

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, director of schools, and sheriff are paraphrased in this report. Other officials offered oral responses to certain findings and recommendations; however, we did not include these oral responses in this report.

OFFICE OF COUNTY EXECUTIVE

FINDING 02.01 **DEFICIENCIES WERE NOTED IN THE POLICIES AND PROCEDURES USED TO ACCOUNT FOR THE SALE AND INVENTORY OF TOURISM MERCHANDISE**
(Internal Control – Reportable Condition Under Government Auditing Standards)

During the period under examination, the tourism director purchased various articles of promotional merchandise, including shirts, jackets, pins, mugs, and caps. Some items were sold through businesses and information centers within the county. Other items were donated for promotional purposes. The following deficiencies were noted in the policies and procedures used to account for the merchandise:

- A. The County Commission did not approve policies for the commissions and fees businesses charged for selling the merchandise. Also, no policies or guidelines were approved for the donation of merchandise for promotional purposes.
- B. Records to account for merchandise inventory were inadequate. A control record was not in place to account for purchases, sales, donations, and ending inventory balances. Physical inventory counts were performed; however, they were not reconciled with any inventory control record.
- C. The director did not issue official, prenumbered receipts to the businesses and information centers when they remitted funds. Therefore, we were unable to determine if collections were remitted to the county trustee within three days of receipt, as required by Section 5-8-207, Tennessee Code Annotated.

RECOMMENDATION

Policies and procedures relating to the sale and use of tourism merchandise should be developed and should be approved by the County Commission. Inventory control records should be maintained that account for the purchase, sale, donation, and ending inventory balances. Physical inventory counts should also be performed on a routine basis and reconciled with the inventory records. Official, prenumbered receipts should be issued when funds are received, and all funds collected should be remitted to the county trustee in compliance with state statute.

MANAGEMENT'S RESPONSE – ILIFF MCMAHAN, JR. – COUNTY EXECUTIVE AS OF SEPTEMBER 1, 2002

All remaining tourism articles have been returned to the tourism office and are being liquidated. All collections on sales are now being receipted and remitted to the county trustee on a timely basis. Also, donations of merchandise are now documented, and physical inventory counts are reconciled with the inventory record.

FINDING 02.02 THE OFFICE HAD DEFICIENCIES IN ITS CONTROLS OVER INVENTORY
(Internal Control – Reportable Condition Under Government Auditing Standards)

The following deficiencies were noted in controls over county-owned assets:

- A. The office did not have procedures in place to ensure that newly acquired assets were added to the inventory lists and that items disposed of were deleted from the inventory lists.
- B. Personnel who were independent of maintaining the inventory records did not periodically verify the records.

Generally accepted accounting principles require accountability for all county-owned assets.

RECOMMENDATION

To improve controls over inventory, the office should implement procedures to ensure that new assets are added to the inventory records, items disposed of are removed from the inventory records, and independent personnel verify the records.

MANAGEMENT'S RESPONSE – ILIFF MCMAHAN, JR. – COUNTY EXECUTIVE AS OF SEPTEMBER 1, 2002

Procedures will be developed for adding newly acquired assets to the inventory lists and deleting items that have been disposed of. Periodic verification of the inventory will be conducted by personnel who are not responsible for maintaining the inventory record.

OFFICE OF ROAD SUPERINTENDENT

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

Our audit revealed the following deficiencies in the office’s purchasing procedures:

- A. Purchase orders were not properly used. In numerous instances, purchase orders were issued after purchases were made and in other instances were not issued at all. Also, in several instances, purchase order information was not completed (i.e., account number, items to be purchased, and dollar value).
- B. In several instances, bids were not solicited when required. Instead, multiple purchase orders were issued in an attempt to circumvent bid requirements for purchases expected to exceed \$5,000. These instances included the purchase of tires, mower decks, jaws for the rock crusher, and radios. The Uniform Road Law requires that purchases exceeding \$5,000 be made after public advertisement and solicitation of competitive bids.
- C. Attendance sheets and bid tally sheets were not maintained for bid openings.
- D. Receiving reports and/or invoices were not always signed to indicate that goods had been received and services had been rendered.
- E. In several instances, the county incurred finance charges because office personnel did not process invoices for payment in a timely manner. Also, in other instances, the office paid sales tax.

RECOMMENDATION

Purchases orders should be completed before purchases are made and should include all necessary information. Bids should be solicited in all applicable instances, and attendance sheets and bid tally sheets should be maintained for all bid openings. Receiving reports and/or invoices should be signed indicating that goods and/or services have been received. Invoices should be processed in a timely manner to avoid the payment of finance charges. Furthermore, governmental entities should not pay sales tax.

FINDING 02.04 **CONTROLS OVER CONSUMABLE ASSETS WERE INADEQUATE
(Internal Control – Reportable Condition Under Government Auditing Standards)**

Our audit revealed the following weaknesses in controls over consumable assets:

- A. The Highway Department maintained its own fuel tanks for fueling department vehicles, and prenumbered fuel tickets were used for fuel disbursed from the tanks. However, the department did not reconcile these fuel tickets with the total amount of fuel actually used.
- B. Inventory records were not maintained documenting the receipt, usage, and storage of consumable assets, such as tires and repair parts. In addition, maintenance and repair records were not maintained for Highway Department vehicles and equipment.

RECOMMENDATION

The Highway Department should periodically reconcile fuel tickets with the quantity of fuel used. Inventory records should be maintained for consumable assets, such as tires and repair parts. Maintenance and repair records should be maintained for Highway Department vehicles and equipment.

RECREATION DEPARTMENT

FINDING 02.05 **AUDITED FINANCIAL STATEMENTS WERE NOT OBTAINED FOR THE RECREATION DEPARTMENT (OTHER SPECIAL REVENUE FUND)**
(Internal Control – Material Weakness Under Government Auditing Standards)

In March 2000, Cocke County adopted Chapter 95 of the Private Acts of 2000 that provided for the Cocke County Recreation Department to maintain a bank account for its activity funds outside the Office of Trustee. However, county officials did not arrange for an audit of the Recreation Department's bank account transactions for the period July 1, 2001, through June 30, 2002. Therefore, the financial statements of this report do not include transactions channeled through the outside bank account of the Recreation Department. It should also be noted that the Recreation Department was not audited for the period July 1, 2000, through June 30, 2001.

RECOMMENDATION

County officials should ensure that audited financial statements are obtained for the Recreation Department's accounts.

MANAGEMENT'S RESPONSE – ILIFF MCMAHAN, JR. – COUNTY EXECUTIVE AS OF SEPTEMBER 1, 2002

We will appropriate funds in the 2003-04 budget to audit transactions of the Recreation Department for the year ending June 30, 2003.

OFFICE OF TRUSTEE

FINDING 02.06 **AMOUNTS REFLECTED IN THE ACCOUNTING RECORDS WERE INACCURATE AND WERE NOT RECONCILED WITH VARIOUS STATEMENTS**
(Internal Control – Material Weakness Under Government Auditing Standards)

The accounting records did not accurately reflect transactions and balances of all investments and short-term bank accounts, and as of June 30, 2002, the investment and short-term account balances were materially misstated on the accounting records. We have made audit adjustments to properly reflect the investment and short-term account balances in the financial statements of this report. The misstatements and other deficiencies in the maintenance of the accounts are discussed below:

- A. The trustee did not record all investment purchases, redemptions, and investment income/loss for the period July 1, 2001, through June 30, 2002. As a result, investments on the accounting records were understated by \$101,384 as of February 28, 2002, and \$40,615 at June 30, 2002. Additionally, the trustee did not document purchases and redemptions of investments. Those documents had to be obtained from the broker.
- B. The trustee did not record interest earnings on certificates of deposit for the period December 1, 2001, through June 30, 2002. As a result, certificates of deposit were understated on the accounting records by \$41,799 as of February 28, 2002, and \$42,971 as of June 30, 2002.
- C. Reconciliations of general ledger balances with bank balances were not prepared for certificates of deposit and other short-term accounts. Also, supporting documentation for these accounts was not maintained in an organized manner. The trustee had to obtain additional copies of statements for some accounts from the financial institutions because the statements could not be found in the office.

RECOMMENDATION

All investments and account activity, including purchases, redemptions, and investment income/loss, should be posted to the accounting records. Reconciliations should be performed on a monthly basis for all accounts. All adjustments necessary for reconciliation should be identified, and adjustments should be made to the accounting records to correct the errors. All supporting documentation, including statements, trade slips, and maturity notifications, should be on file to support all transactions and account balances, and this documentation should be filed in an organized manner.

OFFICE OF SHERIFF

FINDING 02.07 **THE OFFICE DID NOT COMPLY WITH THE COUNTY COMMISSION RESOLUTION FOR COLLECTING INMATES' FEES**
(Noncompliance Under Government Auditing Standards)

On November 16, 1998, the Board of County Commissioners approved a resolution authorizing the Sheriff's Office to collect a co-pay amount from inmates for any medical care, treatment, or pharmacy services provided to them. Section 41-4-115(d), Tennessee Code Annotated, allows the county to collect a co-pay amount from inmates for medical services. However, as of the date of this report, the office did not collect the co-pay amounts.

RECOMMENDATION

The office should collect the co-pay amounts authorized by the County Commission and state statute.

MANAGEMENT'S RESPONSE – D.C. RAMSEY – SHERIFF

The Cocke County jail has a new commissary accounting computer that will debit the inmates' accounts for all medical treatment provided.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 02.08 **RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED ASSETS**
(Internal Control – Material Weakness Under Government Auditing Standards)

Cocke 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 Cocke 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

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

MANAGEMENT'S RESPONSE – ILIFF MCMAHAN, JR. – COUNTY EXECUTIVE AS OF SEPTEMBER 1, 2002

Cocke County is committed to implementing GASB 34. Capitalization and depreciation policies are being developed, and depreciation software is being obtained to comply with GASB 34 for the year ending June 30, 2003.

MANAGEMENT'S RESPONSE – LARRY BLAZER – DIRECTOR OF SCHOOLS

The Cocke County School Department will inventory, value, and record its general fixed assets in accordance with generally accepted accounting principles (GASB 34) by June 30, 2003.

FINDING 02.09 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF GENERAL SESSIONS COURT CLERK, CLERK AND MASTER, JUVENILE COURT CLERK, REGISTER, AND SHERIFF**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among officials and employees in the Offices of General Sessions Court Clerk, Clerk and Master, Juvenile Court Clerk, Register, and Sheriff. Officials and employees responsible for maintaining the accounting records in these offices 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.

MANAGEMENT'S RESPONSE – D.C. RAMSEY – SHERIFF

Because of funding and budget problems, both the Sheriff's Department and the jail are understaffed.