

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. 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 **DEFICIENCIES WERE NOTED IN CASH COLLECTIONS AT THE SANITATION DEPARTMENT**
(Material Noncompliance Under Government Auditing Standards)

Receipts were not issued for collections received at the Sanitation Department. Instead, a single receipt was issued for total collections when they were taken to the Trustee's Office for deposit. Sections 9-2-103 and 9-2-104, Tennessee Code Annotated (TCA), require that an official, prenumbered receipt be issued for each sum of money collected. In addition, the failure to issue official receipts at the time of collection weakens internal controls and increases the risk that collections will not be accounted for properly. Also, as a result of this practice, we could not determine if funds were deposited to the office bank account within three days of collection, as required by Section 5-8-210, TCA.

RECOMMENDATION

Receipts should be issued for all collections, as required by state statutes.

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

Purchase orders were not issued for several purchases. Also, in several instances, purchase orders were issued after purchases were made or not issued at all. The practice of issuing a purchase order after the purchase defeats the purpose of issuing a purchase order and makes the purchase order an approval for payment, rather than approval for the purchase.

RECOMMENDATION

To improve purchasing procedures, the office should issue purchase orders for all applicable purchases and should issue all purchase orders before purchases are made.

FINDING 02.03 ADDITIONAL COMPENSATION TO EMPLOYEES WAS NOT CHANNELED THROUGH THE PAYROLL SYSTEM
(Internal Control – Reportable Condition Under Government Auditing Standards)

In addition to their regular salaries, some employees received payments outside the normal payroll system. The county executive stated that these payments were for work performed outside the normal hours of employment. Work performed outside normal hours of employment is generally referred to as overtime. Time records were not maintained to support these additional payments, and making payments outside the normal payroll system resulted in payroll deductions (income tax, social security, etc.) not being withheld and reported on these additional payments.

RECOMMENDATION

Documentation should be maintained of all employees' work hours, and compensation should be handled through the payroll system with appropriate payroll deductions.

FINDING 02.04 TRAVEL REIMBURSEMENTS WERE NOT IN COMPLIANCE WITH ADOPTED POLICIES
(Noncompliance Under Government Auditing Standards)

During the year, the Claiborne County Commission adopted travel policies, including guidelines for reimbursements of mileage, meals, and lodging. However, some travel reimbursements were not made in compliance with the adopted guidelines. Meals and mileage rates were often different from those specified in the guidelines. Also, the guidelines require overnight travel to be involved if meals are reimbursed. However, meals were often reimbursed without documentation of overnight travel.

RECOMMENDATION

Travel reimbursements should be made in compliance with the policies adopted by the County Commission.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 02.05 FUNDING OF THE EMPLOYEE INSURANCE PROGRAM HAD DEFICIENCIES
(Internal Control – Material Weakness Under Government Auditing Standards)

The following deficiencies were noted concerning the Employee Insurance Program:

- A. The premiums established by the School Department did not adequately fund the employee insurance program. The program is an internal service fund that was established to account for transactions pertaining to the self-insured group medical plan. This plan is intended to be funded by premiums consisting of employee payroll deductions and a matching share provided by the county. However, the premium rates have remained the same for several years and have failed to provide adequate funding for the program. As a result of the inadequate premiums, the School Department made operating transfers of \$1,053,840 from the General Purpose School Fund during the year to provide additional funding to the program.
- B. The majority of the operating transfers (\$1,053,840) discussed in item A. were not approved by the County Commission. The budget of the General Purpose School Fund reflected appropriations of only \$273,674 for transfers to other funds, and the budget was never revised for the additional transfers made to the Employee Insurance Fund. As a result, operating transfers to other funds from the General Purpose School Fund exceeded appropriations approved by the County Commission by \$780,166. Section 5-9-401, Tennessee Code Annotated, requires all uses of funds to be appropriated by the County Commission.
- C. Between June 30, 2002, and the date of this report, the School Department made additional operating transfers of more than \$292,000 from the General Purpose School Fund to provide additional funding to the Employee Insurance Fund for the 2002-03 year. Management plans to adjust the employee and county matching rates effective October 2002. However, in developing the new rates, the School Department used an estimated program cost that was lower than the estimate provided by the insurance claims administrator and did not take into account that the rates will not be in effect for the entire year. Therefore, the premium rates adopted by the School Department still appear to be below the required level of funding for the 2002-03 year.

RECOMMENDATION

Management should closely monitor the operations of the Employee Health Insurance Fund and make adjustments when necessary to ensure that adequate funding is provided for the program.

FINDING 02.06 **EXPENDITURES EXCEEDED APPROPRIATIONS IN THE
GENERAL PURPOSE SCHOOL FUND**
(Material Noncompliance Under Government Auditing Standards)

In addition to transfers exceeding appropriations by \$780,166, as discussed in Finding 02.05, expenditures also exceeded appropriations approved by the County Commission in the Capital Outlay major category in the General Purpose School Fund by

\$114,830. This was the result of recognizing an encumbrance for an uncompleted construction project of \$114,697 as of June 30, 2002. Management stated that those expenditures were budgeted in the 2002-03 budget.

RECOMMENDATION

Appropriations for construction projects should be budgeted in the year the contracts are approved.

OFFICE OF TRUSTEE

FINDING 02.07 **THE MISCELLANEOUS RECEIPTING SOFTWARE DID NOT HAVE ADEQUATE APPLICATION CONTROLS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The miscellaneous receipting software application provided the user the ability to change a computer-generated receipt number and thereby create a gap in receipt numbers. Section 9-2-103, Tennessee Code Annotated, requires receipts to be prenumbered consecutively. In lieu of prenumbered receipts, computer-generated receipts may be printed on plain paper if the receipt number generated by the computer cannot be manipulated.

RECOMMENDATION

Management should contact their software vendor about adding software controls to the application that would not allow the user to change receipt numbers. These controls would help to ensure the reliability of reports generated by that system.

OFFICE OF SHERIFF

FINDING 02.08 **THE OFFICE DID NOT COMPLY WITH GUIDELINES PERTAINING TO THE COUNTY DRUG ENFORCEMENT PROGRAM**
(Material Noncompliance Under Government Auditing Standards)

Section 39-17-420 (f), Tennessee Code Annotated, authorized the Office of the Comptroller of the Treasury, in consultation with other agencies, to develop procedures and guidelines pertaining to the undercover investigative operations of county drug enforcement programs. Those guidelines include a requirement that the sheriff maintain confidential informant files on each informant. The sheriff made payments of approximately \$20,000 to various informants during the period and documented those payments with standard informant receipt forms and the summary informant records. However, the sheriff did not maintain a confidential informant file on each individual, as required by the approved guidelines.

RECOMMENDATION

The sheriff should maintain confidential informant files, as required by guidelines established by the Office of the Comptroller of the Treasury.

FINDING 02.09 **THE OFFICE HAD INTERNAL CONTROL WEAKNESSES IN MAINTAINING EMPLOYEES' TIME RECORDS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Time sheets for individuals who worked nonroutine shifts did not always reflect the specific times worked. Instead, the time sheets reflected only the number of hours worked per day. Also, records of leave earned and taken, as well as leave balances, were not maintained adequately. Furthermore, leave balances for the Sheriff's Department as of June 30, 2002, had not been computed and therefore are not included in the accrued leave balance reflected in the General Long-Term Debt Account Group.

RECOMMENDATION

Employees' time records should document the specific times worked on a daily basis, and adequate records should be maintained of leave earned and taken and leave balances.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 02.10 **RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED ASSETS**
(Internal Control – Material Weakness Under Government Auditing Standards)

Claiborne County and the discretely presented Claiborne County School Department did not value and record their 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 Claiborne 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

Claiborne County and the discretely presented Claiborne County School Department should value and record their general fixed assets in accordance with generally accepted accounting principles.

FINDING 02.11 A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED
(Internal Control – Reportable Condition Under Government Auditing Standards)

Claiborne 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

Claiborne 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.

FINDING 02.12 DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF TRUSTEE, COUNTY CLERK, CIRCUIT AND GENERAL SESSIONS 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 and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff. The officials and employees responsible for maintaining accounting records were also involved in receipting, depositing, 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.