALANCE DID NOT RECONCILE WITH CASH JOURNAL ACCOUNTS IN THE OFFICE OF CIRCUIT COURT CLERK**
(Material Noncompliance Under Government Auditing Standards)

At June 30, 2001, the circuit court clerk prepared an execution docket trial balance, as required by Section 18-2-103, Tennessee Code Annotated (TCA). However, this trial balance did not reconcile with cash journal accounts. The clerk identified funds that exceeded funds on deposit by \$102,466. Based on our examination, the clerk's failure to reconcile the trial balance appears to be caused by problems with the office's computer software.

RECOMMENDATION

The clerk should work with the software vendor to reconcile the execution docket trial balance with cash journal accounts.

FINDING 01.11 **THE OFFICE DID NOT DEVELOP A DISASTER RECOVERY PLAN**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Circuit and General Sessions Court Clerk's Office 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.

FINDING 01.12 THE OFFICE DID NOT HAVE FORMAL POLICIES AND PROCEDURES FOR COMPUTER OPERATIONS
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Circuit and General Sessions Court Clerk’s Office did not have written policies and procedures for routine computer operations. Routine operations include system startup/shutdown, application access, system access security, system backup and retention schedules, hardware/software maintenance, output distribution, and other general data processing functions. Formal policies and procedures are necessary to ensure adequate management control over computer operations.

RECOMMENDATION

Management should prepare a computer policies and procedures manual that defines policies and procedures for operations such as system backups, security measures, and other general data processing functions. Upon completion, the manual should be distributed to all appropriate personnel.

OFFICE OF CLERK AND MASTER

FINDING 01.13 DELINQUENT TAX AGGREGATES WERE NOT DETERMINED AND RECONCILED
(Internal Control – Reportable Condition Under Government Auditing Standards)

The clerk and master did not determine the unpaid balance of each year’s delinquent tax aggregate on file in Chancery Court and therefore could not reconcile the unpaid balance with amounts collected and adjusted. As a result, internal controls over delinquent property tax collections were weakened.

RECOMMENDATION

To strengthen internal controls over delinquent property tax collections, the clerk and master should reconcile each year's delinquent tax aggregate on file in Chancery Court.

OFFICE OF SHERIFF

FINDING 01.14 **DUTIES WERE NOT SEGREGATED ADEQUATELY**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among employees in the Sheriff's Office. One employee was responsible for receipting, preparing bank deposits, posting entries to the cash journal, and reconciling bank statements. 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.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 01.15 **RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED ASSETS**
(Internal Controls – Material Weakness Under Government Auditing Standards)

Lauderdale 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 for Lauderdale County for the year ending June 30, 2004. Statement 34 places an even greater emphasis on the need to maintain general fixed asset records.

RECOMMENDATION

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

FINDING 01.16

A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED

(Internal Control – Reportable Condition Under Government Auditing Standards)

Lauderdale 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

Lauderdale 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.