

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 the 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 02.01 **COMPETITIVE BIDS WERE NOT SOLICITED IN ACCORDANCE WITH STATE STATUTES (Noncompliance Under Government Auditing Standards)**

Our examination revealed the following bidding deficiencies:

- A. The office solicited bids for the purchase of a cargo van for the Carroll County Emergency Management Agency; however, the bid specifications were limited to a 2002 Ford Econoline E350 Super Cargo Van. Limiting bid specifications to a particular make, model, or manufacturer violates the intent of the competitive bid law.
- B. The county did not solicit competitive bids for the purchase of computer equipment (\$14,225), as required by Chapter 23, Private Acts of 1975, as amended.

RECOMMENDATION

The office should follow competitive bid requirements and should not limit bid specifications to a particular manufacturer. Competitive bids should be solicited through newspaper advertisement for all purchases estimated to exceed \$5,000, as required by state statutes.

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE

In response to A, we make every effort to use Carroll County businesses. There are two Ford dealerships in Carroll County, and to buy locally, the Ford Econoline van was bid.

REBUTTAL

As stated in the finding, the intent of the competitive bid law is for the county to get the lowest and best price for a product. By giving preferential treatment to local vendors, county officials are violating the intent of the competitive bid law and are increasing the potential for lawsuits. In *Owen of Georgia, Inc., versus Shelby County*, 442F, Supp. 314 (w.b. Tenn. 1977), the court stated that not accepting the bid of the lowest priced vendor because it was not a local vendor was not proper.

OFFICE OF HIGHWAY COMMISSION

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

Our audit of the Highway Commission revealed the following accounting deficiencies:

- A. General ledger payroll liability accounts were not reconciled with payroll reports, deposits of payroll taxes, and payments of insurance premiums. Without this necessary reconciliation, errors and omissions in employee payroll deductions could occur and go undetected. At June 30, 2002, payroll liability accounts had accumulated unidentified amounts for insurance and other payroll deductions. Audit adjustments were made to zero these unidentified balances, and as a result of these audit adjustments, expenditures in the Employee Benefits – Medical Insurance major expenditure category exceeded appropriations by \$10,185.

- B. Penalties of \$381 were paid to the Internal Revenue Service for late filing of federal tax reports.

RECOMMENDATION

The office should reconcile general ledger payroll liability accounts with payroll reports, deposits of payroll taxes, and payments of insurance premiums. Also, federal payroll taxes should be remitted on a timely basis to avoid the assessment of late penalties.

FINDING 02.03 **THE HIGHWAY DEPARTMENT DID NOT MAINTAIN A SYSTEM TO 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 materials, such as bridge lumber, culvert tiles, and rock, 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 materials used on all types of road projects.

OFFICE OF CIRCUIT COURT CLERK

FINDING 02.04 AN EXECUTION DOCKET TRIAL BALANCE WAS NOT PREPARED FOR CIRCUIT COURT
(Noncompliance Under Government Auditing Standards)

As of June 30, 2002, a trial balance of execution docket cause balances was not prepared for Circuit Court, as required by Section 18-2-103, Tennessee Code Annotated (TCA). Consequently, we were unable to reconcile cash journal accounts with cause balances. Furthermore, we were unable to determine if the clerk had complied with provisions of the Unclaimed Property Act, Section 66-29-110, TCA. This statute provides that any funds held by the court for more than one year and unclaimed by the owner are considered abandoned. Section 66-29-113, TCA, further requires these funds to be reported and paid to the state Treasurer's Office.

RECOMMENDATION

The clerk should prepare a trial balance of execution docket cause balances and reconcile these balances with cash journal accounts, as required by state statute. Any funds the clerk is unable to identify should be reported and paid to the state Treasurer's Office.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 02.05 DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF CIRCUIT, GENERAL SESSIONS, AND JUVENILE COURTS CLERK; CLERK AND MASTER; REGISTER; SHERIFF; AND DIRECTOR OF SCHOOLS
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among the officials and employees in the Offices of Circuit, General Sessions, and Juvenile Courts Clerk; Clerk and Master; Register; Sheriff; and Director of Schools. Officials and employees responsible for maintaining the accounting records in these offices were also involved in receipting, depositing, and/or disbursing funds. In the Office of Director of Schools, the bookkeeper reconciled cash balances with the trustee, issued purchase orders, entered invoices into the computer system, prepared payroll, and generated all warrants. 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.

MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS

We have taken steps during the 2002-03 year to segregate duties in the office of Director of Schools.

FINDING 02.06 **RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED ASSETS**
(Internal Control – Material Weakness Under Government Auditing Standards)

Carroll 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 Carroll 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

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

MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS

We have taken measures during the 2002-03 year to maintain general fixed asset records for the School Department.

FINDING 02.07 **A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Carroll 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

Carroll 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.