

## 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 FINANCE DIRECTOR**

**FINDING 02.01**      **THE OFFICE HAD DEFICIENCIES IN ITS PURCHASING PROCEDURES**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

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

- A. Purchase orders were not issued for all applicable purchases. Also, in some instances where purchase orders were issued, the purchase orders were issued after the purchases were made. Purchase orders are a necessary internal control procedure to control who has authority to make purchases and to document purchasing commitments. The practice of issuing a purchase order after the purchase has been made defeats the purpose of the purchase order and makes the purchase order an approval of payment rather than an approval to make the purchase.
- 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.

### **RECOMMENDATION**

Purchase orders should be issued for all applicable purchases and should be issued prior to the actual purchase to strengthen internal controls over the purchasing process and to document purchasing commitments. Also, documentation should be obtained indicating that goods have been received and/or services have been rendered before invoices are paid.

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**FINDING 02.02**      **EXPENDITURES AND ENCUMBRANCES OF THE GENERAL PURPOSE SCHOOL FUND EXCEEDED APPROPRIATIONS**  
(Noncompliance Under Government Auditing Standards)

Expenditures and encumbrances exceeded appropriations approved by the County Commission in ten of 25 major appropriation categories in the General Purpose School Fund in amounts ranging from \$224 to \$99,072. Section 5-9-401, Tennessee Code Annotated, states that “all funds ... including, but not limited to ... taxes, county aid funds, federal funds, and fines, which are to be used in the operation and respective programs of

the various departments, commissions, institutions, boards, offices, and agencies of county governments shall be appropriated to such use by the county legislative bodies.”

**RECOMMENDATION**

Expenditures and encumbrances should be held within appropriations approved by the County Commission.

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**OFFICE OF DIRECTOR OF SCHOOLS**

**FINDING 02.03**      **ASSETS WERE NOT LABELED AS PROPERTY OF THE SCHOOL DEPARTMENT**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Assets were not labeled as property of the School Department. Generally accepted accounting principles require accountability for all department-owned assets, such as equipment, furniture, and vehicles. If assets are not identified as department property, the department’s inventory controls are weakened.

**RECOMMENDATION**

All assets should be labeled as property of the School Department, as required by generally accepted accounting principles.

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

**FINDING 02.04**      **FUNDS WERE NOT DEPOSITED WITHIN THREE DAYS OF COLLECTION IN THE OFFICE OF JUVENILE COURT CLERK**  
(Noncompliance Under Government Auditing Standards)

Some funds were not deposited to the office bank account within three days of collection. Section 5-8-207, Tennessee Code Annotated, requires county officials to deposit all public funds to the office bank account 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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**FINDING 02.05 THE COURT SOFTWARE DID NOT HAVE ADEQUATE APPLICATION CONTROLS**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The court software application did not provide a record of changes to previously issued receipts. Users had the capability to change information on receipts, leaving no evidence of the original receipt. This lack of application controls could allow inappropriate system activity.

The miscellaneous receipting software application provided the user the ability to change the computer-generated receipt number and thereby create a gap in receipt numbers. Section 9-2-103, Tennessee Code Annotated, provides for 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 software cannot be manipulated.

**RECOMMENDATION**

Management should contact their software vendor concerning the removal of the capability to change receipts. Removing this capability would help to ensure the reliability and integrity of information maintained by the system.

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

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**OFFICE OF CLERK AND MASTER**

**FINDING 02.06 THE COURT SOFTWARE DID NOT HAVE ADEQUATE APPLICATION CONTROLS**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The court software application did not provide a record of changes to previously issued receipts. Users had the capability to change information on receipts, leaving no evidence of the original receipt. This lack of application controls could allow inappropriate system activity.

The miscellaneous receipting software application provided the user the ability to change the computer-generated receipt number and thereby create a gap in receipt numbers. Section 9-2-103, Tennessee Code Annotated, provides for 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 software cannot be manipulated.

## RECOMMENDATION

Management should contact their software vendor concerning the removal of the capability to change receipts. Removing this capability would help to ensure the reliability and integrity of information maintained by the system.

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

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## **OFFICE OF SHERIFF**

### **FINDING 02.07      FUNDS WERE NOT DEPOSITED WITHIN THREE DAYS OF COLLECTION** (Noncompliance Under Government Auditing Standards)

Some funds were not deposited to the office bank account within three days of collection. Section 5-8-207, Tennessee Code Annotated, requires county officials to deposit all public funds to the office bank account 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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## **OTHER FINDINGS AND RECOMMENDATIONS**

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

Franklin 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 Franklin 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

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

FINDING 02.09

**DUTIES WERE NOT ADEQUATELY SEGREGATED IN THE OFFICES OF FINANCE DIRECTOR; TRUSTEE; COUNTY CLERK; CIRCUIT, GENERAL SESSIONS, AND JUVENILE 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 Finance Director; Trustee; County Clerk; Circuit, General Sessions, and Juvenile 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.