

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 sheriff's written responses 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 OFFICE HAD DEFICIENCIES IN BUDGET OPERATIONS (Noncompliance Under Government Auditing Standards)

The following deficiencies were noted during our examination of budget operations of the County Executive's Office:

- A. General Fund expenditures exceeded appropriations in the Property Assessor's Office (\$14,244) and Employee Benefits (\$12,400) major appropriation categories.
- B. Expenditures exceeded appropriations approved by the County Commission in the Solid Waste/Sanitation Fund by \$22,279.

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 should be held within appropriations approved by the Board of County Commissioners.

FINDING 02.02 THE SOLID WASTE OFFICE HAD DEFICIENCIES IN THE COLLECTION OF GARBAGE FEES (Noncompliance Under Government Auditing Standards)

Receipts were not issued for all garbage fees received by the Solid Waste Office, as required by Section 9-2-103, Tennessee Code Annotated (TCA). Because receipts were not issued for all collections, we could not determine if all collections had been accounted for and if collections were remitted to the county trustee within three days of collection, as required by Section 5-8-207, TCA.

RECOMMENDATION

Receipts should be issued for all collections, as required by state statute.

FINDING 02.03 **THE OFFICE HAD DEFICIENCIES IN ITS ACCOUNTING RECORDS**

(Noncompliance Under Government Auditing Standards)

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

- A. General ledger payroll deduction accounts for the General Fund and Solid Waste/Sanitation Fund were not reconciled with subsidiary payroll records on a monthly basis. Unidentified balances had accumulated in the withholding accounts for social security, income taxes, retirement, insurance, annuities, medical, and other payroll 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.
- B. Receivables and payables at June 30, 2002, were not properly established and recorded on the accounting records of the General Fund and Solid Waste/Sanitation Fund, as required by generally accepted accounting principles. These receivables and payables have been reflected in the financial statements of this report.
- C. The policy of the General Fund allows employees to accumulate a limited amount of unused vacation benefits, which will be paid to employees upon separation from service. Records were not made available for our examination to determine the dollar value of accumulated vacation benefits at June 30, 2002.
- D. The county executive did not maintain time and attendance records for all employees of the general county government. These records are necessary to support payroll disbursements.

RECOMMENDATION

To correct these deficiencies, the office should do the following:

- A. General ledger payroll liability accounts should be reconciled with payroll reports, deposits of payroll taxes, payments of insurance premiums, and other related records to ensure the proper reporting of all payroll deductions.
- B. Receivables and payables should be established and recorded on the accounting records, as required by generally accepted accounting principles.

- C. Records should be maintained disclosing the dollar value of accumulated vacation benefits.
 - D. The office should maintain time and attendance records for all employees. These time and attendance records should, at a minimum, include the date, hours worked, and signatures of the employee and supervisor.
-

OFFICE OF HIGHWAY COMMISSIONER

FINDING 02.04 **THE OFFICE DID NOT ISSUE PURCHASE ORDERS FOR ALL APPLICABLE PURCHASES**
(Internal Control – Reportable Condition Under Government Auditing Standards)

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

RECOMMENDATION

The office should issue purchase orders for all applicable purchases.

FINDING 02.05 **THE OFFICE DID NOT HAVE A SYSTEM TO ACCOUNT FOR MATERIALS USED ON SOME ROAD PROJECTS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The office had a system to determine the use of road materials, such as bridge lumber and rock, used on state-aid road projects. However, the office 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 office should develop and implement a system to account for materials used on all types of road projects.

FINDING 02.06 IRREGULARITIES WERE NOTED IN THE DISPOSAL OF USED CULVERTS

(Noncompliance Under Government Auditing Standards)

The following deficiencies were noted in the disposal of used culverts:

- A. The office compressed and sold damaged culverts as scrap metal. A portion of the proceeds received from the sale of scrap metal was put into a bereavement flower fund at the office and was used for employees and/or their families. The remainder of the proceeds was used for cookouts for office employees. Section 5-8-210, Tennessee Code Annotated (TCA), designates the county trustee as the custodian of all county funds. Also, Section 5-8-207, TCA, requires that all funds received by the office be deposited with the county trustee within three days of collection.

- B. The highway commissioner informed auditors that some culverts taken out of operation were still in good condition and did not need to be sold as scrap metal. These culverts were usually given to individuals for their private use. Section 54-7-202, TCA, prohibits the use of county equipment, tools, and materials for private purposes.

RECOMMENDATION

Proceeds from the sale of scrap metal should be deposited with the county trustee and used for highway purposes, as required by state statute. Surplus highway materials should be sold and not given to individuals.

FINDING 02.07 THE OFFICE HAD INADEQUATE CONTROLS OVER INVENTORY

(Internal Control – Reportable Condition Under Government Auditing Standards)

The following deficiencies were noted during an examination of inventory:

- A. Some county-owned vehicles and equipment assigned to the highway commissioner were not identified as property of the office. The County Uniform Road Law, Section 54-7-112, Tennessee Code Annotated, requires that all machinery, equipment, and tools be plainly marked as property of the department and that each item be numbered.

- B. The office did not have procedures to ensure that newly acquired assets were added to the inventory list and sold assets were deleted from the inventory list. During our examination of equipment, we noted that several pieces of newly acquired equipment were not added to the inventory list, and several items that had been sold remained on the list.

- C. The highway commissioner allowed a piece of highway equipment that was sold approximately two years ago to be stored on the office's property.

RECOMMENDATION

All property should be clearly identified as property of the office, as required by state statute. Procedures should be implemented to ensure that newly acquired assets are added to the inventory records and items that are sold or scrapped are properly deleted from the records. Individuals should not be allowed to store personal equipment on the office's property.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 02.08 THE SCHOOL FEDERAL PROJECTS FUND HAD A CASH OVERDRAFT
(Noncompliance Under Government Auditing Standards)

The School Federal Projects Fund had a cash overdraft of \$14,478 at June 30, 2002. This cash overdraft resulted from issuing warrants that exceeded cash on deposit with the county trustee. This cash overdraft was liquidated subsequent to June 30 when federal funds were received.

RECOMMENDATION

Warrants that exceed cash on deposit with the county trustee should not be issued.

OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK

FINDING 02.09 EXECUTION DOCKET TRIAL BALANCES DID NOT RECONCILE WITH CASH JOURNAL ACCOUNTS
(Noncompliance Under Government Auditing Standards)

At June 30, 2002, the circuit and general sessions courts clerk had prepared trial balances of execution docket cause balances, as required by Section 18-2-103, Tennessee Code Annotated (TCA). However, these trial balances did not reconcile with cash journal accounts by substantial amounts. We were unable to determine if the clerk had complied with provisions of the Unclaimed Property Act, Section 66-29-101, TCA. This statute provides that any funds held by the court for one year and unclaimed by the owner are considered abandoned. Section 66-29-113, TCA, further requires these funds to be reported and paid to the state Treasurer's Office.

RECOMMENDATION

The execution docket trial balance should be reconciled with cash journal accounts. Any funds held by the court for one year and unclaimed by the owner are considered abandoned and should be reported and paid to the state Treasurer's Office in compliance with state statute.

FINDING 02.10 **THE CIRCUIT COURT CLERK DID NOT REQUIRE A DEPOSITORY TO ADEQUATELY COLLATERALIZE FUNDS** (Noncompliance Under Government Auditing Standards)

The circuit court clerk did not require a depository holding county funds to pledge adequate securities to protect funds that exceeded Federal Deposit Insurance Corporation (FDIC) coverage. At June 30, 2002, deposits at this depository exceeded FDIC coverage by \$164,932. Section 5-8-201, Tennessee Code Annotated, provides for county officials to require any bank that is a depository of county funds to deposit in an escrow account in a second bank collateral security equal to 105 percent of such county funds. As of the date of this report, deposits did not exceed FDIC coverage.

RECOMMENDATION

The circuit court clerk should require depositories to pledge adequate securities to protect county funds exceeding FDIC coverage, as required by state statute.

FINDING 02.11 **THE OFFICE DID NOT DEVELOP A DISASTER RECOVERY PLAN** (Internal Control – Reportable Condition Under Government Auditing Standards)

The Office of Circuit and General Sessions Courts Clerk did not develop a disaster recovery plan to assist in re-creating its data processing environment in the event of a disaster. Without a formal, written plan, critical computerized applications could be disrupted indefinitely until the system could be repaired or a back-up facility could be found and made operational.

RECOMMENDATION

Management should develop and regularly update a disaster recovery plan defining procedures for personnel to follow in the event of a major hardware or software failure, or temporary or permanent destruction of facilities. The plan should contain provisions for the adequate backup of data files, system programs, user documentation, supplies, and computer hardware so that operations could continue as normally as possible. A copy of the plan should be kept in a secure area within the office, as well as at a secure, off-site location.

FINDING 02.12 THE OFFICE DID NOT HAVE FORMAL POLICIES AND PROCEDURES FOR COMPUTER OPERATIONS
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Circuit and General Sessions Courts Clerk’s Office did not have written policies and procedures for routine computer operations. Routine operations include system startup/shutdown, application access, system access security, system backup and retention schedules, hardware/software maintenance, output distribution, and other general data processing functions. Formal policies and procedures are necessary to ensure adequate management control over computer operations.

RECOMMENDATION

Management should prepare a computer policies and procedures manual that defines policies and procedures for operations such as system backups, security measures, and other general data processing functions. Upon completion, the manual should be distributed to all appropriate personnel.

OFFICE OF SHERIFF

FINDING 02.13 FUNDS WERE NOT DEPOSITED WITHIN THREE DAYS OF COLLECTION
(Noncompliance Under Government Auditing Standards)

The Sheriff’s Office did not always deposit funds to the office bank account within three days of collection. Section 5-8-207, Tennessee Code Annotated, requires county officials to deposit funds within three days of collection.

RECOMMENDATION

All funds should be deposited to the office bank account within three days of collection, as required by state statute.

MANAGEMENT’S RESPONSE – SHERIFF

I agree with this finding and recommendation.

FINDING 02.14 THE SHERIFF DID NOT PREPARE AN ANNUAL FINANCIAL REPORT

(Noncompliance Under Government Auditing Standards)

The sheriff did not prepare an annual financial report. Section 5-8-505, Tennessee Code Annotated, states, “All appointive or elective county public officials, official county boards, committees and commissions ... having in their charge and custody public funds or moneys are required to file with the county executive and with the county clerk ... an annual financial report ...”

RECOMMENDATION

The office should prepare an annual financial report, as required by state statute.

MANAGEMENT’S RESPONSE – SHERIFF

I disagree with this finding. An annual financial report was filed with the County Executive’s Office by the end of August 2002.

REBUTTAL

Both the county executive and the county clerk stated to us that an annual financial report had not been filed by the Sheriff’s Department.

FINDING 02.15 THE OFFICE DID NOT SUBMIT EMPLOYEE TIME SHEETS ON A TIMELY BASIS

(Internal Control – Reportable Condition Under Government Auditing Standards)

Payroll for the Sheriff’s Office is paid from the General Fund administered by the county executive. The Sheriff’s Office did not submit time sheets on a timely basis for the months of April, May, and June 2002 to the County Executive’s Office to support payroll payments. If time sheets are not filed in a timely manner, employees may not be compensated accurately.

RECOMMENDATION

To adequately document payroll payments, the Sheriff’s Office should submit employee time sheets to the County Executive’s Office on a timely basis.

MANAGEMENTS RESPONSE – SHERIFF

Time sheets were sent to the County Executive’s Office.

REBUTTAL

Time sheets for April, May, and June 2002 were not submitted to the County Executive's Office until July 2002.

FINDING 02.16 THE SHERIFF'S OFFICE DID NOT REMIT CASH BONDS TO THE APPROPRIATE COURT ON A CURRENT BASIS
(Noncompliance Under Government Auditing Standards)

Cash bond revenues were not reported and paid to the various courts by the fifteenth day of the month, as required by Section 67-4-213, Tennessee Code Annotated. In some instances, cash bonds were reported and paid from one to 71 days after the date of collection.

RECOMMENDATION

Cash bonds should be remitted to the various courts by the fifteenth day of the month, as required by state statute.

MANAGEMENT'S RESPONSE – SHERIFF

I agree with the finding and recommendation.

FINDING 02.17 THE SHERIFF MADE INAPPROPRIATE PAYMENTS TO JAILERS AND DEPUTIES FOR TRANSPORTING FEDERAL PRISONERS
(Noncompliance Under Government Auditing Standards)

The sheriff made the following inappropriate payments to jailers and deputies:

- A. In some instances, Sheriff's Office deputies and jailers, while working their normal hours of employment, transported federal prisoners to Jackson and/or Memphis. The federal government reimbursed the county \$11.60 per hour for transporting federal prisoners. Our examination of payroll records indicated the sheriff paid these employees \$11.60 per hour in addition to their regular pay and required these employees to deduct the amount received from the federal government from any compensatory time they had accumulated. This practice had not been approved by the County Commission.
- B. Because these employees received their regular pay in addition to the federal government reimbursement, their total salaries exceeded the amount appropriated by the County Commission. Minutes of the County Commission meetings did not indicate that the amounts budgeted for these employees' salaries had been amended to receive additional compensation for transporting federal prisoners.

The budget resolution approved by the County Commission states, “The salary, wages, or remuneration of each officer, employee, or agent of the county shall not be in excess of the amounts authorized by existing law or as set forth in the estimate of expenditures which accompanies this resolution.”

RECOMMENDATION

The County Commission should determine if employees transporting federal prisoners will receive compensation for this service in addition to their regular pay. Salaries should be held within appropriations, as required by budget resolution.

MANAGEMENT’S RESPONSE – SHERIFF

I disagree with the finding. Personnel used compensatory time during their transport of federal prisoners. Also, the additional amount paid for the transport of federal prisoners was budgeted as salary supplements.

REBUTTAL

We saw no evidence that the policy of allowing Sheriff’s Office personnel to use compensatory time during the transport of federal prisoners had been approved by the County Commission. Amounts paid for the transport of prisoners are not normally considered a salary supplement and would need the approval of the County Commission.



OTHER FINDINGS AND RECOMMENDATIONS

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

McNairy 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 McNairy 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

McNairy 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)

McNairy 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

McNairy 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 THE OFFICES OF TRUSTEE AND REGISTER ALLOWED INDIVIDUALS UNSUPERVISED ACCESS TO THE OFFICES AFTER BUSINESS HOURS
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our examination disclosed that officials in the Offices of Trustee and Register did not adequately control access to their offices. Individuals who were not office employees had unsupervised access to these offices after business hours. Allowing persons who are not employees to have unsupervised access to an office after business hours seriously weakens internal controls over assets.

RECOMMENDATION

Individuals who are not office employees should not be allowed unsupervised access to these offices after business hours.

FINDING 02.21 DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF TRUSTEE AND SHERIFF
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among officials and employees in the Offices of Trustee and Sheriff. Officials and employees responsible for maintaining accounting records in these offices were also involved in receipting, depositing, reconciling daily business, posting entries to the cash journal, and/or 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.

MANAGEMENT'S RESPONSE – SHERIFF

Additional employees were not available to adequately segregate duties.

FINDING 02.22 **THE COUNTY USED A QUESTIONABLE METHOD OF FUNDING RURAL FIRE PROTECTION** (Material Noncompliance Under Government Auditing Standards)

Tennessee statutes provide that if a city offers fire protection, the county can offer fire protection outside those city limits in one of three ways:

- A. The county can appropriate funds to nonprofit volunteer fire departments.
- B. The county legislative body may establish a county-wide fire department and fund the department by either (1) establishing fire tax districts and levying an annual fire tax upon the property owners in each district sufficient to pay that district's share of the total budget of county-wide fire department, or (2) as an alternative to fire tax districts, fire protection for unincorporated portions of the county can be funded with general fund revenues generated from situs-based taxes that have already been shared with the cities and from contributions made to the county.
- C. The county can enter into an interlocal agreement with a municipality to provide fire protection to areas outside the municipality.

The cities of Selmer and Adamsville provide fire protection to citizens living within their city limits. McNairy County provides fire protection to citizens outside the cities of Selmer and Adamsville but does not follow any of the above-noted methods. The county appropriates funds to several volunteer fire departments; however, these volunteer fire departments have not been legally established as nonprofit volunteer fire departments. In addition, the county pays the salary of a county-wide fire chief who coordinates the activities of the volunteer fire departments, purchases equipment for the fire chief and volunteer fire departments, and pays for maintenance and repair services to vehicles of the volunteer fire departments from the county's General Fund. The county has not established fire tax districts, and the situs-based taxes and contributions the county received and placed into the General Fund were not sufficient to fund the fire department operations paid from the General Fund. Therefore, it appears that McNairy County uses property taxes levied on all county citizens, including those living inside the cities of Selmer and Adamsville, to provide fire protection to citizens living outside the cities of Selmer and Adamsville.

RECOMMENDATION

McNairy County should provide rural fire protection in a method that complies with state statutes.