

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 COUNTY EXECUTIVE

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. In several instances, purchase orders were issued after the purchase had been made. The practice of issuing purchase orders after the purchases are made defeats the purpose of the purchase order and makes it an approval of payment rather than an approval of 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 before purchases are made. Also, documentation should be obtained indicating that goods have been received and/or services have been rendered before invoices are paid.

FINDING 02.02 **COMPETITIVE BIDS WERE NOT SOLICITED FOR LIABILITY INSURANCE**

(Noncompliance Under Government Auditing Standards)

Jackson County officials purchased commercial liability insurance coverage for \$112,523 without soliciting competitive bids. Purchasing procedures for this office are governed by the County Purchasing Law of 1983, Sections 5-14-201 through 5-14-206, Tennessee Code Annotated, which require all purchases exceeding \$5,000 to be made based on competitive bids solicited through newspaper advertisement.

RECOMMENDATION

All purchases exceeding \$5,000 should be made based on competitive bids solicited through newspaper advertisement, as required by state statutes.

FINDING 02.03 **DEFICIENCIES WERE NOTED IN THE AMBULANCE SERVICE OPERATIONS**
(Noncompliance Under Government Auditing Standards)

Our examination of the Ambulance Service operations disclosed the following deficiencies:

- A. Funds were not always 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.

- B. The Ambulance Service maintains a bank clearing account to deposit and remit collections to the county trustee. During the year, the Ambulance Service wrote checks totaling \$1,382.69 from this account for air conditioner repairs, paramedic tests, vehicle repairs, and medicine. By making these purchases from the clearing account, the Ambulance Service bypassed the county's purchasing and budgetary controls. Section 5-9-401, Tennessee Code Annotated, requires that "all funds from whatever source derived ... 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."

- C. Prenumbered trip tickets were not used.

RECOMMENDATION

Funds should be deposited within three days of collection, as required by state statute. All Ambulance Service collections should be remitted to the county trustee, and all expenditures should be made by the County Executive's Office through budgetary appropriations approved by the county legislative body. In addition, prenumbered trip tickets should be used.

OFFICE OF HIGHWAY SUPERINTENDENT

FINDING 02.04 **ADEQUATE CONTROLS OVER CONSUMABLE ASSETS WERE NOT MAINTAINED**
(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 rock.

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 02.05 **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 of the Highway Department. Purchase orders are necessary to control who has purchasing authority for the department and to document purchasing commitments.
- 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. Also, documentation should be obtained indicating that goods have been received and/or services have been rendered before invoices are paid.

OFFICE OF DIRECTOR OF SCHOOLS

**FINDING 02.06 THE OFFICE HAD INADEQUATE CONTROLS OVER INVENTORY
(Internal Control – Reportable Condition Under Government Auditing Standards)**

School officials did not maintain adequate controls over inventory. No procedures were in place to ensure that personnel independent of maintaining inventory records verified the lists periodically. Generally accepted accounting principles require accountability for all county-owned assets.

RECOMMENDATION

To improve controls over inventory, school officials should ensure that personnel independent of the record-keeping process periodically verify inventory records.

OTHER FINDINGS AND RECOMMENDATIONS

**FINDING 02.07 FUNDS WERE NOT DEPOSITED WITHIN THREE DAYS OF COLLECTION IN THE OFFICES OF COUNTY CLERK, CIRCUIT AND GENERAL SESSIONS COURTS CLERK, AND CLERK AND MASTER
(Noncompliance Under Government Auditing Standards)**

In the Offices of County Clerk, Circuit and General Sessions Courts Clerk, and Clerk and Master, funds were not always deposited to their office bank accounts 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 offices should deposit funds within three days of collection, as required by state statute.

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

Jackson County did not inventory, value, and record its general fixed assets (buildings, equipment, etc.), as required by generally accepted accounting principles. The Government Accounting Standards Board has adopted Statement 34, which will become effective for

Jackson 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

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

FINDING 02.09 **A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

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

RECOMMENDATION

Jackson 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 02.10 **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.