

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 and sheriff 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 GENERAL AND SOLID WASTE/SANITATION FUNDS HAD CASH SHORTAGES**

(Material Noncompliance Under Government Auditing Standards)

The General Fund and the Solid Waste/Sanitation Fund had cash shortages of \$1,079.50 and \$7,157.62, respectively, at June 30, 2002. Subsequent to June 30, 2002, the General Fund incurred an additional cash shortage of \$2,053.24, bringing the total cash shortage in the General Fund to \$3,132.74 and the total cash shortage in both funds to \$10,290.36. On August 7, 2002, \$2,210.00 was deposited with the county by the county executive (\$1,500) and Chris Pulley (\$710), reducing the cash shortage to \$8,080.36 as of the date of this report. Circumstances concerning the payment of \$2,210.00 are discussed in finding 02.03. These cash shortages resulted from the payment of fraudulent travel claims (\$1,379.50), payments to individuals for work not performed (\$4,710.00), improper payments made to employees (\$2,147.62), payroll overpayments (\$1,350.00), and payments to employees that exceeded amounts authorized by the personnel policy (\$703.24). Our examination was originally scheduled to cover transactions for the year ended June 30, 2002. However, because of the cash shortages, internal control weaknesses, and other irregularities, we extended our examination of funds maintained in the County Executive's Office to include transactions through August 31, 2002.

Because of the lack of internal controls and documentation, we are unable to determine the full extent of the cash shortage, and we are unable to determine the propriety of some transactions. Therefore, we are unable to express, and we do not express, an opinion on the financial statements of the General Fund and the Solid Waste/Sanitation Fund for the year ended June 30, 2002. The cash shortages, internal control weaknesses, lack of documentation, and other irregularities noted by our examination are discussed further in the findings of this report.

The Office of District Attorney General and the Tennessee Bureau of Investigation have been notified of the cash shortage, and an investigation is in progress.

RECOMMENDATION

County officials should take steps to collect the remaining cash shortage of \$8,080.36 and institute controls to prevent its recurrence.

FINDING 02.02

TRAVEL CLAIMS WERE FALSIFIED

(Material Noncompliance Under Government Auditing Standards)

The portion of the cash shortage attributable to fraudulent travel claims amounted to \$1,379.50. A detailed list of the fraudulent travel claims is presented below:

Payment Date	Fund	Paid To	Amount
11/20/01	General	Ann Morrison	\$ 73.60
12/13/01	General	Jim Smith	507.90
12/13/01	General	Lori Schmidt	198.00
03/15/02	General	Theresa Pulley	300.00
03/15/02	Solid Waste/Sanitation	Theresa Pulley	200.00
03/15/02	Solid Waste/Sanitation	Joy Lowe	100.00
Total Fraudulent Travel Payments			<u>\$ 1,379.50</u>

- A. Ann Morrison claimed travel expenses of \$73.60 for two days of travel and was paid that amount from the General Fund. However, time and attendance records reflected that she did not work on those two days. Therefore, the payment of \$73.60 to Ms. Morrison has been included as part of the cash shortage.
- B. County Executive Jim Smith claimed travel expenses of \$507.90 and was paid that amount from the General Fund for attending four training classes sponsored by the University of Tennessee Center for Government Training and one class offered by the Tennessee Emergency Management Agency. We contacted officials with these two agencies, and they stated that they did not offer the training classes shown on Mr. Smith's travel claim and that their records did not indicate that Mr. Smith attended any of their classes on the dates shown on his travel claim. Therefore, the payment of \$507.90 to Mr. Smith has been included as part of the cash shortage.
- C. Lori Schmidt claimed travel expenses of \$198.00 for three days of travel to attend training classes offered by the Local Government Data Processing Corporation (LGDPC). Ms. Schmidt was paid this amount from the General Fund on December 13, 2001. We contacted LGDPC officials, who stated that they did not offer the training classes on the dates shown on Ms. Schmidt's travel claim and that their records did not indicate anyone from the County Executive's Office had attended a training class since January 2001. Therefore, the payment of \$198.00 to Ms. Schmidt has been included as part of the cash shortage.
- D. On March 15, 2002, Theresa Pulley was paid \$300.00 from the General Fund and \$200.00 from the Solid Waste/Sanitation Fund for reimbursement of travel cost. Travel claims submitted by Ms. Pulley showed trips to Gatlinburg, Murfreesboro, and Cookeville, Tennessee. In examining the documentation for the trip to Gatlinburg, we noted that the parking and meal receipts were actually from Nashville. When we questioned Ms. Pulley about this discrepancy, she stated that she had not made any of these trips and that County Executive Jim Smith had given

her these receipts and told her to file the travel claims as a way of compensating her for attending County Commission meetings and for performing extra office work. Since these payments totaling \$500.00 were not for travel, they have been included as part of the cash shortage.

- E. Joy Lowe claimed travel expenses of \$100.00 and was paid that amount from the Solid Waste/Sanitation Fund on March 15, 2002. When we questioned Ms. Lowe about the travel claim, she stated that she had not made the trips shown on the claim and that the county executive had provided her with the documentation to file with the claim. Therefore, the payment of \$100.00 to Ms. Lowe has been included as part of the cash shortage.

RECOMMENDATION

County officials should establish internal controls to prevent fraudulent travel payments.

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE

If the Comptroller's Office feels that I received travel reimbursements that I was not entitled to, I will return the funds to the county.

FINDING 02.03 **THE OFFICE MADE PAYMENTS FOR WORK THAT WAS NOT PERFORMED** (Material Noncompliance Under Government Auditing Standards)

Our examination disclosed two instances in which the county executive disbursed funds for work not performed. These two instances are discussed below:

- A. On February 13, 2002, a disbursement of \$2,500 was made from the Solid Waste/Sanitation Fund to a local business for hauling dirt at the landfill. However, the owner of the business, Carrol Lyle, informed us that he did not do this work and had not received the money. The owner's son, Freddy Lyle, stated that he endorsed and cashed the warrant and that he had never hauled dirt at the landfill. Freddy Lyle had previously contracted with the county for operation of the Ambulance Service. When the county took over operation of the Ambulance Service, Freddy Lyle stated that he was due \$2,500 as reimbursement for supplies. In June 2000, Freddy Lyle sued the county for payment of his ambulance supplies. The court awarded him a nominal amount, and the county paid him that amount. Therefore, the county did not owe Freddy Lyle additional funds as payment for the ambulance supplies. Because reflecting a payment for ambulance supplies as a payment for hauling dirt is a falsification of office records and because this payment was not authorized by the County Commission, \$2,500.00 has been included as part of the cash shortage.

- B. On June 25, 2002, the county paid Chris Pulley \$2,210 from the Solid Waste/Sanitation Fund for welding repairs at the convenience center. Mr. Pulley is the husband of the county executive's bookkeeper, Theresa Pulley. Mr. Pulley informed us that he cashed the check, kept \$710, and returned cash of \$1,500 to the county executive. Mr. Pulley stated that he had spent about four hours welding at the convenience center in July 2002 and that he was to receive payments from the \$1,500 cash as work was performed. The plan to make disbursements in cash is a violation of Section 5-8-207, Tennessee Code Annotated, which requires all disbursements to be made by warrant. When the County Commission became aware of the payment, they asked the Office of the District Attorney General to investigate this matter. At this point, Mr. Pulley reimbursed the county \$710.00, and the county executive deposited \$1,500 to the county's General Fund on August 6, 2002. The total of \$2,210 is presented as part of the cash shortage in the Solid Waste/Sanitation Fund at June 30, 2002.

RECOMMENDATION

Disbursements should never be made before work is performed, and county funds should always be disbursed by official warrant, as required by state statute.

FINDING 02.04 **IMPROPER PAYMENTS TO EMPLOYEES RESULTED IN A CASH SHORTAGE**
(Material Noncompliance Under Government Auditing Standards)

As of April 30, 2002, funds appropriated for the salaries of two employees, Clarence Marable and Chuck Doyle, in the Litter Grant Program were depleted. In May 2002, the county executive began compensating these two employees with vendor warrants drawn on the General Fund and the Solid Waste/Sanitation Fund. Mr. Marable was paid a total of \$824.40 for the months of May and June, and he was compensated at the same hourly rate that he received while he was compensated from the Litter Grant Program and performed the same duties. Payments to Mr. Marable in May and June were paid from the General Fund and posted to the account Park and Fair Board – Other Charges. Effective July 1, 2002, the county again began compensating Mr. Marable through the county payroll system.

Mr. Doyle was paid a total of \$4,800 by vendor warrants for the months of May and June 2002. Our examination noted the following irregularities in payments to Mr. Doyle:

- A. On May 1, 2002, Mr. Doyle was paid \$2,000 for mowing at the county's ballpark. This amount was paid from the General Fund and posted to the account General Administration Projects - Other Construction. Mr. Doyle stated that he signed a contract that the county executive created for this work, but neither the county executive nor Mr. Doyle could produce the contract. The only documentation supporting this payment was the vendor warrant paid to Mr. Doyle, who said that the county executive paid him in advance, he cashed the warrant, and kept all of

the money. Mr. Doyle stated that he had already done some of the mowing before he was paid the \$2,000, indicating he did some of this work in April while he was paid with Litter Grant Program funds.

- B. On May 7, 2002, Mr. Doyle was paid \$1,200 for mowing at the landfill. This amount was paid from the Solid Waste/Sanitation Fund and posted to the account Other Charges – General Construction Materials. Mr. Doyle stated that the county executive developed a contract for this work that stated he would be paid \$1,200 from May 6, 2002, to August 1, 2002, for mowing at the landfill. Mr. Doyle stated that he signed the contract and the county executive paid him in advance. As of July 1, 2002, Mr. Doyle was placed back on the county Litter Grant Program payroll.

Since the payments on the contract were for work performed through August 2002, the fact that Mr. Doyle was placed on the county payroll on July 1 would indicate that he was paid twice for mowing the landfill in July. When we questioned Mr. Doyle about being paid twice for the same work, he told us that he did the mowing on his days off, and the county executive stated he thought Mr. Doyle mowed on his days off and after work. There was no documentation supporting actual dates when the landfill was mowed.

- C. On May 30, 2002, Mr. Doyle was paid \$400 for painting at the ballpark. This amount was paid from the General Fund and posted to the account Parks and Fair Boards - Maintenance and Repair Services. Mr. Doyle stated that he and jail inmates painted over graffiti while being paid from the Litter Grant Program. He further stated that the graffiti had bled through the paint and the county executive wanted him to repaint. There was no documentation supporting actual dates when the painting was done.
- D. On June 5, 2002, Mr. Doyle was paid \$1,200 for planting pine trees and building a fence at the county's landfill. This amount was paid from the Solid Waste/Sanitation Fund and posted to the account Other Charges - General Construction Materials. Mr. Doyle stated that the county executive developed a contract for this work and he signed the contract; however, the county executive and Mr. Doyle could not produce the contract. The only documentation supporting this payment was the vendor warrant paid to Mr. Doyle. When asked about the fence, Mr. Doyle told us that he built it with the help of jail inmates while he was being paid with Litter Grant Program funds prior to receiving the \$1,200 on June 5, 2002. He further stated that he planted 160 pine trees; the work was completed before June 30, 2002; and he was paid \$200 for the job. He gave the remaining \$1,000 back to the county executive. Mr. Doyle stated that the county executive had instructed him to return \$1,000 so the money could be used to pay employees in his office, one of whom was Theresa Pulley. Ms. Pulley informed us that she received the entire \$1,000 because there were no funds remaining in the salary line item from which she was being paid.

If Mr. Doyle had been compensated at the same rate at which he was compensated before the Litter Grant Program funds were depleted, he would have received \$2,652.38. Therefore, the \$4,800.00 paid to Mr. Doyle in May and June 2002 was \$2,147.62 more than

his normal rate of compensation. We have included the amount that exceeded Mr. Doyle's normal rate of compensation (\$2,147.62) as part of the cash shortage because some of the work was performed before May 2002 or after June 2002, while he was already on the county's payroll, and because a portion of the funds (\$1,000) was returned in cash to the county executive.

RECOMMENDATION

County employees should be compensated through the payroll system and not by vendor warrants, and contracts and/or other adequate documentation should be on file to support disbursements. In addition, the county executive should never pay an individual and then ask that individual to return the funds in cash for the purpose of compensating another employee.

FINDING 02.05 **PAYROLL PAYMENTS EXCEEDED AUTHORIZATION** (Noncompliance Under Government Auditing Standards)

Chuck Doyle, a county employee and father of the bookkeeper, received a pay increase of \$125.00 per week for the period July 1, 2002, through August 31, 2002. We could not find any documentation that authorized this salary increase, which resulted in Mr. Doyle's receiving unauthorized salary payments of \$1,250.00 for the period July 1, 2002, through August 31, 2002. On August 7, 2002, Clarence Marable, a county employee, received an additional salary payment of \$100.00. We could not find any documentation explaining why Mr. Marable received this additional salary payment. The salary increase of \$1,250.00 given to Mr. Doyle and the additional payment of \$100.00 given to Mr. Marable were not approved by the County Commission. Therefore, these payments have been included in the cash shortage that occurred after June 30, 2002.

RECOMMENDATION

Any salary increases or salary payments should be authorized properly.

FINDING 02.06 **VACATION PAYMENTS TO EMPLOYEES EXCEEDED AMOUNTS AUTHORIZED BY THE PERSONNEL POLICY** (Noncompliance Under Government Auditing Standards)

The bookkeeper, Theresa Pulley, was paid \$303.44 for a one-week vacation when she left employment with the county on August 31, 2002. Ms. Pulley began working for Houston County in October 2001 and left employment less than one year later on August 31, 2002. Personnel policies of the County Executive's Office provide for employees to receive one week of vacation after one full year of employment. The office policy does not specify if an employee is to be paid for unused vacation upon termination of employment with the county. However, since the policy does require an employee to work one full year before

receiving a week of vacation, and Ms. Pulley did not work one full year, we have included the payment of \$303.44 as part of the cash shortage that occurred after June 30, 2002.

In addition, Chuck Doyle was paid \$799.60 for two weeks of vacation (\$399.80 per week) upon leaving employment with the county on August 31, 2002. The office personnel policy does not provide for an employee to accumulate unused vacation leave. Therefore, the vacation pay (\$399.80) that Mr. Doyle received that exceeded one week's vacation pay has been included as part of the cash shortage that occurred after June 30, 2002.

RECOMMENDATION

Payments for vacation leave should be made in accordance with the office personnel policy. County officials may wish to amend the personnel policy to address such issues as how much vacation leave employees can accumulate and whether employees can be paid for unused vacation when they terminate employment with the county.

FINDING 02.07 **RECORDS INVOLVING AN UNAUTHORIZED
CONTRIBUTION TO A CIVIC ORGANIZATION WERE
FALSIFIED**
(Noncompliance Under Government Auditing Standards)

On March 5, 2002, Solid Waste/Sanitation Funds of \$400.00 were disbursed to an individual. Documentation in the County Executive's Office stated that this disbursement was for "electrical cable at the landfill." However, after questioning the county executive and employees, we determined that the disbursement was actually a contribution to a local civic organization. The county executive did not explain why the documentation showed the disbursement was for electrical cable when it was actually a contribution. This contribution was not approved by the County Commission, as required by Section 5-9-109, Tennessee Code Annotated. Also, funds expended from the Solid Waste/Sanitation Fund must be used for purposes involving handling solid waste. Using these funds to make a contribution to a local civic organization is not an appropriate use.

RECOMMENDATION

Documentation should show the actual use of county funds. Furthermore, contributions to civic organizations should be made from the General Fund and should be approved for that purpose by the County Commission.

FINDING 02.08

THE OFFICE HAD PAYROLL DEFICIENCIES

(Internal Control – Material Weaknesses Under Government Auditing Standards)

Our audit revealed the following accounting deficiencies involving payroll:

- A. Unemployment taxes were not reported correctly to the state Department of Employment Security. The office's payroll software incorrectly calculated the total taxable wages, resulting in the county's paying insufficient taxes for the first two quarters of the calendar year. Also, the County Executive's Office was unable to locate all quarterly reports and payments; therefore, we could not determine if any liability remained.
- B. Employees' federal income and social security taxes relating to the county's payroll were not always reported correctly or in a timely manner to the Internal Revenue Service (IRS). As a result, the county incurred interest and penalty charges of \$1,131.02 during the year. Also, the county received notification from the IRS in October 2002 that the wages reported to the IRS on Form 941 did not reconcile with employees' Forms W-2 for the year 2000. The IRS stated that this might result in an additional assessment of \$5,761 to the county for taxes owed in addition to applicable penalty and interest charges.
- C. We noted that an invoice from the IRS for additional tax and penalty and interest owed for the quarter ending March 2001 had been paid twice. An invoice for \$2,494 was paid October 17, 2001. A subsequent notice of \$2,502, which included additional interest, was paid December 13, 2001.
- D. General ledger payroll deduction accounts were not reconciled with subsidiary payroll records on a monthly basis. Unidentified balances were allowed to accumulate in the withholding accounts for social security, income taxes, and insurance deductions. The failure to reconcile general ledger payroll liability accounts with employee payroll deductions resulted in errors and omissions in reporting and paying employee deductions.
- E. In some instances, time and attendance records maintained by the County Executive's Office did not have the signatures of the employee and/or county executive. In addition, we were unable to locate some time and attendance records.
- F. The office did not maintain records of compensatory, sick, and vacation hours that each employee earned and used. Because of the failure to maintain these records, the county had not established leave balances for employees.
- G. The salaries of several employees of the County Executive's Office were paid in varying amounts from four different payroll expenditure accounts in the General and Solid Waste/Sanitation Funds. Thus, it was very difficult to determine the actual amount paid to the employees, and we were unable to determine the amounts budgeted for the employees' salaries.

RECOMMENDATION

The County Executive's Office should do the following:

- A. Unemployment taxes should be reported properly to the state, and copies of all quarterly reports should be retained in the office.
- B. Employees' federal income and social security taxes should be reported to the IRS in a timely manner. Wages reported to the IRS during the year on Form 941 should reconcile with wages reported to the IRS at the end of the year on the employees' Forms W-2.
- C. Invoices should not be paid twice. The county should take steps to recover the overpayment of \$2,502 to the IRS.
- D. The office should reconcile general ledger payroll liability accounts with payroll reports, deposits of payroll taxes, and payments of insurance premiums to ensure the accurate reporting of all payroll deductions.
- E. Time and attendance records should be on file for all employees and should be signed by employees and supervisors.
- F. Leave records should be maintained for employees earning compensatory, sick, and vacation leave, and these records should include the hours earned, hours used, and balances.
- G. The budget committee and County Commission should approve a salary schedule detailing the line item and amounts to be paid to each employee.

FINDING 02.09

THE OFFICE HAD PURCHASING DEFICIENCIES

(A., B. Internal Control – Material Weakness Under Government Auditing Standards; C. Internal Control – Reportable Condition Under Government Auditing Standards; D. Noncompliance Under Government Auditing Standards)

Our audit revealed the following deficiencies in the office's purchasing operations:

- A. A number of disbursements were made from the General and Solid Waste/Sanitation Funds from July 1, 2000, through June 30, 2002, that appeared to be for unusually large amounts in relation to the work purportedly performed. These payments totaling \$34,401 were made to four individuals for dirt work and repairs at the landfill, ballpark, airport, and boat ramp. We have been unable to verify through our audit procedures that the work was actually performed.

- B. Adequate documentation was not on file to support some disbursements. In some instances, only facsimile copies or photocopies of invoices were on file to support disbursements. In other instances, invoices were not on file to support disbursements. Due to the falsification of some invoices and the impropriety of some disbursements, as previously discussed in the findings of this report, we were unable to determine through extended audit procedures that all disbursements made from the General and Solid Waste/Sanitation Funds were expended for the benefit of the county.
- C. The office did not issue purchase orders for most purchases. Purchase orders are necessary to control who has purchasing authority for the office and to document purchasing commitments.
- D. Because of inadequate bid files, we were unable to determine if competitive bids were solicited for a courthouse roof (\$22,500), fencing (\$26,702), and paving (\$59,969) at the jail. Bid files did not contain all bids, newspaper advertisements, bid tabulation sheets, and bid opening documentation. Purchasing procedures for the County Executive's Office are governed by the County Purchasing Law of 1983, Sections 5-14-201 through 5-14-206, Tennessee Code Annotated, which provides for all purchases exceeding \$5,000 to be made through competitive bidding.

RECOMMENDATION

Proper documentation should be maintained to support all disbursements. The county executive should ensure that purchase orders are issued and competitive bids are solicited for all applicable purchases in accordance with state statutes. Bid files should include all bids, newspaper advertisements, bid tabulation sheets, and bid opening information.

FINDING 02.10 **THE OFFICE HAD DEFICIENCIES IN BUDGET OPERATIONS** (A., C. Internal Control – Reportable Condition Under Government Auditing Standards; B. Noncompliance Under Government Auditing Standards)

Our audit revealed the following deficiencies in the office's budget operations:

- A. Budget amendments posted to the accounting records of the General and General Debt Service Funds did not agree with amendments approved by the County Commission. The financial statements of this report reflect budget amendments as approved by the County Commission.
- B. Salaries exceeded several line-item appropriations in the General Fund by amounts ranging from \$260 to \$3,784. The budget resolution approved by the County Commission states that the salary, wages, or enumeration of each official, employee, or agent of the county will not exceed expenditures that accompany this resolution. Therefore, the salaries that exceeded line-item appropriations were expenditures not approved by the County Commission.

- C. During the period under examination, the County Commission approved amendments to the General Fund budget that increased appropriations by \$198,832. In the budget resolution, the source of funding for these appropriations was unappropriated fund balance. However, the unappropriated fund balance was not sufficient to fund all of these appropriations, and as a result, appropriations exceeded estimated available funds by \$46,771.

RECOMMENDATION

Budget amendments posted to the accounting records should agree with amounts approved by the County Commission. Salary expenditures should be held within line-item appropriations, as required by the budget resolution. Also, the County Commission should not approve appropriations that exceed estimated available funds.

FINDING 02.11 **THE OFFICE HAD DEFICIENCIES IN ITS ACCOUNTING RECORDS**

(A., C. Noncompliance Under Government Auditing Standards; B., D., E. Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit revealed the following accounting deficiencies in the County Executive's Office:

- A. Office personnel had made attempts to reconcile the cash balance of the General Fund with the trustee's cash balance for July 2001 through June 2002, but they did not attempt to correct any of the discrepancies discovered. Consequently, posting errors were not corrected, and the availability of funds could not be determined accurately. Section 9-2-138, Tennessee Code Annotated, requires all administrative officers to reconcile fund accounts with the trustee's balances on a monthly basis.
- B. Several expenditures were misclassified on the accounting records of the General Fund. Because of the number of misclassified expenditures, we did not attempt to properly classify these expenditures. Misclassifying expenditures diminishes the usefulness of the financial records as a management tool and results in a loss of budgetary control. In most instances, we noted that the misclassifications only affected items within major category appropriations. However, there were some misclassifications of expenditures between major categories in the General Fund, but we do not believe these amounts are material.
- C. During the year, transactions for various capital projects, including jail construction, courthouse renovation, and installation of sewer and water lines, were accounted for through two funds. County officials did not maintain subsidiary records for these various projects. Therefore, it was difficult to determine the actual cost for each project. We have attempted to identify the revenues and expenditures of these projects and presented the transactions for each project in a single fund.

- D. Receivables at June 30, 2002, were not reflected on the accounting records of the General and Solid Waste/Sanitation Funds. The failure to properly record receivables diminishes the usefulness of the financial statements as a management tool and results in a loss of budgetary control. Receivables have been properly reflected in the financial statements of this report.
- E. During the year, Houston County charged to the Cities of Erin (34 percent) and Tennessee Ridge (22 percent) a portion of the county's debt service and operating costs for their use of the county's convenience center and landfill. This agreement with the cities for reimbursement ended on June 30, 2002. Our examination disclosed numerous billing errors by the county, and we determined that the cities had been overcharged \$5,853. Based on our audit findings the cities' June 2002 billings were credited for the amounts overcharged.
- F. Houston County billed and collected from the cities of Erin and Tennessee Ridge a total of \$1,400.00 for their percentage share of a \$2,500 disbursement for hauling dirt to the county's landfill. As previously mentioned in the audit findings, this dirt was never hauled to the landfill. Therefore, a payable of \$1,400 has been reflected in the Solid Waste/Sanitation Fund at June 30, 2002, for the reimbursement due to the Cities of Erin (\$850) and Tennessee Ridge (\$550).

RECOMMENDATION

The office should take the following steps to correct the deficiencies:

- A. The cash balances of the General Fund should be reconciled with the trustee's cash balances monthly, as required by state statute, and posting errors should be corrected promptly.
- B. To ensure effective budgetary control and accountability of funds, the office should classify expenditures in the appropriate accounts.
- C. Transactions pertaining to a capital project should be accounted for through a single fund.
- D. Receivables at June 30 should be recorded properly on the accounting records.
- E. Any charges made to entities should be properly calculated to avoid any errors and the possibility of having to make refunds.
- F. Officials should refund the Cities of Erin and Tennessee Ridge \$850 and \$550, respectively, for their percentage share of the fraudulent payment of \$2,500.

FINDING 02.12

**THE COUNTY EXECUTIVE USED A COUNTY-ISSUED
CELLULAR TELEPHONE FOR PERSONAL PURPOSES**
(Noncompliance Under Government Auditing Standards)

We examined the monthly telephone bills for the county-issued cellular telephone provided to the county executive for the period July 1, 2001, through August 31, 2002. Only nine monthly bills were on file for the 14-month period examined. Bills for the remaining five months were not on file, and county records did not reflect that the county had paid the bill for the other five months. Our examination of the nine bills on file disclosed numerous calls in Tennessee and Alabama that did not appear to be for county business, but rather for personal purposes. The county's policy for use of cellular telephones states that the county-provided cellular telephones should not be used to make personal calls. However, the policy also states that the county should be reimbursed for personal calls made on the county cellular telephones. The county executive did not reimburse the county for personal calls.

RECOMMENDATION

The county executive, Jim Smith, should reimburse the county for personal calls made on his county-issued cellular telephone. The County Commission should adopt a cellular telephone policy that does not allow personal calls, even on a reimbursement basis.

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE

Records on file in the County Executive's Office reflect that I personally paid approximately half of the cellular telephone bills for the past year.

REBUTTAL

As we stated in the finding, the county paid the cellular telephone bill of the county executive for nine of the 14 months examined. County records did not reflect the other five months or indicate how the bills were paid. Furthermore, county records also did not reflect that the county executive had reimbursed the county for any of the personal calls for the nine months that were available for examination.

FINDING 02.13

**THE FINAL COST SETTLEMENT REPORT HAD NOT BEEN
FILED WITH THE DEPARTMENT OF CORRECTION**
(Noncompliance Under Government Auditing Standards)

Counties receive reimbursement from the state for housing state prisoners in local facilities. Guidelines of the Tennessee Department of Correction require counties to file a final cost settlement report within 90 days of year-end (September 30). As of October 25, 2002, Houston County had not filed a final cost settlement for the year ended June 30, 2002.

RECOMMENDATION

County officials should file the final cost settlement report with the Department of Correction for the year ended June 30, 2002. Future cost settlement reports should be filed within 90 days of year-end, as required by the Department of Correction.

FINDING 02.14 **THE COUNTY EXECUTIVE DID NOT OBTAIN APPROVAL TO
EXTEND PAYMENT OF A CAPITAL OUTLAY NOTE**
(Noncompliance Under Government Auditing Standards)

In 1995, the county issued a three-year \$70,000 capital outlay note for expansion and improvement of the library, and in 1998 the maturity date of the note was extended for an additional three years. On July 25, 2001, the county executive obtained a second three-year extension of this note at a local bank for the unpaid balance of \$23,332. This extension was not approved by the Board of County Commissioners and the state director of Local Finance, as required by Section 9-21-101, Tennessee Code Annotated.

RECOMMENDATION

The office should obtain approval from the Board of County Commissioners and the state director of Local Finance to extend the payment of notes, as required by state statute.

FINDING 02.15 **CONTRIBUTIONS TO NONPROFIT ORGANIZATIONS WERE
NOT MADE AS DIRECTED BY THE COUNTY COMMISSION**
(Noncompliance Under Government Auditing Standards)

The county executive did not disburse contributions to nonprofit organizations in accordance with the resolution approved by the County Commission. One agency received \$1,000 less than the amount appropriated, and a local youth organization and a community center received \$1,000 and \$2,000, respectively, more than the amounts appropriated by the County Commission.

RECOMMENDATION

Contributions to nonprofit organizations should be made in compliance with amounts approved by the Board of County Commissioners.

OFFICE OF COUNTY CLERK

FINDING 02.16 **COLLECTIONS WERE NOT DEPOSITED PROPERLY (Noncompliance Under Government Auditing Standards)**

The county clerk did not deposit collections intact; i.e., funds collected during a specific period of time were not deposited together. Instead, the clerk deposited even amounts of cash, did not maintain a set amount of cash on hand, and deposited checks randomly. Because the clerk used this method of depositing collections, we could not trace all collections to deposits and could not determine if funds were deposited to the office bank account within three days of collection, as required by Section 5-8-207, Tennessee Code Annotated.

RECOMMENDATION

To strengthen internal controls over cash collections and deposits, the county clerk should deposit all funds intact.

OFFICE OF SHERIFF

FINDING 02.17 **THE OFFICE HAD DEFICIENCIES IN ITS INMATE ACCOUNT AND COMMISSARY OPERATIONS (Internal Control – Reportable Condition Under Government Auditing Standards)**

Our audit revealed the following deficiencies in the inmate and commissary account operations:

- A. Profits from commissary operations were not reported and paid to the county. The state attorney general has opined that profits from commissary operations are county funds and should be reported and paid to the General Fund of the county. Section 8-24-103, Tennessee Code Annotated, requires these profits to be reported and paid to the county on a monthly basis. Because of deficiencies in the commissary software program, we are unable to determine the actual amounts of profits due the county as of June 30, 2002.
- B. The office did not deposit collections for the commissary and inmate account operations intact; i.e., funds collected during a specific time were not deposited together. Also, although the office maintained a list of collections, these items were not itemized on deposit slips or otherwise identified to a specific deposit.
- C. Receipts were not properly issued. The commissary software program issued receipt numbers for all types of transactions. It issued receipts for collections, disbursements, and for checking the balance of funds in the prisoners' account.

- D. Disbursements were made by check from the commissary account for prisoner expenses, including tow bills, prisoner bonds, haircuts, and child support. However, there was no documentation maintained supporting these disbursements other than receipts signed by the prisoners. We were able to determine through other audit procedures that these funds were expended for the benefit of the prisoners.
- E. A general ledger summarizing transactions was not maintained for the commissary and prisoner account operations. To obtain information for the financial statements, we had to compile revenues and expenditures from various other reports maintained in the office.

RECOMMENDATION

The commission earned on the commissary and inmate account operations should be remitted monthly to the county, and the sheriff should identify the amount of commission currently due to the county. To strengthen internal controls over cash collections and deposits, the office should deposit all funds intact. Receipts should only be issued for actual funds collected to properly identify all transactions, and these receipts should be maintained in an orderly fashion. Proper documentation should be maintained to support all disbursements made from inmate accounts, and a general ledger summarizing transactions of the commissary and prisoner accounts should be maintained.

MANAGEMENT’S RESPONSE – SHERIFF

I concur. I am currently taking steps to correct these deficiencies and will follow your recommendations.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 02.18 **RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED ASSETS**
(Internal Control – Material Weakness Under Government Auditing Standards)

Houston 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 Houston 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

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

FINDING 02.19 A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED
(Internal Control – Reportable Condition Under Government Auditing Standards)

Houston 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

Houston 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.

FINDING 02.20 DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF COUNTY EXECUTIVE; 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 County Executive; Trustee; County Clerk; Circuit, General Sessions, and Juvenile 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 reconciling 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.

FINDING 02.21 DEFICIENCIES WERE NOTED IN AMBULANCE SERVICE OPERATIONS
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit revealed the following deficiencies in operations of the Ambulance Service:

- A. Prenumbered trip tickets were not used.

- B. The control account maintained for patient accounts receivable did not accurately reflect accounts receivable at any time during the period under examination. Also, a subsidiary accounts receivable ledger had not been maintained reflecting the balance due from each individual.

As a result of these deficiencies, some of the Ambulance Service's patient accounts receivable at June 30, 2002, have not been included in the financial statements of this report.

RECOMMENDATION

The Ambulance Service should use prenumbered trip tickets. Also, county officials should properly maintain the control account for patient accounts receivable and the subsidiary accounts receivable ledger of individual accounts receivable.