

## **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 written responses of the county executive and clerk and master 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 COUNTY EXECUTIVE**

#### **FINDING 02.01      **THE SELF-INSURANCE FUND HAD A RETAINED EARNINGS DEFICIT****

(Material Noncompliance Under Government Auditing Standards)

At June 30, 2002, the Self-Insurance Fund had a retained earnings deficit of \$61,622. This fund deficit resulted from the county's incurring medical claim expenditures that exceeded self-insurance premiums.

#### **RECOMMENDATION**

County officials should establish self-insurance premiums sufficient to liquidate the fund deficit.

#### **MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE**

The budget committee will review this situation.

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#### **FINDING 02.02      **A REPORT ON DEBT OBLIGATIONS WAS NOT FILED WITH THE STATE DIRECTOR OF LOCAL FINANCE****

(Noncompliance Under Government Auditing Standards)

The county did not file a report on debt obligations with the state director of Local Finance for a lease-purchase agreement of \$64,500 for three sheriff's patrol cars and a \$215,000 Capital Outlay Note for the purchase of a building for the County Clerk's Office. Section 9-21-151, Tennessee Code Annotated, requires that within 45 days following the issuance of debt, a county must provide to the state director of Local Finance certain information, such as a description of the purchase for which the debt was issued, a description of the debt obligation, and an itemized description of the cost of the issuance. When we brought this matter to the attention of county officials in December 2002, they took immediate steps to file the debt obligation report.

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE

We concur. In the future, we will comply with this statute.

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**OFFICE OF ROAD SUPERVISOR**

**FINDING 02.03**      **THE OFFICE HAD DEFICIENCIES IN COMPUTER SYSTEM BACK-UP PROCEDURES**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Systems backups were not stored off site. In the event of a disaster, all back-up data could be destroyed, resulting in costly delays in generating and recording manual information accounted for through the automated process.

**RECOMMENDATION**

Backups should be rotated off site on a weekly basis. Year-end backups should be stored off site and retained indefinitely. Some possibilities for an off-site storage location would be another county office building with a fireproof vault or a safe deposit box at a local bank.

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**OFFICE OF DIRECTOR OF SCHOOLS**

**FINDING 02.04**      **THE HIGH SCHOOL CAFETERIA HAD A CASH SHORTAGE OF \$3,504.46**  
(A., B. Noncompliance Under Government Auditing Standards and OMB Circular A-133; and C. Internal Control – Reportable Condition Under Government Auditing Standards and OMB Circular A-133)

Cafeteria funds at the schools in Dyer County are audited by a public accounting firm under a contract approved by the Tennessee Comptroller of the Treasury. The director of schools requested that a public accounting firm perform a special review of operations at the Dyer County High School Cafeteria because of irregularities that he became aware of at the cafeteria. The high school cafeteria maintained an outside bank account that was used to deposit all cafeteria collections until they were remitted to the School Department's Central Office and placed into the Cafeteria Fund. The following irregularities were noted:

- A. The Cafeteria Fund had a cash shortage of \$3,504.46 on June 30, 2002. Cafeteria collections totaling \$3,504.46 that were collected from May 29, 2002, to June 5, 2002, were not deposited to the cafeteria bank account or

accounted for in any manner. Dr. Dwight Hedge, director of schools, informed us that on July 12, 2002, he confronted the high school cafeteria manager, Mary Butler, about the missing funds and that she confessed to taking the daily cash receipts. The public accounting firm's review of the cafeteria's records determined that Ms. Butler had been taking funds throughout the school year and had been covering deposits for one period with collections from a later period. She was unable to cover deposits for a previous period with collections from a later period when school closed.

This cash shortage also resulted in a cash overdraft in the high school cafeteria bank account for the period June 17, 2002, through June 24, 2002. To eliminate the cash overdraft in the school cafeteria bank account, Dr. Hedge instructed the bookkeeper at the Central Office to write a warrant for \$3,504.46 from the Cafeteria Fund and deposit these funds into the high school cafeteria bank account. The Central Office bookkeeper then set up an accounts receivable of \$3,504.46 in the Cafeteria Fund for the amount due from the high school cafeteria. This amount has been reflected in the financial statements of this report.

On July 15, 2002, Ms. Butler turned over checks totaling \$284.40 that she had taken from cafeteria collections to the director of schools. These checks were deposited to the high school cafeteria bank account, reducing the shortage to \$3,220.06. Dr. Hedge terminated Ms. Butler on July 15, 2002. On August 1, 2002, Ms. Butler paid personal funds of \$135 to the Cafeteria Fund, reducing the shortage to \$3,085.06. As of the date of this report, Ms. Butler had not liquidated the remaining cash shortage of \$3,085.06.

- B. Funds were not deposited to the high school cafeteria bank account within three days of collection, as required by Section 5-8-207, Tennessee Code Annotated.
- C. Duties were not segregated adequately between Ms. Butler and other employees in the high school cafeteria. Ms. Butler received all high school cafeteria collections from the head cashier, deposited collections to the high school cafeteria bank account, and reconciled reports of the collections with amounts deposited to the high school cafeteria bank account and amounts remitted to the Central Office.

These irregularities have been reviewed with the District Attorney General's Office. Also, the director of schools has notified the School Department's insurance carrier about the cash shortage and is seeking reimbursement for the shortage from the employee's blanket bond.

### RECOMMENDATION

School officials should continue their efforts to collect the remaining cash shortage of \$3,085.06. Funds should be deposited in compliance with provisions of the three-day deposit law, and school officials should take steps to segregate accounting duties at the individual cafeterias.

## **OFFICE OF REGISTER**

**FINDING 02.05**      **THE REGISTER ALLOWED INDIVIDUALS UNSUPERVISED ACCESS TO THE OFFICE AFTER BUSINESS HOURS**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our examination disclosed that the register did not adequately control access to the office. Individuals who were not office employees, such as title searchers and attorneys, had unsupervised access to the Register's Office after business hours. Allowing persons who are not employees to have unsupervised access to the office after business hours seriously weakens internal controls over assets.

### **RECOMMENDATION**

Individuals who are not office employees should not be allowed unsupervised access to the Register's Office after business hours.

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## **OFFICE OF SHERIFF**

**FINDING 02.06**      **THE OFFICE HAD ACCOUNTING AND INTERNAL CONTROL DEFICIENCIES**  
(A. Noncompliance Under Government Auditing Standards and B. Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit disclosed the following accounting and internal control deficiencies in the Sheriff's Office:

- A. Funds were not always deposited to the office bank account within three days of collection, as required by Section 5-8-207, Tennessee Code Annotated. This statute requires county officials to deposit all public funds to the office bank account within three days of collection.
- B. The office cash journal was not maintained in accordance with generally accepted accounting principles. Transactions pertaining to the commissary operations were not posted to the cash journal.

### **RECOMMENDATION**

The sheriff should ensure that all funds are deposited to the office bank account within three days of collection, as required by state statute. Also, all transactions of the office should be posted to the cash journal.

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## OTHER FINDINGS AND RECOMMENDATIONS

**FINDING 02.07      RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED ASSETS**  
(Internal Control – Material Weakness Under Government Auditing Standards)

Dyer 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 for Dyer 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

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

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**FINDING 02.08      A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Dyer 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

Dyer 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.

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**FINDING 02.09      DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK, 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 Circuit and General Sessions Courts Clerk, Clerk and Master, and Sheriff. Employees responsible for maintaining the accounting records in each of these offices were also

involved in receipting, preparing bank deposits, depositing funds, and/or reconciling monthly bank statements. 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 – CLERK AND MASTER

I am aware of the importance of segregating the various duties of my office in order to strengthen internal controls. Since being appointed clerk and master, I have made some significant improvements in these areas; however, I realize that there are still some areas of operation that need to be improved in the future, and I plan to correct these weaknesses.