

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 clerk and master and sheriff 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 DID NOT USE THE ACCRUAL BASIS OF ACCOUNTING FOR THE SOLID WASTE DISPOSAL FUND (Material Noncompliance Under Government Auditing Standards)**

County officials did not determine and record fixed assets, accumulated depreciation, landfill postclosure care costs, and contributed capital on the accounting records of the Solid Waste Disposal Fund, which is an Enterprise Fund. Also, postclosure care costs paid for the closed landfill were not charged to accounts that separated them from costs related to the new landfill. Generally accepted accounting principles require that the accrual basis of accounting be used for Enterprise Funds. Amounts reflected in this report for fixed assets (\$1,223,038), accumulated depreciation (\$311,097), liability for closure and postclosure care costs (\$277,198), and contributed capital (\$577,914) have been determined from information obtained from county officials and other sources.

RECOMMENDATION

The Solid Waste Disposal Fund should be accounted for using the accrual basis of accounting, as required by generally accepted accounting principles. All assets, liabilities, and fund equity accounts associated with the operation of this fund should be included on the balance sheet. Expenditures for postclosure care costs should be charged to the appropriate accounts provided by the Uniform Chart of Accounts.

FINDING 02.02 **INVENTORY RECORDS WERE NOT MAINTAINED (Internal Control – Reportable Condition Under Government Auditing Standards)**

Inventory records were not maintained for assets owned by the general county government. Generally accepted accounting principles require accountability for all county-owned assets, such as equipment, furniture, and vehicles.

RECOMMENDATION

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

**FINDING 02.03 DEFICIENCIES WERE NOTED IN LANDFILL OPERATIONS
(A. Noncompliance Under Government Auditing Standards; B. and C. Internal Control – Reportable Condition Under Government Auditing Standards)**

The following deficiencies were noted in our examination of landfill operations:

- A. Official, prenumbered receipts were not issued for all collections received at the landfill, as required by Section 9-2-103, Tennessee Code Annotated.
- B. The County Commission had not established a formal, written policy for the write-off of uncollectible accounts receivable.
- C. Landfill collections were not reconciled with the amounts deposited with the county trustee.

RECOMMENDATION

Landfill personnel should issue official, prenumbered receipts for all collections, as required by state statute. The County Commission should establish a write-off policy for uncollectible accounts receivable. Landfill collections should be reconciled with amounts deposited with the county trustee.

OFFICES OF COUNTY EXECUTIVE AND HIGHWAY SUPERINTENDENT

**FINDING 02.04 THE OFFICES HAD PURCHASING DEFICIENCIES
(Internal Control – Reportable Condition Under Government Auditing Standards)**

The following purchasing deficiencies were noted in the County Executive’s and Highway Superintendent’s Offices:

- A. Purchase orders were not issued for some purchases. Also, in several instances in which purchase orders were issued, the purchase orders were issued after the purchases were made. Purchase orders are necessary to control who has purchasing authority and to document purchasing commitments. The practice of issuing purchase orders after the purchase has been made defeats the purpose of the purchase order and makes the purchase order an approval of payment rather than an approval of the purchase.
- B. In several instances, invoices were paid without documentation that goods and services were received. This practice weakens controls over the purchasing process. We extended our audit procedures and determined that these purchased goods and services were received.

RECOMMENDATION

County officials should improve purchasing procedures by issuing purchase orders for all applicable purchases before the purchases are made. Furthermore, county officials should obtain documentation that goods and services were received before invoices are paid.

OFFICE OF HIGHWAY SUPERINTENDENT

FINDING 02.05 **THE OFFICE DID NOT MAINTAIN ADEQUATE CONTROLS OVER CONSUMABLE ASSETS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The office did not maintain inventory records of consumable assets, such as fuel, tires, repair parts, and rock. The failure to maintain adequate records of consumable assets weakens controls over these assets and increases the risk of inventory loss.

RECOMMENDATION

The office should maintain records of consumable assets, such as fuel, tires, repair parts, and rock. Furthermore, personnel independent of maintaining the inventory should periodically verify these records.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 02.06 **PURCHASE ORDERS WERE NOT ISSUED OR WERE NOT ISSUED PROPERLY**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Purchase orders were not issued for some purchases. Also, in several instances in which purchase orders were issued, the purchase orders were issued without a description of the goods and/or services to be purchased, the number of goods or services to be purchased, or a dollar limit that could be spent. Purchase orders are necessary to control who has purchasing authority and to document purchasing commitments.

RECOMMENDATION

County officials should improve purchasing procedures by issuing purchase orders for all applicable purchases, by including on the purchase order a description of the goods and services to be purchased, and by establishing limits on the number and dollar amount of items that can be purchased.

OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK

FINDING 02.07 **THE OFFICE HAD A CASH SHORTAGE OF \$407.02 (Noncompliance Under Government Auditing Standards)**

The Circuit Court Clerk's Office had a cash shortage of \$407.02 at June 30, 2002. On June 11, 2002, we performed a cash count in the Office of Circuit and General Sessions Courts Clerk. The clerk presented several checks and money orders totaling over \$9,500 dating as far back as March 25, 2002, that had not been officially receipted and had not been deposited to the office bank account. An office employee stated that it was common for funds to be held in the office until a case number was determined. When a case number was determined, a computer-generated receipt would be issued, and the funds would be deposited to the office bank account. It should be noted that Section 5-8-207, Tennessee Code Annotated, requires that all collections of the office be deposited within three days. After the cash count, we instructed the office staff to receipt and deposit the collections presented to us during the cash count. However, a subsequent review of office receipts, bank statements, and the cash journal disclosed that seven of the checks totaling \$369.22 that had been presented to us during the cash count on June 11, 2002, had never been receipted, deposited, or otherwise accounted for. In addition to the seven checks (\$369.22) that were unaccounted for, the shortage also includes \$37.80 that the cash journal reflected as being receipted and deposited. However, the bank statement did not reflect that the funds had ever been deposited.

RECOMMENDATION

This cash shortage has not been liquidated as of the date of this report. The clerk should immediately liquidate the cash shortage of \$407.02 from personal funds.

FINDING 02.08 **ACCOUNTING RECORDS FOR THE COURTS WERE NOT MAINTAINED PROPERLY (A., B., and D. Noncompliance Under Government Auditing Standards; C. and E. Internal Control – Reportable Condition Under Government Auditing Standards)**

The following deficiencies were noted during our examination of the office's accounting records:

- A. The clerk did not post a litigant's investment of \$10,075.63 to the Circuit Court's general ledger. It should be noted that we discovered this investment during the audit for the year ended June 30, 2001, and gave the clerk an audit adjustment in the prior year to post this investment to the general ledger. However, the clerk never posted the audit adjustment.
- B. Funds were not properly receipted and deposited. On June 11, 2002, we performed a cash count in the Office of Circuit and General Sessions Courts

Clerk. Several unreceipted checks and money orders were on hand that were dated as far back as March 25, 2002. Office employees stated that funds pertaining to a case would not be receipted until a case number was determined. If a case number was not known at the time collections were received, a handwritten receipt from the computer receipt stock was often issued to the individual making payment to the office. The handwritten receipt and money were then held in the office until a case number was determined. Once a case number was assigned, an official, computer-generated receipt would be issued, the receipt would be entered into the general ledger, and the funds deposited. Section 9-2-103, et seq., Tennessee Code Annotated (TCA), requires that official, prenumbered receipts be issued at the time funds are received. Also, Section 5-8-207, TCA, requires that county officials deposit funds within three days of collection.

- C. As noted in B. above, the clerk did not deposit funds collected in either court to the official bank accounts within three days of collection. Deposit slips were prepared and dated to appear that funds were deposited in compliance with state statutes; however, the bank statements reflected that these deposits would actually be held in the office, and then several deposits were taken to the bank in a single day. Section 5-8-207, TCA, requires that county officials deposit funds within three days of collection.
- D. Bank statements had not been reconciled with the general ledger for six months of the year. We extended our audit procedures to include a reconciliation of the bank accounts for the year examined.
- E. The clerk did not maintain cash in either court for making change. If he needed to make change, he would do so out of personal funds or funds from the other court. Maintaining a fixed amount of cash on hand strengthens internal controls over office funds.

RECOMMENDATION

The clerk should ensure that all investments are properly posted to the general ledger. Official receipts should be issued when funds are received, and all collections should be deposited to the office bank account within three days of collection in compliance with state statutes. Furthermore, bank statements should be reconciled with the general ledger monthly, and the office should maintain a fixed amount of cash on hand.

FINDING 02.09 **TRAFFIC SCHOOL COLLECTIONS WERE NOT REPORTED AND PAID TO THE COUNTY IN COMPLIANCE WITH STATE STATUTES**
(Noncompliance Under Government Auditing Standards)

The general sessions court clerk did not report and pay traffic school tuition to the county, as required by Section 5-8-105, Tennessee Code Annotated (TCA). Instead, the clerk

disbursed traffic school collections of \$18,186.75 for community service program expenditures; traffic school expenditures; pagers for the clerk, general sessions judge, and youth services officer; and furniture and equipment for the office. These disbursements also included payments of \$10,200 that were made to the clerk's bookkeeper for her duties at the traffic school at the order of the general sessions judge. It should be noted that no federal income taxes or other withholdings (insurance, retirement, etc.) were withheld from these payments; however, this employee was provided an IRS Form 1099 reporting these payments. Section 5-9-401, TCA, requires all funds to be appropriated by the County Commission. On June 30, 2002, the office had traffic school collections of \$2,674.68 in the bank that had not been remitted to the county.

RECOMMENDATION

All traffic school collections should be remitted to the county trustee monthly and placed in the General Fund, and all disbursements of traffic school collections should be made only from the General Fund after being appropriated by the County Commission. In addition, county officials should review the payments made to the clerk's bookkeeper to determine additional liabilities, such as overtime pay and additional retirement benefits, concerning payments she received.

FINDING 02.10 **EXECUTION DOCKET TRIAL BALANCES DID NOT RECONCILE WITH GENERAL LEDGER ACCOUNTS FOR CIRCUIT AND GENERAL SESSIONS COURTS** (Noncompliance Under Government Auditing Standards)

As of June 30, 2002, the clerk prepared trial balances of execution docket cause balances for Circuit and General Sessions Courts, as required by Section 18-2-103, Tennessee Code Annotated (TCA). However, these trial balances did not reconcile with the general ledger control accounts by \$5,887.45 in Circuit Court and by \$13,523.98 in General Sessions Court. Therefore, we were unable to determine if the clerk had complied with provisions of the Unclaimed Property Act, Section 66-29-110, TCA. This statute provides that any funds held by the courts for more than 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 clerk should reconcile trial balances of execution docket cause balances with general ledger accounts. To comply with state statutes, the clerk should report and pay to the state Treasurer's Office any unclaimed funds held for more than one year.

OFFICE OF CLERK AND MASTER

FINDING 02.11 **FUNDS WERE NOT DEPOSITED WITHIN THREE DAYS OF COLLECTION**
(Noncompliance Under Government Auditing Standards)

Funds were not 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 within three days of collection.

RECOMMENDATION

The clerk and master should deposit funds within three days of collection, as required by state statute.

MANAGEMENT'S RESPONSE – CLERK AND MASTER

I agree with the finding and recommendation.

OFFICE OF SHERIFF

FINDING 02.12 **THE OFFICE HAD A CASH SHORTAGE OF \$647.50**
(Noncompliance Under Government Auditing Standards)

The Sheriff's Office had a cash shortage of \$647.50 at June 30, 2002. We performed a cash count in the office on October 25, 2002. Our examination disclosed that four receipts totaling \$647.50 had been written; however, the funds had not been deposited to the office bank account, and the funds were not presented as cash on hand for the cash count. Our examination further disclosed that these receipts had been posted to the cash journal and disbursed to the appropriate court.

We reviewed the cash shortage with the sheriff in January 2003. After this review, office personnel informed us that they had found \$797.50 in cash in an envelope in the office safe in November 2002 and that they had deposited the funds to the office bank account at that time. We examined receipts and deposits through January 15, 2003, and determined that the funds found in the safe included \$647.50 that was not deposited or presented at the cash count. Therefore, the deposit of the funds found in the safe liquidated the cash shortage of \$647.50 on June 30, 2002. The failure to deposit these funds within three days of collection is a violation of Section 5-8-207, Tennessee Code Annotated. The Sheriff's Office also did not reconcile the cash journal with collections, cash on hand, and cash in the bank. If this reconciliation had been performed, the office would have discovered that the receipts had been posted but the cash had not been deposited.

RECOMMENDATION

All collections should be deposited to the office bank account within three days of collection, and all funds on hand should be presented for cash count. Furthermore, the cash journal should be reconciled with collections, cash on hand, and cash in the bank.

MANAGEMENT'S RESPONSE – SHERIFF

This cash shortage was liquidated subsequent to June 30, 2002, from an envelope containing \$797 in cash that was discovered in the office safe. This cash was deposited upon discovery.

FINDING 02.13 **ACCOUNTING RECORDS WERE NOT MAINTAINED PROPERLY**

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

The following deficiencies were noted during our examination of the office's accounting records:

- A. The cash journal did not accurately reflect office operations. Several receipts and disbursements were not posted to the cash journal, and the amounts posted were not totaled, balanced, or carried forward.
- B. As noted in finding 02.12, bank statements were not reconciled with cash journal accounts. We extended our audit procedures to include a reconciliation of the bank accounts for the year examined.
- C. Receipts were not issued for some collections, and several receipts were not issued at the time the collections were received. On October 25, 2002, we performed a cash count in the office. We found cash and several checks, some dating as far back as April 17, 2002, that had not been receipted. After asking office personnel, we were informed that collections received for service of process are held in the office without being receipted until the warrant is served. If the office is unable to serve the warrant, the check/cash is then returned to the individual along with the warrant. Sheriff's Office personnel also informed us that they often collected cash bonds and fines that they held in the office until the funds could be taken to clerk's office. The office did not issue receipts for or deposit these cash bonds and fines. Section 9-2-103, TCA, requires that official, prenumbered receipts be issued for all collections. Also, Section 5-8-207, TCA, requires that county officials deposit funds within three days of collection.
- D. The office did not maintain a set amount of cash on hand for making change and did not make deposits intact so that cash would be available to make change. Maintaining a fixed amount of cash on hand strengthens internal controls over office funds.

RECOMMENDATION

The cash journal should accurately reflect office operations and should be totaled and balanced properly at the end of each month. Receipts should be issued for all collections when received, as required by state statute. The office should reconcile bank statements with cash journal accounts monthly, deposit collections intact to the office bank account within three days of collection, and maintain a fixed amount of cash on hand.

FINDING 02.14 **THE SHERIFF’S OFFICE HAD DEFICIENCIES IN ITS BOOKING PROCEDURES**
(Noncompliance Under Government Auditing Standards)

The office did not maintain records to document that all arrestees were fingerprinted and that the fingerprints were filed with the Tennessee Bureau of Investigation (TBI), as required by Section 8-4-115, Tennessee Code Annotated (TCA). This statute requires that law enforcement agencies take two full sets of classifiable fingerprints at the time of a person’s arrest and that the agency file the fingerprints with the TBI.

RECOMMENDATION

The Sheriff’s Office should document that all arrestees are fingerprinted and that all fingerprints are filed with the TBI.

FINDING 02.15 **ACCOUNTING RECORDS FOR CONFIDENTIAL DRUG CONTROL FUNDS WERE NOT MAINTAINED ADEQUATELY**
(Noncompliance Under Government Auditing Standards)

We noted the following deficiencies during our examination of the confidential drug control funds the office administered:

- A. The office did not use the forms required by the Office of the Comptroller of the Treasury to document confidential drug expenditures and did not adequately document confidential drug fund activity. Records did not include the funds received from the county drug fund and did not show the balance of funds on hand. The forms required by the Comptroller’s Office are necessary to document the administration of confidential drug funds and to account for cash transactions related to undercover investigations.

- B. Office employees informed us that it was their standard practice to borrow cash from local businesses to make drug buys and pay informants. Funds were then requested from the county and used to repay the businesses. The confidential drug control records prepared by the agents reflect only the drug

buys and the payments to the confidential informants; therefore, we were unable to determine the amount of cash borrowed from local businesses and the amount paid back to the businesses. We also disclosed in the audit report for the prior year that the office had received temporary loans from two local businesses to make drug buys and pay confidential informants. When we inquired about the status of these loans, the sheriff stated that the loans had been repaid; however, there was no documentation on file in the office to support the repayment of the loans. The Sheriff's Office had no statutory authority to borrow money from local businesses for these purposes.

RECOMMENDATION

The office should use the forms required by the Comptroller's Office to properly account for confidential drug funds and should use money only from the county drug fund for confidential drug transactions. Under no circumstances should the Sheriff's Office borrow funds from local businesses.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 02.16 **THE GENERAL SESSIONS JUDGE ORDERED CONTRIBUTIONS TO CHARITABLE OR CIVIC ORGANIZATIONS CONTRARY TO THE STATE ATTORNEY GENERAL'S OPINION**
(Noncompliance Under Government Auditing Standards)

The general sessions judge ordered defendants to make contributions to charitable or civic organizations in addition to fines and costs on certain General Sessions Court cases. The contributions were collected from defendants by the general sessions court clerk and paid to the charitable or civic organization designated by the judge. The state attorney general opined in opinion number U91-80 that the general sessions judge does not have the authority to order a defendant to make a contribution to a designated charitable or civic organization in addition to a fine or as an alternative to incarceration.

RECOMMENDATION

All General Sessions Court cases should be adjudicated in accordance with provisions specifically authorized by state statutes or other legal authority.

FINDING 02.17 RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED ASSETS
(Internal Control – Material Weakness Under Government Auditing Standards)

Pickett 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 Pickett 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

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

FINDING 02.18 A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED
(Internal Control – Reportable Condition Under Government Auditing Standards)

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

Pickett County officials should consider adopting the County Financial Management System of 1981 or a private act, which would provide for a central system of accounting, budgeting, and purchasing covering all county departments.

FINDING 02.19 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 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.