

## **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 director of accounts and budgets are included 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 SOLID WASTE/SANITATION FUND HAD A CASH SHORTAGE****

(Internal Control – Material Weakness Under Government Auditing Standards)

The Solid Waste/Sanitation Fund had a cash shortage of \$10,610.25 on June 30, 2002. This cash shortage resulted from tipping fees (\$6,776.30) and sales of recyclable materials (\$3,833.95) not being deposited with the county trustee or otherwise accounted for in any manner. Our examination was originally scheduled to cover transactions for the year ended June 30, 2002; however, because of the cash shortage, we extended our examination to include transactions dating back to July 1, 1998.

Our examination disclosed serious internal control weaknesses over cash collections and computer applications that allowed this cash shortage to occur and go undetected for several years. These internal control weaknesses are discussed in finding 02.02. The office issued manual receipts for some types of solid waste collections, such as the sale of recycled materials, and issued computer receipts for other types of collections, such as tipping fees. Cash was missing from both the manually issued receipts and the computer-generated receipts. Our examination revealed that computer records had been manipulated in several instances so that certain solid waste cash collections would not be reflected. Because of the lack of internal controls and documentation, we are unable to determine the full extent of the cash shortage. The District Attorney General's Office and the Tennessee Bureau of Investigation have been notified of the missing cash collections, and an investigation is in progress. Any additional cash shortage and/or results of the investigation will be disclosed in a subsequent report.

### **RECOMMENDATION**

The county executive should take steps to recover the cash shortage of \$10,610.25 and establish controls over cash receipts.

### **MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE AND DIRECTOR OF ACCOUNTS AND BUDGETS**

Immediately upon discovery of the cash shortage in the Solid Waste Department, the budget director notified the Division of County Audit. The county executive gave the

employee involved the option to resign or be fired and contacted the attorney general. This office is now cooperating with an ongoing investigation. This finding resulted from the actions of one employee and not the entire staff.

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**FINDING 02.02      DEFICIENCIES WERE NOTED IN THE ADMINISTRATION OF THE SOLID WASTE DISPOSAL PROGRAM AND IN THE CASH COLLECTION PROCEDURES IN THE COUNTY EXECUTIVE'S OFFICE**

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

Overton County operates a solid waste transfer station where recyclable materials are sold and where waste is collected before being taken by a private hauler to a landfill. Scales at the transfer station are linked with a computer to calculate and record weights for billing purposes. The information on the transfer station computer is downloaded to a computer at the County Executive's Office daily. Most commercial haulers have a charge account and are billed monthly by the County Executive's Office. Commercial haulers and private individuals without a charge account pay tipping fees at the transfer station when they cross the scales. The County Executive's Office also receipts collections for beer permits, insurance payments made by individuals, reimbursements by employees, fax and copy charges, rent on county buildings, and other miscellaneous revenues. These collections are deposited with the county trustee.

The following deficiencies were noted in the administration of the solid waste disposal program and the cash collection procedures in the County Executive's Office:

- A. Employees' incompatible duties were not segregated. One employee collected funds, issued receipts, posted accounting records, and deposited funds with the county trustee. These duties were performed without effective monitoring or review by supervisory personnel.
- B. The solid waste disposal accounts receivable records maintained in the office included an account labeled "Dummy Account" that was used to account for scale tickets for new charge customers until a charge account was entered into the system. Once a new account was established, the information was to be transferred to the new account; however, this account had an unidentifiable balance of \$4,825 at June 30, 2002.
- C. The county contracted with a local trash collection service to collect trash from county buildings for \$425 per month. The county then allowed this trash collection service to reduce the amount it owed the county by \$425 per month for its use of the county's transfer station. Consequently, county revenues and expenditures were understated. These revenues and expenditures have been properly reflected in the financial statements of this report.

- D. Funds collected in the County Executive's Office were not deposited to the county trustee within three days, as required by Section 5-8-207, Tennessee Code Annotated. Furthermore, collections were not deposited intact with the trustee. During our examination, we noted some collections that were held in the County Executive's Office for almost four months before being deposited with the county trustee.
- E. Collections of the County Executive's Office were not reconciled with deposits made with the county trustee. Reconciling collections with deposits is an effective internal control procedure to ensure that all collections are properly deposited with the county trustee. In addition to the \$10,610 shortage noted in finding 02.01, there were several miscellaneous receipts that could not be traced to the Trustee's Office. However, because of haphazard deposit methods, we could not determine the disposition of these funds.

### RECOMMENDATION

These deficiencies should be corrected by ensuring the following:

- A. The county executive should segregate incompatible duties of solid waste program employees so that no one employee has full control of cash receipts. Also, all employees' duties should be adequately supervised.
- B. The use of a "dummy account" should be discontinued.
- C. All county revenues and expenditures should be properly reflected on accounting records.
- D. All collections should be deposited intact with the county trustee within three days, as required by state statute.
- E. All collections should be reconciled with amounts deposited with the county trustee.

### MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE AND DIRECTOR OF ACCOUNTS AND BUDGETS

The County Executive's Office has taken steps to segregate some of the duties involving collecting, depositing, and posting. Steps are also being taken to identify amounts in the dummy account. The \$425 per month for garbage collection at county buildings is now paid monthly from the General Fund. The three-day deposit law is being strictly enforced with all solid waste program employees. Records are reconciled monthly at the transfer station and the County Executive's Office, and deposits with the trustee are made in a timely manner.

**FINDING 02.03      PURCHASE ORDERS WERE NOT ISSUED PROPERLY**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The following deficiencies were noted in the issuance of purchase orders:

- A. In several instances, purchase orders were issued after the purchases 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 a few instances, purchase orders were issued without the signature of the county’s purchasing agent. Section 5-14-111, Tennessee Code Annotated (TCA), requires the purchasing agent to approve all purchase orders.

**RECOMMENDATION**

Purchase orders should be issued for all purchases before the purchases are made and should be approved by the county purchasing agent.

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**FINDING 02.04      DEFICIENCIES WERE NOTED IN THE AMBULANCE SERVICE OPERATIONS**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

We noted the following deficiencies during our examination of Ambulance Service operations:

- A. Bank statements were not reconciled with general ledger accounts during the year examined. The reconciliation of bank statements with general ledger accounts is a necessary procedure to ensure that all collections and disbursements are properly recorded on the accounting records.
- B. The Ambulance Service did not follow the write-off policy for past due accounts that was approved by the County Commission. The Ambulance Service bookkeeper wrote off accounts that did not have any activity for six months when she deemed the amount uncollectible. The write-off policy approved by the County Commission requires the approval of the Ambulance Committee to write off any past due accounts. The policy also states that past due accounts that may be collectible should be transferred to a collection agency or an attorney.

RECOMMENDATION

Bank statements should be reconciled with the general ledger accounts monthly. The Ambulance Service should follow the write-off policy approved by the County Commission.

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FINDING 02.05    **AN INTERFUND LOAN WAS NOT AUTHORIZED IN ACCORDANCE WITH STATE STATUTE**  
(Noncompliance Under Government Auditing Standards)

During the year, a transfer of \$100,000 was made from the General Debt Service Fund to the General Fund to provide cash for operations of the General Fund. This transfer was, in effect, an interfund loan and was not approved by the state director of Local Finance, as required by Section 9-21-408, Tennessee Code Annotated. This loan was repaid to the General Debt Service Fund prior to June 30, 2002.

RECOMMENDATION

All interfund loans should be submitted to the state director of Local Finance for approval, as required by state statute.

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FINDING 02.06    **INVENTORY RECORDS WERE NOT MAINTAINED**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Inventory records were not maintained for assets owned by the county. Generally accepted accounting principles require accountability for all county-owned assets, such as vehicles, furniture, and equipment. The failure to adequately maintain inventory records results in a loss of control over the assets.

RECOMMENDATION

Overton County should maintain inventory records of all assets, as required by generally accepted accounting principles. Furthermore, personnel independent of maintaining the inventory should periodically verify these records.

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**OFFICE OF HIGHWAY SUPERINTENDENT**

**FINDING 02.07      **A VEHICLE WAS NOT IDENTIFIED AS PROPERTY OF THE HIGHWAY DEPARTMENT****  
(Noncompliance Under Government Auditing Standards)

The county-owned vehicle assigned to the highway superintendent was not clearly identified as property of the Highway Department. 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.

**RECOMMENDATION**

All property should be clearly identified as property of the Highway Department, as required by state statute.

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**FINDING 02.08      **TIME SHEETS WERE NOT MAINTAINED FOR AN EMPLOYEE AT THE HIGHWAY DEPARTMENT****  
(Noncompliance Under Government Auditing Standards)

The highway superintendent's wife was paid for 32 hours each pay period for cleaning and painting at the Highway Department; however, no time records were maintained to document the hours she worked.

**RECOMMENDATION**

All employees at the Highway Department should complete and sign time sheets documenting their hours worked, and these time sheets should be approved by a supervisor.

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**OFFICE OF DIRECTOR OF SCHOOLS**

**FINDING 02.09      **INVENTORY RECORDS OF DEPARTMENT ASSETS WERE NOT VERIFIED BY INDEPENDENT PERSONNEL****  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Although the School Department maintained lists of its assets, these lists were not periodically verified by personnel independent of maintaining the inventory. Generally accepted accounting principles require accountability for all county-owned assets, such as vehicles, furniture, and equipment. The failure to adequately maintain inventory records results in a loss of control over the assets.

RECOMMENDATION

Personnel independent of maintaining the department's inventory should periodically verify these records.

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**OFFICE OF COUNTY CLERK**

**FINDING 02.10      **FUNDS WERE NOT DEPOSITED PROMPTLY****  
(Noncompliance Under Government Auditing Standards)

Funds were not deposited within three days of collection, as required by Section 5-8-207, Tennessee Code Annotated. This statute requires that county officials deposit all funds within three days of collection.

RECOMMENDATION

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

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**OFFICE OF GENERAL SESSIONS COURT CLERK**

**FINDING 02.11      **RECEIPTS WERE NOT ISSUED FOR TRAFFIC SCHOOL****  
**PAYMENTS**  
(Noncompliance Under Government Auditing Standards)

Receipts were not issued for collections received from individuals attending the county's traffic school. The traffic school was conducted at the courthouse after normal business hours, and office employees collected payments at the time the class was conducted. On the day following the class, the payments were receipted in General Sessions Court on a single receipt for the total amount collected. Section 9-2-103, Tennessee Code Annotated, requires that receipts be issued for all collections as they are received.

RECOMMENDATION

Individual receipts should be issued for all traffic school collections when the payments are received, as required by state statute.

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**OFFICE OF SHERIFF**

**FINDING 02.12      **THE OFFICE DID NOT COMPLETE SEVERAL DRUG CONTROL FUND FORMS AND REPORTS**  
(Noncompliance Under Government Auditing Standards)**

Several forms and reports required by the Office of the Comptroller of the Treasury to account for drug control funds were not completed. These forms and reports are necessary to document the administration of confidential drug funds and to account for cash transactions related to undercover investigative operations.

**RECOMMENDATION**

The sheriff should ensure that the office completes all forms and reports required by the Office of the Comptroller of the Treasury.

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**FINDING 02.13      **INMATE TELEPHONE COMMISSIONS WERE NOT PROPERLY REMITTED AND DISBURSED**  
(Noncompliance Under Government Auditing Standards)**

The Sheriff's Department retained \$1,562.17 received from a contract for inmate telephone service at the jail. These funds were deposited to the office bank account, and the department then issued a check from the bank account to purchase four televisions and stands for the jail. Section 8-22-104, Tennessee Code Annotated (TCA), requires all collections of the Sheriff's Department to be remitted to the General Fund on a monthly basis. Also, Section 5-9-401, TCA, requires all funds to be appropriated by the County Commission.

**RECOMMENDATION**

All county revenues should be properly remitted to the General Fund, and all expenditures for the Sheriff's Department should be appropriated by the County Commission, as required by state statutes.

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**FINDING 02.14      **DEFICIENCIES WERE NOTED IN THE MAINTENANCE OF ACCOUNTING RECORDS**  
(Internal Control – Reportable Condition Under Government Auditing Standards)**

The following deficiencies were noted in the maintenance of accounting records at the Sheriff's Department:

- A. The cash journals were not properly maintained. We noted several transactions that were posted incorrectly. Also, the cash journals were not totaled and balanced, and the ending balances were not carried forward from month to month.
- B. Bank statements were not reconciled with the cash journal. The reconciliation of bank statements with general ledger accounts is necessary to ensure that all collections and disbursements are properly recorded on the accounting records.

RECOMMENDATION

The cash journals should properly reflect all financial transactions of the Sheriff's Department. Also, bank statements should be reconciled with the cash journals monthly.

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OTHER FINDINGS AND RECOMMENDATIONS

FINDING 02.15      **RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED ASSETS**  
(Internal Control – Material Weakness Under Government Auditing Standards)

Overton 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 Overton 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

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

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FINDING 02.16      **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF COUNTY EXECUTIVE, DIRECTOR OF ACCOUNTS AND BUDGETS, 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, Director of Accounts and Budgets, 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 accounting records 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.

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**FINDING 02.17      WRITTEN PERSONNEL POLICIES AND PROCEDURES WERE NOT ESTABLISHED FOR THE OFFICES OF COUNTY EXECUTIVE, DIRECTOR OF ACCOUNTS AND BUDGETS, HIGHWAY SUPERINTENDENT, TRUSTEE, COUNTY CLERK, CIRCUIT AND GENERAL SESSIONS COURTS CLERK, REGISTER, AND SHERIFF**

(Internal Control – Reportable Condition Under Government Auditing Standards)

Written personnel policies and procedures were not established in the Offices of County Executive, Director of Accounts and Budgets, Highway Superintendent, Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Register, and Sheriff. These policies and procedures are necessary for strong internal and administrative controls and for compliance with provisions of the Fair Labor Standards Act and Sections 5-23-101 through 5-23-112, Tennessee Code Annotated. These statutes required a specific time during which counties were to adopt written personnel policies and procedures and established minimum standards and an approval process for these policies.

**RECOMMENDATION**

County officials should establish written personnel policies and procedures in compliance with state statutes and provisions of the Fair Labor Standards Act.

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**FINDING 02.18      THE TRUSTEE, COUNTY CLERK, CIRCUIT AND GENERAL SESSIONS COURTS CLERK, CLERK AND MASTER, REGISTER, AND SHERIFF DID NOT REQUIRE DEPOSITORIES TO COLLATERALIZE FUNDS THAT EXCEEDED FDIC COVERAGE**

(Noncompliance Under Government Auditing Standards)

The Offices of Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff did not require depositories holding county funds to pledge adequate securities to protect funds that exceeded Federal Deposit Insurance Corporation (FDIC) coverage. The trustee, register, and sheriff had funds that exceeded FDIC coverage because they shared a mutual federal identification number on their bank accounts. The clerk and master and the circuit and general sessions courts clerk shared federal

identification numbers with other offices and did not have adequate coverage for the deposits in their individual offices for several months during the year. All county funds were adequately secured at June 30, 2002. 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.

#### RECOMMENDATION

County officials should require all depositories to pledge securities to protect county funds exceeding FDIC coverage, as required by state statute.