

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 response of the director of schools is 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 OFFICE HAD DEFICIENCIES IN ISSUING PURCHASE ORDERS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The County Executive's Office did not always follow sound purchasing procedures. Our audit revealed the following deficiencies:

- A. The office did not issue purchase orders for all applicable purchases. Purchase orders are necessary to control who has purchasing authority for the county and to document purchasing commitments.

- B. In most instances when the office issued purchase orders, the dollar amount of the purchase was not listed on the purchase order. Including dollar amounts on purchase orders is necessary to quantify purchasing commitments.

RECOMMENDATION

The office should improve purchasing procedures by issuing purchase orders for all applicable purchases and including the dollar amount on all purchase orders.

OFFICE OF HIGHWAY COMMISSIONER

FINDING 02.02 **THE HIGHWAY DEPARTMENT DID NOT ISSUE PURCHASE ORDERS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Highway Department did not issue purchase orders. Purchase orders are necessary to control who has purchasing authority for the county and to document purchasing commitments.

RECOMMENDATION

The Highway Department should issue purchase orders to strengthen internal controls over the purchasing process and to document purchasing commitments.

FINDING 02.03 **THE HIGHWAY DEPARTMENT DID NOT 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 rock and asphalt, 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 assets and increases the risk of inventory loss.

RECOMMENDATION

The Highway Department should develop and implement a system to account for the use of all road materials.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 02.04 **EXPENDITURES EXCEEDED APPROPRIATIONS IN THE GENERAL PURPOSE SCHOOL FUND**
(Noncompliance Under Government Auditing Standards)

Expenditures and encumbrances exceeded appropriations approved by the County Commission in the Regular Capital Outlay major appropriation category of the General Purpose School Fund by \$417,108. The Regular Capital Outlay major appropriation category was for appropriations relating to a federal grant for the Optional School Renovation Project. The contract for the renovations was signed toward the end of the 2001-02 fiscal year. There were no payments made on this contract in the 2001-02 fiscal year. The school department did appropriate funds for these expenditures in the 2002-03 fiscal year. However, expenditures of the General Purpose School Fund are recognized under the modified accrual basis of accounting. This basis of accounting requires that

expenditures be recognized when a related fund liability is incurred. Therefore, it is necessary to recognize the liabilities, contracts payable, retainage payable, and encumbrances associated with the contract in the financial statements of the General Purpose School Fund for the year ended June 30, 2002.

RECOMMENDATION

Expenditures and encumbrances should be appropriated in the year the liability is recognized.

MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS

The Board of Education and County Commission were aware of this situation.

OFFICE OF TRUSTEE

FINDING 02.05 **DELINQUENT TAXES WERE NOT FILED WITH A
DELINQUENT TAX ATTORNEY**
(Noncompliance Under Government Auditing Standards)

The trustee did not file delinquent 2000 taxes with a delinquent tax attorney, as required by Section 67-5-2404, Tennessee Code Annotated (TCA). The trustee delivered these delinquent taxes to the clerk and master for collection without filing suit. Section 67-5-2406(a), TCA, provides that if the county trustee and county executive do not employ a delinquent tax attorney to institute suits for the collection of delinquent taxes by April 1 of each year, then the district attorney general can employ an attorney to institute and prosecute suits to collect the delinquent taxes.

RECOMMENDATION

The county trustee and county executive should employ a delinquent tax attorney to file suit for the collection of delinquent taxes, as required by state statute.

FINDING 02.06 THE OFFICE HAD DEFICIENCIES IN INTERNAL CONTROLS OVER CASH COLLECTIONS
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit disclosed the following deficiencies in internal controls over cash collections:

- A. Collections were not deposited intact to the office bank account. Depositing collections intact strengthens internal controls over cash collections and aids in determining that all funds have been accounted for properly and deposited on a current basis.
- B. Checks were not restrictively endorsed at the time of collection.

RECOMMENDATION

The office should deposit all collections intact and should restrictively endorse all checks at the time of collection.

FINDING 02.07 THE TRUSTEE’S DEPOSITORY USED AN UNAUTHORIZED METHOD FOR PAYMENT OF WARRANTS
(Noncompliance Under Government Auditing Standards)

The office’s depository deducted warrants from the office’s bank account before the bank presented the warrants to the trustee for payment. Section 8-11-104, Tennessee Code Annotated (TCA), states that the trustee should “pay all just claims against the county as they are presented, if he has a sufficient sum of money ... not otherwise appropriated.” The depository’s practice did not provide a method for the trustee to verify the availability of funds for paying warrants. Section 5-8-210, TCA, provides an alternative method for the trustee to determine that adequate funds are available and for the bank to charge the trustee’s account directly. This section authorizes the county trustee to implement a checking system instead of a warrant system for disbursing funds.

RECOMMENDATION

The office’s depository should not deduct warrants from the office’s bank account until the warrants have been presented to the trustee for payment. As an alternative to this practice, the trustee should consider implementing a checking system for disbursing county funds, as authorized by state statute.

OFFICE OF CLERK AND MASTER

FINDING 02.08 **DELINQUENT TAX AGGREGATES WERE NOT DETERMINED AND RECONCILED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The clerk and master did not determine the unpaid balance of each year's delinquent tax aggregate on file in Chancery Court and therefore could not reconcile the unpaid balance with amounts collected and adjusted. As a result, internal controls over delinquent property tax collections were weakened.

RECOMMENDATION

To strengthen internal controls over delinquent property tax collections, the clerk and master should reconcile each year's delinquent tax aggregate on file in Chancery Court.

OFFICE OF SHERIFF

FINDING 02.09 **DUTIES WERE NOT SEGREGATED ADEQUATELY**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among employees in the Sheriff's Office. One employee was responsible for receipting, preparing bank deposits, posting entries to the cash journal, 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.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 02.10 **RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED ASSETS**
(Internal Controls – Material Weakness Under Government Auditing Standards)

Lauderdale 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 Lauderdale 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

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

FINDING 02.11 **A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Lauderdale 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

Lauderdale 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.