

## 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. Management 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

#### **THE OFFICE HAD PURCHASING DEFICIENCIES**

(A. and B. Internal Control – Reportable Condition Under Government Auditing Standards and C. Noncompliance Under Government Auditing Standards)

The following purchasing deficiencies were noted in the County Executive's Office:

- A. The office had not established a formal purchase order system. Purchase orders are necessary to control who has purchasing authority for the office and to document purchasing commitments.
- B. In several instances, invoices were paid without documentation that goods had been received and/or services had been rendered. This practice weakens controls over the purchasing process. We extended our audit procedures and determined that these goods were received and services were rendered.
- C. The office did not solicit competitive bids for the installation of a traffic signal at the elementary school (\$16,753). Sections 5-14-201 to 5-14-206, Tennessee Code Annotated, require all purchases over \$5,000 to be competitively bid.

### RECOMMENDATION

The office should establish a formal purchase order system to improve internal controls over the purchasing process and to document purchasing commitments. Documentation should be obtained indicating goods were received and/or services were rendered before invoices are paid. Publicly advertised, competitive bids should be solicited for all purchases exceeding \$5,000, as required by state statute.

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#### FINDING 02.02

#### **THE COUNTY HAD INADEQUATE CONTROLS OVER INVENTORY**

(Internal Control – Reportable Condition Under Government Auditing Standards)

County officials did not maintain adequate controls over inventory. Assets were not tagged or clearly marked as county property. Also, no procedures were in place to ensure that newly acquired assets were added to the inventory lists and that personnel independent of

maintaining inventory records verified the lists periodically. Generally accepted accounting principles require accountability for all county-owned assets.

**RECOMMENDATION**

To improve controls over inventory, county officials should tag all assets, ensure that inventory lists include property tag numbers, implement procedures for adding assets to inventory records, and ensure that personnel independent of the record-keeping process periodically verify inventory records.

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**OFFICE OF HIGHWAY SUPERINTENDENT**

**FINDING 02.03**      **A FORMAL PURCHASE ORDER SYSTEM HAD NOT BEEN ESTABLISHED**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Highway Department had not established a formal purchase order system. Purchase orders are necessary to control who has purchasing authority for the office and to document purchasing commitments.

**RECOMMENDATION**

The Highway Department should establish a formal purchase order system to improve internal controls over the purchasing process and to document purchasing commitments.

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**OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK**

**FINDING 02.04**      **EXECUTION DOCKET TRIAL BALANCES WERE NOT PREPARED FOR CIRCUIT AND GENERAL SESSIONS COURTS**  
(Noncompliance Under Government Auditing Standards)

As of June 30, 2002, trial balances of execution docket cause balances were not prepared in Circuit and General Sessions Courts, 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 courts 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 and reconcile trial balances of execution docket cause balances with cash journal accounts, as required by state statute. To further comply with state statutes, the clerk should report and pay to the state Treasurer's Office any unclaimed funds held for more than one year.

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FINDING 02.05      **FUNDS WERE NOT DEPOSITED WITHIN THREE DAYS OF COLLECTION**

(Noncompliance Under Government Auditing Standards)

The Office of Circuit and General Sessions Courts Clerk did not deposit funds to the office bank account within three days of collection. Section 5-8-207, Tennessee Code Annotated, requires county officials to deposit all funds within three days of collection.

RECOMMENDATION

The office should deposit funds within three days of collection, as required by state statute.

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OFFICE OF CLERK AND MASTER

FINDING 02.06      **AUDIT PROCEDURES WERE LIMITED DUE TO A MISSING RECEIPT BOOK**

(Internal Control – Material Weakness Under Government Auditing Standards)

The clerk and master was not able to furnish us with one receipt book for the year examined. The receipt book contained 150 receipts and covered the period July 9, 2001, through April 9, 2002. Without this receipt book, we could not determine that all receipts were entered into the general ledger. The clerk issued manual receipts to litigants when she received collections and then issued computer receipts for these same collections at a later date to enter the transactions into the general ledger. Because of this receipting procedure and the missing receipt book, which was the source document for the collection of funds, we could not determine if all collections were deposited to the office bank account. In addition, we could not determine if collections were deposited to the office bank account within three days, as required by Section 5-8-207, Tennessee Code Annotated, since we could not determine the actual date collections were received.

RECOMMENDATION

The clerk should maintain receipts for examination.

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**FINDING 02.07      BANK STATEMENTS WERE NOT RECONCILED**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Bank statements of the Clerk and Master’s Office were not reconciled with cash journal amounts for the period March 2002 through June 2002. As a result, several errors in posting interest and disbursements to the cash journal were not discovered and corrected. We reconciled the clerk’s bank accounts for the year examined. All errors discovered during our examination were corrected in the financial statements presented in this report.

**RECOMMENDATION**

Bank statements should be reconciled with the cash journal monthly, and any errors noted should be corrected promptly.

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**OFFICE OF SHERIFF**

**FINDING 02.08      BANK STATEMENTS WERE NOT RECONCILED WITH CASH JOURNAL ACCOUNTS**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Bank statements of the Sheriff’s Office were not reconciled with cash journal accounts. As a result, errors made in posting bank transactions to the office cash journal were not discovered and corrected. We reconciled the sheriff’s bank accounts for the year examined. All errors discovered during our examination were corrected in the financial statements presented in this report.

**RECOMMENDATION**

Bank statements should be reconciled with cash journal accounts on a monthly basis, and posting errors in the cash journals should be corrected promptly.

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**OTHER FINDINGS AND RECOMMENDATIONS**

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

Clay 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 Clay 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

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

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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)

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

County officials should consider adopting the County Financial Management System of 1981 or a private act which would provide for a central system of accounting, budgeting, and purchasing covering all county departments.

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FINDING 02.11      **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF COUNTY EXECUTIVE, HIGHWAY SUPERINTENDENT, DIRECTOR OF SCHOOLS, 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 County Executive, Highway Superintendent, Director of Schools, Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff. 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.