

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 county executive and director of schools are paraphrased in this report. Other officials offered 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 COMPETITIVE BIDS WERE NOT SOLICITED FOR THE PURCHASE OF PATROL CARS
(Noncompliance Under Government Auditing Standards)

The Office of County Executive purchased two new patrol cars for \$20,577 each based on quotes the sheriff obtained from area dealerships. Section 5-14-204, Tennessee Code Annotated, requires that competitive bids be solicited through newspaper advertisement for all purchases over \$5,000.

RECOMMENDATION

The office should require department heads to solicit competitive bids for all purchases estimated to exceed \$5,000, as required by state statute.

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE

We concur. In the future, we will comply with the state statute regarding competitive bids.

FINDING 01.02 THE ACTUAL FUND BALANCE OF THE GENERAL FUND AT JULY 1, 2000, EXCEEDED THE ESTIMATED FUND BALANCE BY A MATERIAL AMOUNT
(Noncompliance Under Government Auditing Standards)

The General Fund's actual fund balance at July 1, 2000, was \$1,618,187; however, the estimated fund balance reflected in the county's budget for July 1, 2000, was only \$1,058,873. Therefore, the actual fund balance was \$559,314 more than the estimated fund balance presented to the County Commission.

RECOMMENDATION

The estimated beginning fund balance should be made on a more realistic basis to provide county officials with accurate information on which to base funding decisions.

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE

We concur with the finding and recommendation.

FINDING 01.03 THE OFFICE DID NOT HAVE FORMAL POLICIES AND PROCEDURES FOR COMPUTER OPERATIONS
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Office of County Executive 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.

FINDING 01.04 COMPUTER SYSTEM BACKUPS WERE NOT STORED OFF SITE
(Internal Control – Reportable Condition Under Government Auditing Standards)

System backups were not stored off site. In the event of a disaster, all back-up data could be destroyed, resulting in costly delays in generating and recording manual information accounted for through the automated process.

RECOMMENDATION

In addition to daily system backups, a weekly system backup should be performed, and two copies of this backup should be maintained. These backups should be rotated off site on a weekly basis. Year-end backups should be stored off site and retained indefinitely. Some possibilities for an off-site storage location would be another county office building with a fireproof vault or a safe deposit box at a local bank.

OFFICE OF COUNTY ENGINEER

**FINDING 01.05 PURCHASE ORDERS WERE NOT COMPLETED PROPERLY
WHEN ISSUED**
(Internal Control – Reportable Condition Under Government Auditing
Standards)

Our examination of purchase orders disclosed that descriptions and dollar amounts of purchases were not listed on purchase orders until the invoices had been received from the vendors. The dollar amount and descriptions of items on purchase orders are necessary to quantify purchasing commitments and to identify the items purchased.

RECOMMENDATION

The office should improve purchasing procedures by listing the dollar amounts and descriptions of items on purchase orders.

**FINDING 01.06 A LIST OF COUNTY ROADS WAS NOT SUBMITTED TO THE
COUNTY COMMISSION FOR APPROVAL**
(Noncompliance Under Government Auditing Standards)

The county engineer 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 at its 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 office should submit a list of county roads to the County Commission for approval, as required by state statute. Once approved, the list should be maintained in the County Clerk's Office.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 01.07 PURCHASE ORDERS WERE NOT ISSUED PROPERLY
(Internal Control – Reportable Condition Under Government Auditing
Standards)

In several instances, purchase orders were not issued properly. Some purchase orders were issued after the purchase was made, and on other purchase orders, the dollar amount was completed after receipt of the invoice. Also, purchase orders occasionally were not dated.

Purchase orders are necessary to control who has purchasing authority and to document purchasing commitments. The practice of issuing a purchase order after the purchase is made defeats the purpose of issuing a purchase order and makes the purchase order an approval for payment, rather than an approval for the purchase. Furthermore, dollar amounts on purchase orders are necessary to quantify purchasing commitments.

RECOMMENDATION

To strengthen internal controls over the purchasing process, the office should issue purchase orders before purchases are made and should include on the purchase orders the date and dollar amounts.

MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS

We concur and will take immediate steps to correct this finding.

FINDING 01.08 **THE SCHOOL DEPARTMENT HAD WEAKNESSES IN ITS CONTRACTED FOOD SERVICE PROGRAM**
(Internal Control – Reportable Condition Under Government Auditing Standards)

On July 9, 1998, the School Department entered into a contractual agreement to participate in the Volunteer State Cooperative (VOLCO). This cooperative was established to obtain lower prices for food supplies, materials, equipment, and services by combining the purchasing requirements of each member's school food service systems. The Food Service Department did not monitor inventory records of consumable assets stored at the VOLCO service provider's site. The failure to monitor records of consumable assets weakens controls over these assets and increases the risk of inventory loss. The service provider furnished Stewart County an inventory list that indicated the county had \$5,270 in inventory on hand at June 30, 2001; however, because of the lack of inventory controls, this inventory has not been reflected in the financial statements of this report.

RECOMMENDATION

The food service supervisor should monitor the inventory records of consumable assets and periodically reconcile these records with the service provider's inventory records.

MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS

We concur and will take immediate steps to correct this finding.

OFFICE OF ASSESSOR OF PROPERTY

**FINDING 01.09 ASSESSMENT RECORDS WERE CHANGED DURING THE YEAR AS PROPERTY TRANSFERS WERE MADE
(Noncompliance Under Government Auditing Standards)**

The assessor updated the assessment records as property transfers were made during the year to reflect the current property owners. Section 67-5-502, Tennessee Code Annotated, requires all property to be assessed “to the person or persons owning or claiming to own the same on January 1 for the year for which the assessment is made.”

RECOMMENDATION

Property should be assessed to the person or persons owning the property as of January 1 in compliance with state statute.

OTHER FINDINGS AND RECOMMENDATIONS

**FINDING 01.10 RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED ASSETS
(Internal Control – Material Weakness Under Government Auditing Standards)**

Stewart 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 Stewart 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

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

MANAGEMENT’S RESPONSE – COUNTY EXECUTIVE

We concur and hope to resolve this matter.

FINDING 01.11 A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED
(Internal Control – Reportable Condition Under Government Auditing Standards)

Stewart 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

Stewart 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.

MANAGEMENT’S RESPONSE – COUNTY EXECUTIVE

We concur and hope to resolve this matter.

FINDING 01.12 THE COUNTY HAD A DEFICIENCY IN AMBULANCE SERVICE OPERATIONS
(Internal Control – Reportable Condition Under Government Auditing Standards)

Cash collections of the Ambulance Service were not reconciled with amounts remitted to the trustee. If these collections are not reconciled with amounts remitted to the trustee, errors may not be detected and corrected in a timely manner.

RECOMMENDATION

Ambulance Service collections should be reconciled monthly with the amounts remitted to the trustee.

MANAGEMENT’S RESPONSE – COUNTY EXECUTIVE

We concur. In the future, we will reconcile cash collections monthly with the amounts remitted to the trustee.

FINDING 01.13 DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF TRUSTEE; COUNTY CLERK; CIRCUIT, GENERAL SESSIONS, AND JUVENILE COURTS CLERK; CLERK AND MASTER; 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, General Sessions, and Juvenile 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, reconciling bank statements, 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.