

## **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. The county executive's written responses are paraphrased in this report. Other officials offered oral responses to certain findings and recommendations; however, their oral responses have not been included in this report.

### **OFFICE OF COUNTY EXECUTIVE**

#### **FINDING 02.01      **THE OFFICE HAD DEFICIENCIES IN BUDGET OPERATIONS** (Noncompliance Under Government Auditing Standards)**

Our audit of the County Executive's Office revealed the following deficiencies in budget operations:

- A. General Fund expenditures exceeded appropriations approved by the County Commission in the Jail (\$236,225), Other Charges (\$31,602), Employee Benefits (\$35,712), and Capital Outlay (\$121,630) major appropriation categories. Also, General Fund expenditures exceeded appropriations in 36 personal services (payroll) accounts by a total of \$58,807. Section 5-9-401, Tennessee Code Annotated, states, "All funds from whatever source derived, including, but not limited to taxes, county aid funds, federal funds, and fines, which are to be used in the operation and respective programs of the various departments, commissions, institutions, boards, offices and agencies of county governments shall be appropriated to such use by the county legislative bodies."
  
- B. The county's budget and finance committee approved several General Fund budget amendments between major categories; however, these budget amendments were not approved by the County Commission. Section 5-9-407(B), Tennessee Code Annotated, provides that "once a budget has been adopted, the budget, including ... major categories, may be amended by a majority of the members of the county legislative body." Therefore, these budget amendments have not been reflected in the financial statements of this report, causing several major appropriation categories to be overspent as noted in part A. of this finding.

### **RECOMMENDATION**

Expenditures should be held within appropriations approved by the County Commission, and the County Commission should properly approve all budget amendments between major appropriation categories.

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE

We will attempt to comply with the recommendations.

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FINDING 02.02      **THE OFFICE HAD DEFICIENCIES IN PURCHASING PROCEDURES**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

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

- A.      The office did not issue purchase orders for some purchases. Also, in several instances, purchase orders were issued after purchases were made. Properly issued purchase orders are necessary to control who has purchasing authority for the office and to document purchasing commitments.
  
- B.      In several instances, the office paid invoices without documentation that goods had been received or services had been rendered.

RECOMMENDATION

The office should improve purchasing procedures by issuing purchase orders for all applicable purchases before purchases are made and paying invoices only after documentation of the receipt of goods or services.

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE

We will make every effort to issue purchase orders for all purchases and document receiving.

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FINDING 02.03      **THE OFFICE DID NOT MAINTAIN PAYROLL RECORDS PROPERLY**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit revealed the following deficiencies in the payroll records maintained by the County Executive's Office:

- A.      Several of the employees' time sheets that we examined were not signed by a supervisor as evidence of supervisory review and approval.
  
- B.      Documentation was not on file to support changes in employees' compensation rates (i.e., raises or promotions).

- C. General ledger payroll deduction accounts for the General Fund were not reconciled with subsidiary payroll records on a monthly basis. The failure to reconcile general ledger payroll deduction accounts with subsidiary payroll records resulted in errors and omissions in the reporting and payment of employee payroll deductions and allowed unidentified balances to accumulate in several payroll deduction accounts.

#### RECOMMENDATION

The County Executive's Office should require supervisory personnel to sign their employees' time sheets as evidence of their review and approval. Documentation should be on file to support changes in employees' compensation rates. All general ledger payroll deduction accounts should be reconciled monthly with subsidiary payroll records to ensure that amounts withheld from employees' wages are properly accounted and remitted to the appropriate agency.

#### MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE

We will encourage all supervisory personnel to sign their employees' time sheets, improve our documentation of payroll changes, and reconcile payroll deduction accounts.

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**FINDING 02.04      SOME FINANCIAL ACTIVITY OF THE AGRICULTURAL EDUCATION CENTER WAS NOT SUBJECT TO THE BUDGETARY CONTROL OF THE COUNTY COMMISSION  
(Noncompliance Under Government Auditing Standards)**

During the 1997-98 year, Bedford County built an agricultural education center and appointed a Board of Directors to operate the center. A significant portion of the center's expenditures was paid through the county's General Fund; however, the Board of Directors maintained a checking account to deposit event revenues and pay certain operating expenses. The funds channeled through this checking account were not subject to the county's budgetary process.

Section 5-9-401, Tennessee Code Annotated, states, "All funds from whatever source derived, including, but not limited to taxes, county aid funds, federal funds, and fines, which are to be used in the operation and respective programs of the various departments, commissions, institutions, boards, offices and agencies of county governments shall be appropriated to such use by the county legislative bodies."

#### RECOMMENDATION

The agricultural education center should operate as a department within the county's General Fund, and all revenues and expenditures related to its operation should be subject to the budgetary control of the County Commission, as required by state statute.

## MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE

Improvements have been made in this area. The County Commission has reorganized the Bedford County Agriculture and Education Center's Board of Directors, and I will work with the new board to implement this recommendation.

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**FINDING 02.05      THE OFFICE PAID EXPENDITURES FOR STATE AGENCIES THAT SHOULD HAVE BEEN CHANNELED THROUGH THE STATE'S ACCOUNTING SYSTEM**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit revealed that for many years the County Executive's Office used county funds to make expenditures for the benefit of certain state agencies, instead of channeling the funds through the state's accounting system. The following deficiencies were noted concerning this practice:

- A. During the 2001-02 year, Bedford County appropriated \$5,000 through a nonprofit resolution to the Children's Services Foster Care program administered by the Tennessee Department of Children's Services. The county retained \$4,500 of these appropriations in the county's General Fund and, as had been done in past years, placed \$500 of the funds into an outside bank account. From July 1, 2001, through June 30, 2002, three checks totaling \$118 were paid from the outside bank account. Although this outside bank account was under the county's name, Tennessee Department of Children's Service's employees maintained the checkbook for this bank account at their office, wrote the checks from the account, and brought the checks to the county executive to be signed. Occasionally employees from the state Department of Children's Services would bring requisition forms and invoices for the bills to be paid from the funds appropriated in the county's General Fund. These payments included both payments to vendors and to employees as reimbursement for expenditures. It should be noted that the requisition forms were not official requisition forms for the State of Tennessee and were not signed as approval for payment by a state supervisor. We know of no statutory authority that allows the county executive to have an outside bank account.
- B. Bedford County appropriated \$101,352 for salary supplements to local agriculture extension agents. Salary supplements to local agriculture extension agents are normally paid to the University of Tennessee and run through the state's accounting system. However, the County Executive's Office retained \$16,227 of the appropriation and did not send it to the University of Tennessee to be used for salary supplements. Instead, this \$16,227 was sent directly to the local Agricultural Extension Service Office and used for office equipment, supplies, telephone expenses, and secretarial expenses.

RECOMMENDATION

The county executive should immediately close the unauthorized checking account and cease the payment of invoices brought to the office by local employees of the Children's Services Foster Care. In addition, the county should not make payments to state employees. If the county wishes to appropriate funds to the foster care program, it should appropriate the funds through the normal budget process and pay the funds directly to the state Department of Children's Services to be channeled through the state's accounting system. Also, county funds should not be paid directly to the local agricultural extension office.

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE

This has been the county's policy since the mid-seventies under the two previous county executive administrations. After auditors brought this deficiency to my attention, we immediately closed the bank account and stopped paying bills submitted by the Children's Services employees. We will properly disburse Agriculture Extension Service funds to the University of Tennessee.

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OFFICE OF DIRECTOR OF SCHOOLS

FINDING 02.06      **THE SCHOOL DEPARTMENT DID NOT MAINTAIN ACCURATE INVENTORY RECORDS**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The School Department did not maintain adequate controls over inventory. In some instances, assets at individual schools were not tagged or clearly marked as property of the School Department. In other instances, assets were tagged, but the inventory lists did not include property tag numbers or reflect the correct location. Also, the central office inventory has not been updated since 1996. Generally accepted accounting principles require accountability for all department-owned assets, such as vehicles, furniture, and equipment. The failure to properly maintain inventory records results in a loss of control over assets.

RECOMMENDATION

School officials should maintain accurate and updated inventory records for all department-owned assets.

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## OFFICE OF SOLID WASTE AUTHORITY

### FINDING 02.07      **THE AUTHORITY'S MONITORING OFFICE DID NOT PROPERLY MAINTAIN ITS ACCOUNTING RECORDS** (Internal Control – Reportable Condition Under Government Auditing Standards)

The Solid Waste Authority's monitoring office did not properly maintain its accounting records. Our audit revealed the following deficiencies:

- A.      At June 30, 2002, accounts payable totaling \$15,000 were not reflected in the accounting records, as required by generally accepted accounting principles. These payables have been properly reflected in the financial statements of this report.
- B.      Year-end closing entries were not posted to the accounting records at June 30, 2002, as required by generally accepted accounting principles.
- C.      The office issued two checks totaling \$5,265 from its surcharge checking account that were not prenumbered.

The monitoring office maintained the authority's minutes and manual accounting records, issued 17 checks, and invested in two certificates of deposit. On the other hand, the authority's convenience center office maintains a complete computer accounting system, manages a payroll system, and issues over 1,000 checks a year. Therefore, the maintenance and expense of two accounting systems is a duplication of effort, and it appears that maintaining all accounting records at the convenience center office would be more efficient.

### RECOMMENDATION

The Solid Waste Authority should consider consolidating its monitoring and convenience center offices to eliminate duplication of effort, use its computer capabilities, and reduce the cost of operations. If the offices are not consolidated, the monitoring office should implement the following recommendations. Accounts payable should be reflected on accounting records at June 30. The monitoring office should post year-end closing entries. Also, prenumbered checks should be used.

## OTHER FINDINGS AND RECOMMENDATIONS

FINDING 02.08      **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF 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 County Clerk; Circuit, General Sessions, and Juvenile Courts Clerk; Clerk and Master; Register; and Sheriff. Employees responsible for maintaining the accounting records were also involved in receipting, depositing, and/or disbursing funds.

### RECOMMENDATION

To strengthen internal controls over operations, these offices should adequately segregate duties among employees.

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FINDING 02.09      **RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED ASSETS**  
(Internal Control – Material Weakness Under Government Auditing Standards)

Bedford 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 Bedford 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

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

### MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE

I will encourage compliance with this recommendation.

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**FINDING 02.10**      **A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Bedford 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**

Bedford 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**

I agree with this recommendation and will encourage the County Commission to proceed toward this goal.