

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 clerk and master 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 DIRECTOR OF SCHOOLS

FINDING 02.01 **THE OFFICE HAD DEFICIENCIES IN GENERAL FIXED ASSET RECORDS**
(Internal Control – Material Weakness Under Government Auditing Standards)

Our audit noted the following deficiencies in the School Department's computerized property records:

- A. The values recorded for buildings and improvements were based on current appraisal information. Generally accepted accounting principles require that valuations be based on historical cost or estimated historical cost.
- B. The value of construction in progress for unfinished capital projects was not recorded in the accounting records. Generally accepted accounting principles require that expenditures for ongoing construction be accumulated as construction in progress and reflected on the balance sheet.
- C. Land donated to the Board of Education was not valued and recorded in the accounting records. Generally accepted accounting principles require that valuations of donated assets be based on fair market value or estimated fair market value on the date of donation.

RECOMMENDATION

The office should establish and maintain adequate property records for all general fixed assets. In maintaining these records, the office should ensure that buildings, improvements, and construction in progress are valued at historical cost or estimated historical cost and that land be valued at fair market value or estimated fair market value in accordance with generally accepted accounting principles.

OFFICE OF TRUSTEE

FINDING 02.02 **THE TRUSTEE'S DEPOSITORY USED AN UNAUTHORIZED METHOD OF PAYING 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(7), Tennessee Code Annotated (TCA), states that the trustee should "pay all just claims against the trustee's county as they are presented, if the trustee 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 alternate 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. Subsequent to June 30, 2002, the trustee implemented a checking system.

OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK

FINDING 02.03 **THE SOFTWARE DID NOT HAVE ADEQUATE APPLICATION CONTROLS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Users had the capability to change information on receipts, leaving no evidence of the original receipt. This lack of application control could allow inappropriate system activity. The official has contacted the vendor, and the vendor agreed to implement a log of changes made to any receipt.

RECOMMENDATION

Management should ensure that the vendor does implement controls that would not allow the user to change any information on the receipt. These controls would help to ensure the reliability and integrity of the information maintained by the system.

OFFICE OF CLERK AND MASTER

FINDING 02.04 **THE COURT SOFTWARE HAD REPORTING DEFICIENCIES (Internal Control – Reportable Condition Under Government Auditing Standards)**

The office's court software did not generate sufficient accounting reports. The following deficiencies were noted:

- A. The general ledger report did not display an adequate description for each transaction.
- B. The general ledger posted receipts by receipt code (fees, litigation taxes, fines, etc.) rather than by receipt number. Because each receipt could have numerous codes, the general ledger was voluminous and difficult to read.
- C. The software assigned journal entries a receipt number and included the journal entry amounts in the receipt total on the daily cash receipt list. Therefore, the total receipts reflected on the daily cash receipt lists were incorrect.

RECOMMENDATION

The general ledger report should include detailed descriptions of all transactions. To improve readability, the clerk should ensure that receipt entries are summarized by receipt number. Journal entries should not be assigned a receipt number and should be displayed on an individual report apart from the cash receipt list.

MANAGEMENT'S RESPONSE – CLERK AND MASTER

I concur that the general ledger should include detailed descriptions of all transactions. The original report reflecting individual receipt transactions was voluminous (approximately 800 pages). We agree that these should be summarized by receipt number. These concerns have been shared with our software vendor, who reports that corrections have been completed. Finally, our software vendor is close to completion of an individual report for journal entries apart from cash receipt lists. Receipt numbers are no longer being assigned to journal entries.

FINDING 02.05

THE OFFICE HAD ACCOUNTING DEFICIENCIES

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

The clerk and master began using a new software package on May 1, 2002, without running a parallel system to ensure that the software was functioning properly. Because the reports generated by the software did not provide adequate information, we were unable to determine the propriety of all transactions. We noted the following deficiencies during May and June 2002:

- A. Bank statements were not reconciled with general ledger controls. At June 30, 2002, the bank statement differed from the general ledger controls by \$361,165. On February 18, 2003, the clerk and master provided us with manually prepared bank reconciliations for May and June 2002. These reconciliations failed to reconcile with general ledger controls by nominal amounts.
- B. We noted that bank deposits for five days exceeded daily receipt totals. Therefore, receipts were not issued for all collections, as required by Section 5-8-207, Tennessee Code Annotated.
- C. The computer-generated general ledger reflected a balance for litigant investments totaling \$2,492,124 at June 30, 2002; however, the clerk and master could not provide a computer-generated detailed subsidiary record to support this balance. On February 18, 2003, the clerk and master provided us with a manually prepared detailed list of litigant investments for June 30, 2002, totaling \$4,542,853. This manual list appears to be reasonably correct.
- D. The June 30, 2002, balances on the annual report did not agree with the balances reflected on the general ledger.
- E. We could not accurately determine the actual fees and commissions of the office from the computer-generated records.
- F. The execution docket trial balance as of June 30, 2002, did not reconcile with general ledger accounts by \$378,071. On February 18, 2003, the clerk and master provided us with a second trial balance for June 30, 2002, which did not reconcile with general ledger accounts by approximately \$500. Both of these trial balances were prepared manually.

RECOMMENDATION

Significant improvements should be made to ensure that the computer accounting software provides the clerk and master adequate and accurate information for maintaining office records. Bank statements should be reconciled monthly, all collections should be receipted, accurate subsidiary records should be maintained for litigant investments, the annual

financial report should accurately reflect all financial activity of the office, and fees and commissions earned should be reflected in the accounting records. Furthermore, the execution docket trial balance should be prepared and reconciled with general ledger accounts on a current basis.

MANAGEMENT'S RESPONSE – CLERK AND MASTER

It had been our directive and our intention to run a parallel system until we successfully completed the implementation of this software application; however, because of serious issues with the conversion of information and the need to operate dually in both systems simultaneously, an immediate decision to abort the parallel running was made independently by our software vendor and information systems department, and we were subsequently notified of this decision. Since concerns with the reports generated by this software have been further brought to our attention, we have reconciled our bank statements with our general ledger for May and June. Admittedly, most of this work has been performed manually. However, until we have corrected the implementation difficulties, this will be a necessary part of the process. We recognize the importance of the monthly reconciliation of bank statements and the accurate receipting of all collections. As stated, the implementation of a noncustomized software package this large in nature precipitated difficulties that could not be anticipated in posting and processing. Frequently, the imputing of daily information required much technical advice and because the application is new and unique to our court, involved some trial and error. We have been diligent in attempting to resolve these issues, and while the system reporting may presently fall short of our expectations, we have taken every precaution and measure to ensure the protection of the integrity of all financial transactions. We recognize that this application still requires development in its manner of demonstrating the propriety of all transactions and in its ability to more adequately identify and describe transactions. Modifications to the reporting instrument of investments are in progress and nearing completion. The annual financial report was filed timely; however, we agree that it did not reconcile with the general ledger. Due to problems with software reporting, auditors could not determine an accurate determination of fees and commissions received by this office. However, fees and commissions were reported and submitted in a timely manner each month. We have reconciled our docket trial balance with our general ledger accounts.

OFFICE OF SHERIFF

FINDING 02.06 **THE SHERIFF DID NOT OBTAIN A LETTER OF AGREEMENT
OR COURT DECREE TO AUTHORIZE DEPUTY HIRES**
(Noncompliance Under Government Auditing Standards)

The sheriff did not obtain a letter of agreement or file suit in Circuit Court to authorize the number and salaries of his deputies. Section 8-20-101, Tennessee Code Annotated, permits the sheriff to enter into a letter of agreement with the county executive concerning the number and the salaries of deputies or to file suit in Circuit Court.

RECOMMENDATION

The sheriff should obtain a letter of agreement with the county executive or petition Circuit Court for the number and salaries of deputies, as required by state statute.