

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 clerk's written responses to the findings and recommendations 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 DIRECTOR OF ACCOUNTS AND BUDGETS

FINDING 02.01 **THE DIRECTOR OF ACCOUNTS AND BUDGETS DID NOT MAINTAIN ACCOUNTING RECORDS FOR THE ROAD DEPARTMENT**
(Material Noncompliance Under Government Auditing Standards)

Cheatham County operates under the Fiscal Control Acts of 1957, which require the director of accounts and budgets to maintain accounting records for funds administered by the county executive and road superintendent. However, the director of accounts and budgets did not maintain accounting records for the Road Department. Road Department personnel entered all of the department's accounting data into the computer system, reconciled the accounts, generated the reports, and stored the accounting records.

RECOMMENDATION

The director of accounts and budgets should maintain all accounting records of the Road Department, as required by the Fiscal Control Acts of 1957.

FINDING 02.02 **PRIOR YEARS' TAX ANTICIPATION NOTES WERE NOT RETIRED IN COMPLIANCE WITH STATE STATUTE**
(Material Noncompliance Under Government Auditing Standards)

In prior audit reports, we noted that the office did not retire two tax anticipation notes by June 30, as required by state statute (\$116,785 matured on June 30, 1999, and \$224,715 matured on June 30, 2000). These notes were issued for the benefit of the Cheatham County Health Service Center and totaled \$341,500. At June 30, 2002, these notes were still outstanding. We have reflected these notes as current notes receivable of the General Fund in the financial statements of this report.

Section 9-21-801, Tennessee Code Annotated, provides that tax anticipation notes may be issued to provide temporary operating funds but that all such notes must mature not later than the close of the fiscal year in which they are issued. If paying the notes before the close of the fiscal year is impossible, the county must apply to the state director of Local Finance within ten days before the close of the fiscal year for permission to issue funding bonds.

RECOMMENDATION

Officials should analyze the cash flow of the Cheatham County Health Service Center and develop plans to ensure the payment of all tax anticipation notes. The county should obtain the approval of the state director of Local Finance to issue funding bonds to retire tax anticipation notes that are not retired by the close of the fiscal year.

FINDING 02.03 **THE OFFICE HAD ACCOUNTING DEFICIENCIES** (Internal Control – Reportable Condition Under Government Auditing Standards)

As noted in Finding 02.01, the director of accounts and budgets is responsible for maintaining the financial records of the County Executive's Office and Road Department. The following accounting deficiencies in these offices should be addressed by the director of accounts and budgets:

- A. Neither Road Department personnel nor Finance Office personnel reconciled the trustee's cash balances with fund accounting records of the Highway/Public Works Fund. As a result, errors were not detected and corrected in a timely manner. An unidentified difference of \$3,770 between the trustee's balance and the accounting records existed at June 30, 2002.
- B. Two bi-weekly payrolls processed by Road Department personnel were not posted to the general ledger accounts until two months after the payrolls were processed.
- C. Payroll deduction accounts were not reconciled on a current basis in the General and Highway/Public Works Funds. The failure to reconcile payroll deduction accounts on a current basis allowed errors to remain undiscovered and uncorrected for several months.
- D. Encumbrances totaling \$214,665 were reflected on the general ledger of the Highway/Public Works Fund at June 30, 2002. However, the director of accounts and budgets could not provide detailed documentation to support the general ledger balance. Road Department personnel provided auditors with a detailed list of encumbrances totaling \$67,088 at June 30, 2002. Therefore, encumbrances of \$67,088 were reflected for the Highway/Public Works Fund in the financial statements of this report.

RECOMMENDATION

To correct these accounting deficiencies, the office should reconcile the trustee's cash balance with fund accounting records monthly, ensure all payrolls are posted properly to the general ledger, and reconcile all payroll deduction accounts monthly. Also, the director of accounts and budgets should maintain detailed lists of encumbrances that reconcile with the general ledger.

FINDING 02.04 **THE OFFICE DID NOT DEVELOP A DISASTER RECOVERY PLAN**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Office of Director of Accounts and Budgets 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 02.05 **FINANCIAL TRANSACTIONS WERE NOT RECORDED IN ACCORDANCE WITH THE COUNTY UNIFORM CHART OF ACCOUNTS**
(Noncompliance Under Government Auditing Standards)

Accounting records were not maintained in conformity with the County Uniform Chart of Accounts. Officials used fund numbers, fund titles, and account numbers that did not conform to the County Uniform Chart of Accounts. The failure to maintain accounts in conformity with the chart defeats the intent of the County Uniform Chart of Accounts, as established by the Office of Comptroller of the Treasury under provisions of Section 5-8-501, Tennessee Code Annotated.

RECOMMENDATION

Accounting records should be maintained in conformity with the County Uniform Chart of Accounts.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 02.06 THE OFFICE DID NOT DEVELOP A DISASTER RECOVERY PLAN
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Office of Director of Schools 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.

OFFICE OF COUNTY CLERK

FINDING 02.07 THE MOTOR VEHICLE TITLE AND REGISTRATION SOFTWARE DID NOT HAVE ADEQUATE APPLICATION CONTROLS
(Internal Control – Reportable Condition Under Government Auditing Standards)

The office did not have sufficient controls over automated motor vehicle title and registration financial transactions. Prior to their posting in the general ledger, these transactions could be deleted and/or changed in the system. The application did not maintain a record of these deletions and/or changes. This lack of application control could allow inappropriate system activity.

RECOMMENDATION

Management should contact their software vendor about adding controls to the motor vehicle title and registration application that would provide an audit trail for any transaction deletions and/or changes.

MANAGEMENT'S RESPONSE – COUNTY CLERK

The Cheatham County Commission has authorized the purchase and installation of new hardware and software from another vendor. We are hopeful that the new system will be operational shortly. We are also working with a representative from the State of Tennessee to explore the feasibility of installing software provided by the Department of Safety.

FINDING 02.08 **SUFFICIENT USER DOCUMENTATION FOR THE SOFTWARE APPLICATIONS WAS NOT MAINTAINED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The office did not maintain formal user documentation for the county clerk software. This documentation is necessary to provide users with information regarding system maintenance, system inputs, application processing requirements, output definitions, and system recovery. Inadequate documentation may result in inaccurate and inefficient processing of applications.

RECOMMENDATION

The office should maintain user documentation for all software applications. Management should contact their vendor and obtain current user documentation for all components of their computer system.

MANAGEMENT'S RESPONSE – COUNTY CLERK

The Cheatham County Commission has authorized the purchase and installation of new hardware and software from another vendor. We are hopeful that the new system will be operational shortly. We are also working with a representative from the State of Tennessee to explore the feasibility of installing software provided by the Department of Safety.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 02.09 **COUNTY OFFICIALS HAD NOT HELD A DELINQUENT PROPERTY TAX SALE IN RECENT YEARS**
(Material Noncompliance Under Government Auditing Standards)

County officials had not held a delinquent property tax sale in approximately six 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 the delinquency originated. The clerk and master's tax aggregate list (1991-2000) reflects uncollected delinquent county property taxes of \$499,189 filed in Chancery Court.

RECOMMENDATION

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

FINDING 02.10 **THE CHEATHAM COUNTY LIBRARIES WERE NOT AUDITED**
(Noncompliance Under Government Auditing Standards)

The county did not require audits of the Cheatham County libraries (Ashland City and Kingston Springs), in accordance with generally accepted accounting principles. Audits are necessary to ensure proper accountability for the libraries. Because audits were not performed, the libraries were omitted from the financial statements of this report.

RECOMMENDATION

Cheatham County officials should require annual audits of the Ashland City and Kingston Springs libraries, in accordance with generally accepted accounting principles.

FINDING 02.11 **RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED ASSETS**
(Internal Control – Material Weakness Under Government Auditing Standards)

Cheatham 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 Cheatham 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

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

FINDING 02.12 DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF TRUSTEE, CLERK AND MASTER, 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, Clerk and Master, and Sheriff. Officials and employees responsible for maintaining the accounting records were also involved in receipting, depositing, and/or disbursing funds.

RECOMMENDATION

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