

## **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 clerk and master 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      THE SOLID WASTE DISPOSAL FUND HAD A RETAINED EARNINGS DEFICIT  
(Material Noncompliance Under Government Auditing Standards)**

The Solid Waste Disposal Fund had a retained earnings deficit of \$895,476 at June 30, 2002. This retained earnings deficit resulted from the recognition of a liability (\$1,403,311) in the financial statements of the Solid Waste Disposal Fund for costs associated with closing the county's landfill and monitoring the landfill for 30 years after its closure. Generally accepted accounting principles and state statutes require that such costs be reflected in the financial statements.

### **RECOMMENDATION**

Haywood County officials should develop and implement a plan that would fund the retained earnings deficit of \$895,476 over time.

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### **OFFICE OF CHIEF ADMINISTRATIVE HIGHWAY OFFICER**

**FINDING 02.02      THE HIGHWAY DEPARTMENT DID NOT MAINTAIN A SYSTEM TO ACCOUNT FOR THE USE OF ROAD MATERIALS  
(Internal Control – Reportable Condition Under Government Auditing Standards)**

The Highway Department had a system to determine the use of road materials, such as bridge lumber and rock, for state-aid road projects. However, the department did not have a system to account for materials used on other types of road projects. The failure to maintain a system to document the use of road materials results in a loss of control over the assets and increases the risk of inventory loss.

### **RECOMMENDATION**

The Highway Department should develop and implement a system to account for materials used on all types of road projects.

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**OFFICE OF DIRECTOR OF SCHOOLS**

**FINDING 02.03      **THE SCHOOL FEDERAL PROJECTS FUND HAD A CASH OVERDRAFT****  
(Material Noncompliance Under Government Auditing Standards)

The School Federal Projects Fund had a cash overdraft of \$63,314 at June 30, 2002. This cash overdraft resulted from the office's issuing warrants that exceeded funds on deposit with the county trustee. This cash overdraft was liquidated subsequent to June 30 when federal funds were received.

**RECOMMENDATION**

The office should not issue warrants that exceed cash on deposit with the county trustee.

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**OFFICE OF TRUSTEE**

**FINDING 02.04      **THE TRUSTEE PAID WARRANTS THAT EXCEEDED AVAILABLE FUNDS****  
(Noncompliance Under Government Auditing Standards)

The trustee paid warrants for the School Federal Projects Fund that exceeded available cash for this fund. Section 8-11-104 (5), Tennessee Code Annotated, prohibits the trustee from paying a warrant if sufficient funds are not available in that fund to pay the warrant.

**RECOMMENDATION**

The trustee should not pay warrants that exceed available funds, as required by state statute.

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**OFFICE OF SHERIFF**

**FINDING 02.05      **A SECOND OFFICER DID NOT SIGN FORMS DOCUMENTING PAYMENTS TO CONFIDENTIAL INFORMANTS****  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Forms documenting payments to confidential informants require the signatures of two officers. The first officer signs that he made the payment and the second officer signs that he witnessed the payment. Forms maintained in the sheriff's office for payments to confidential informants did not reflect the signature of a second officer witnessing the payment. All signatures on this form are necessary to document payments to confidential informants.

## RECOMMENDATION

All forms required to document drug control transactions should be completed properly and should be reviewed for accuracy by supervisory personnel.

## MANAGEMENT'S RESPONSE – SHERIFF

I agree. However, our department is small, and we do not have the personnel to witness all transactions.

## REBUTTAL

To maintain adequate control over cash payments to confidential informants, the office should ensure that someone other than the person paying the informant witness the transaction.

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## OTHER FINDINGS AND RECOMMENDATIONS

**FINDING 02.06      RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED ASSETS**  
(Internal Control – Material Weakness Under Government Auditing Standards)

Haywood 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 Haywood 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

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

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**FINDING 02.07      A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Haywood 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

Haywood 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 02.08      **HAYWOOD COUNTY DID NOT REPORT TO THE INTERNAL REVENUE SERVICE FRINGE BENEFITS PROVIDED TO THE COUNTY FARM SUPERVISOR**  
(Noncompliance Under Government Auditing Standards)

Haywood County did not report to the Internal Revenue Service (IRS) fringe benefits provided to the county farm supervisor. These fringe benefits were a utilities allowance (\$5,294), telephone allowance (\$1,025), and the value of housing provided to the county farm supervisor. IRS regulations require an employer to report fringe benefits provided to an employee on the employee's Form W-2.

RECOMMENDATION

Fringe benefits provided to the farm supervisor should be reported to the IRS on the employee's Form W-2.

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FINDING 02.09      **COUNTY OFFICIALS HAD NOT HELD A DELINQUENT PROPERTY TAX SALE IN RECENT YEARS**  
(Noncompliance Under Government Auditing Standards)

County officials had not held a delinquent property tax sale in recent years. Section 67-5-1806, Tennessee Code Annotated, provides that all delinquent property taxes become discharged and uncollectible after ten years from the date when the delinquency originated. Table 1 of the Statistical Section of this report reflects uncollected delinquent property taxes of \$306,675 filed in Chancery Court.

RECOMMENDATION

County officials should hold a delinquent property tax sale in an effort to collect delinquent taxes, as required by state statute.

MANAGEMENT'S RESPONSE – CLERK AND MASTER

I agree. However, it is the responsibility of the delinquent tax attorney to have a delinquent tax sale.

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FINDING 02.10

**DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF CHIEF ADMINISTRATIVE HIGHWAY OFFICER, DIRECTOR OF SCHOOLS, AND REGISTER**

(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among officials and employees in the Offices of the Chief Administrative Highway Officer, Director of Schools, and Register. Officials and employees responsible for maintaining the accounting records in these offices were also involved in reconciling cash balances with the county trustee; preparing vendor and payroll warrants; posting accounting and payroll records; preparing payroll reports; mailing vendor warrants; and 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.