

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. Management did not offer written responses to the findings and recommendations. Officials did offer 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 PURCHASING PROCEDURES

(Internal Control – Reportable Condition Under Government Auditing Standards)

Our examination disclosed the following deficiencies in internal controls over purchasing:

- A. In several instances, the office issued purchase orders after purchases were made. This practice defeats the purpose of issuing purchase orders and makes purchase orders approvals for payment rather than authorizations to purchase. Purchase orders are necessary to control who has authority to make purchases and to document purchasing commitments.
- B. In several instances, invoices were paid without documentation that goods or services were received. Also, certain purchases were not supported by invoices from vendors. These practices weaken controls over the purchasing process. We extended our audit procedures and determined that these goods and services were received.
- C. Paid invoices were not filed in an organized manner to allow purchasing data to be easily located.

RECOMMENDATION

The office should issue purchase orders before purchases are made. Documentation should be maintained to support expenditures of county funds and the receipt of goods or services. Also, purchasing files should be maintained in a manner that would allow efficient location and retrieval of supporting documentation for disbursements, such as purchase orders, paid invoices, etc.

OFFICE OF HIGHWAY SUPERINTENDENT

**FINDING 02.02 A VEHICLE WAS NOT NUMBERED AND LABELED AS
PROPERTY OF THE HIGHWAY DEPARTMENT**
(Noncompliance Under Government Auditing Standards)

The county-owned pickup truck assigned to the highway superintendent was not numbered and labeled as property of the Highway Department. The County Uniform Road Law, Section 54-7-112, Tennessee Code Annotated, requires that “all machinery, equipment and tools shall be plainly marked as property of the ... department and each item shall be numbered ...”

RECOMMENDATION

The county-owned pickup truck assigned to the highway superintendent should be plainly numbered and labeled as property of the Highway Department, as required by state statute.

**FINDING 02.03 CONTROLS OVER CONSUMABLE ASSETS WERE
INADEQUATE**
(Internal Control – Reportable Condition Under Government Auditing
Standards)

The office did not maintain adequate controls over consumable assets. Our audit disclosed the following weaknesses:

- A. Fuel consumption records were not maintained for fuel dispensed from Highway Department fuel pumps.
- B. Records were not maintained documenting the number and use of consumable assets on hand, such as tires, repair parts, and tile.

The failure to maintain adequate records for consumable assets results in a loss of control over the assets and increases the risk of inventory loss.

RECOMMENDATION

The office should maintain records of the number and use of all consumable assets.

**FINDING 02.04 DEFICIENCIES WERE NOTED IN PURCHASING
PROCEDURES**
(Internal Control – Reportable Condition Under Government Auditing
Standards)

Our examination disclosed the following deficiencies in internal controls over purchasing:

- A. In several instances, the office issued purchase orders after purchases were made. This practice defeats the purpose of issuing purchase orders and makes the purchase orders approvals for payment rather than authorizations to purchase. Also, some purchase orders did not identify items or services being purchased. Purchase orders are necessary to control who has authority to make purchases and to document purchasing commitments.
- B. In several instances, invoices were paid without documentation that goods or services were received. This practice weakens controls over the purchasing process. We extended our audit procedures and determined that these goods and services were received.

RECOMMENDATION

The office should issue purchase orders before purchases are made, and purchase orders should identify the item or service to be purchased. Furthermore, the receipt of goods or services should be documented before invoices are paid.

**FINDING 02.05 A COUNTY ROAD LIST WAS NOT SUBMITTED TO THE COUNTY COMMISSION FOR APPROVAL
(Noncompliance Under Government Auditing Standards)**

The highway superintendent did not submit a list of county roads to the County Commission for approval, as required by Section 54-10-103, Tennessee Code Annotated. This statute requires that a list of county roads be submitted to the County Commission for approval in January of each year and that the list be maintained in the County Clerk's Office.

RECOMMENDATION

The highway superintendent should submit a list of county roads to the County Commission for approval in January of each year, as required by state statute.

OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK

**FINDING 02.06 EXCESS FEES AND COMMISSIONS WERE NOT REPORTED AND PAID TO THE COUNTY IN COMPLIANCE WITH STATE STATUTE
(Noncompliance Under Government Auditing Standards)**

Excess fees and commissions were not reported and paid to the county in compliance with Section 8-22-104, Tennessee Code Annotated. This statute requires that excess fees be reported and paid to the county quarterly and that the clerk retain sufficient fees to operate

the office for three months. During the year examined, excess fees and commissions of \$100,000 were reported and paid to the county. However, excess fees and commissions retained by the clerk exceeded statutory limits at the end of each reporting period.

RECOMMENDATION

Excess fees and commissions should be reported and paid to the county in compliance with state statute.

OFFICE OF REGISTER

FINDING 02.07 **EXCESS FEES AND COMMISSIONS WERE NOT REPORTED AND PAID TO THE COUNTY IN COMPLIANCE WITH STATE STATUTE**
(Noncompliance Under Government Auditing Standards)

Excess fees and commissions were not reported and paid to the county in compliance with Section 8-22-104, Tennessee Code Annotated. This statute requires that excess fees be reported and paid to the county quarterly and that the register retain sufficient funds to operate the office for three months. During the year examined, excess fees and commissions of \$33,000 were reported and paid to the county. However, excess fees and commissions retained by the register exceeded statutory limits at the end of each reporting period.

RECOMMENDATION

Excess fees and commissions should be reported and paid to the county in compliance with state statute.

OFFICE OF SHERIFF

FINDING 02.08 **DEFICIENCIES WERE NOTED IN COMMISSARY OPERATIONS**
(A. and D. Noncompliance Under Government Auditing Standards; B., C., and E., Internal Control – Reportable Condition Under Government Auditing Standards)

We noted the following deficiencies during our examination of commissary operations of the Sheriff's Office:

- A. The office has collected sales tax for items sold to inmates since commissary operations began in July 2000, but has not reported and paid these amounts to the state Department of Revenue. Section 67-6-504, Tennessee Code

Annotated, requires taxes collected to be remitted to the state on or before the 20th of the next month after collection.

- B. Commissary transactions were not reflected on the cash journal. The cash journal is the office's cash control record and should reflect all the office's financial activities.
- C. The commissary bank account was not reconciled for nine months of the year examined, and a list of outstanding checks was not prepared.
- D. Commissary personnel did not deposit funds to the commissary 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.
- E. Documentation was not on file for many commissary transactions. These transactions were verified by examining copies of receipts, copies of cancelled checks, and copies of bank statements that were obtained after the inception of the audit.

RECOMMENDATION

The office should report and remit sales tax collections monthly to the state Department of Revenue, as required by state statute. Commissary transactions should be reflected on the cash journal. The commissary bank account should be reconciled monthly, and an outstanding check list should be prepared. The office should deposit all funds within three days of collection, as required by state statute. In addition, all commissary receipts, bank statements, and cancelled checks should be on file.

OTHER FINDINGS AND RECOMMENDATIONS

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

DeKalb 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 DeKalb 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

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

FINDING 02.10 **A SYSTEM OF CENTRAL ACCOUNTING AND BUDGETING HAD NOT BEEN ADOPTED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

DeKalb County officials had not adopted a central system of accounting and budgeting. Establishing a central system would significantly improve internal controls over the accounting and budgeting processes.

RECOMMENDATION

DeKalb 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 and budgeting covering all county departments.

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 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.