

## **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. Management 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**      **INVENTORY RECORDS OF COUNTY-OWNED ASSETS WERE NOT UPDATED OR VERIFIED**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Inventory records from the prior audit period were not updated during the year and were not periodically verified by personnel who were independent of maintaining the inventory. Generally accepted accounting principles require accountability for all county-owned assets, such as equipment, furniture, and vehicles. Without properly maintained inventory records, the county cannot adequately control its assets.

### **RECOMMENDATION**

County officials should maintain current inventory records of all county-owned assets, as required by generally accepted accounting principles. Furthermore, personnel independent of maintaining the inventory should periodically verify the inventory records.

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### **OFFICE OF HIGHWAY SUPERINTENDENT**

**FINDING 02.02**      **RECEIVABLES AND PAYABLES WERE NOT DETERMINED AND RECORDED IN THE HIGHWAY/PUBLIC WORKS FUND**  
(Noncompliance Under Government Auditing Standards)

Receivables and payables at June 30, 2002, were not determined and recorded on the accounting records of the Highway/Public Works Fund, as required by generally accepted accounting principles. We have properly reflected the receivables and payables of the Highway/Public Works Fund in the financial statements of this report.

### **RECOMMENDATION**

Receivables and payables should be properly determined and recorded on the accounting records of the Highway/Public Works Fund at June 30 of each year.

**FINDING 02.03      DEFICIENCIES WERE NOTED IN THE BIDDING PROCESS  
FOR VARIOUS GOODS AND SERVICES**  
(Noncompliance Under Government Auditing Standards)

The Highway Department solicited and received bids for petroleum, rock, hot mix, oil, stripping, tires, and pipe, as required by the County Purchasing Law of 1957, Section 5-14-101, et seq., Tennessee Code Annotated (TCA), and Section 54-7-113, TCA (Uniform Road Law). However, the Highway Department did not accept or reject the bids. The highway superintendent stated that it was the department's policy to consider the bids as quotes and purchase the goods or services at the lowest bid price based on where the goods and services were to be delivered or rendered. Documentation was not provided to support this purchasing policy. Our audit revealed that goods and services were sometimes not purchased from the vendor that submitted the lowest bid within a given area. As a result, the Highway Department did not comply with provisions of the above-noted state statutes or their own informal policy.

**RECOMMENDATION**

Bids should be evaluated and accepted or rejected on the basis of several criteria, including price, quality, availability, warranty, experience, and location within the county.

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**OFFICE OF DIRECTOR OF SCHOOLS**

**FINDING 02.04      DEFICIENCIES WERE NOTED IN BUDGET OPERATIONS**  
(Material Noncompliance Under Government Auditing Standards)

Our examination noted the following budget deficiencies:

- A. The Central Cafeteria Fund was not operated under a formal budget adopted by the County Commission, as required by Section 5-9-401, Tennessee Code Annotated.
- B. Salaries exceeded various line-item appropriations in the General Purpose School Fund by a total of \$121,233. 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."
- C. General Purpose School Fund expenditures and encumbrances exceeded appropriations in eight of 23 major appropriation categories.

## RECOMMENDATION

The Central Cafeteria Fund should be operated under a formal budget approved by the County Commission, as required by state statute. Salary expenditures should be held within line-item appropriations, as required by the budget resolution. In addition, expenditures and encumbrances should be held within appropriations approved by the County Commission.

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

The office transferred \$300,000 from the Education Capital Projects Fund to the General Purpose School Fund to fund expenditures of the General Purpose School Fund until state revenues were received. This transaction was, in effect, an interfund loan and was not approved by the County Commission and the state director of Local Finance, as required by Section 9-21-408, Tennessee Code Annotated. The office transferred funds to the Education Capital Projects Fund to repay the loan prior to June 30, 2002.

## RECOMMENDATION

All interfund loans should be approved by the County Commission and the state director of Local Finance, as required by state statute.

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### FINDING 02.06      **THE SCHOOL DEPARTMENT DID NOT MAINTAIN INVENTORY RECORDS** (Internal Control – Reportable Condition Under Government Auditing Standards)

The School Department did not maintain inventory records for its assets. Generally accepted accounting principles require accountability for all county-owned assets, such as equipment, furniture, and vehicles. Without properly maintained inventory records, the department cannot adequately control its assets.

## RECOMMENDATION

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

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**FINDING 02.07      CENTRAL CAFETERIA FUND TRANSACTIONS WERE NOT  
CHANNELED THROUGH THE TRUSTEE'S OFFICE**  
(Material Noncompliance Under Government Auditing Standards)

Transactions of the Central Cafeteria Fund were not channeled through the Trustee's Office, as required by state statute. Instead, these transactions were channeled through a bank account administered by the director of schools and food service director. Section 49-2-301, Tennessee Code Annotated, requires that school funds be expended by issuing warrants drawn on the county trustee.

**RECOMMENDATION**

Operating funds of the Central Cafeteria Fund should be deposited with the county trustee and disbursed by county warrant.

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**FINDING 02.08      A REPORT ON DEBT OBLIGATIONS WAS NOT FILED WITH  
THE STATE DIRECTOR OF LOCAL FINANCE**  
(Noncompliance Under Government Auditing Standards)

The School Department did not file a Report on Debt Obligations with the state director of Local Finance for a capitalized lease of \$155,477 for computer equipment. Section 9-21-151, Tennessee Code Annotated, requires that within 45 days following the issuance of debt, a county must provide to the state director of Local Finance certain information, such as a description of the purchase for which the debt was issued, a description of the debt obligation, and an itemized description of the cost of the issuance.

**RECOMMENDATION**

The School Department should file a Report on Debt Obligations with the state director of Local Finance for all debt issues, as required by state statute.

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**OFFICE OF COUNTY CLERK**

**FINDING 02.09      FUNDS WERE NOT DEPOSITED WITHIN THREE DAYS**  
(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

All 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 SHERIFF

### FINDING 02.10      **FUNDS WERE NOT DEPOSITED WITHIN THREE DAYS** (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

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

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## OTHER FINDINGS AND RECOMMENDATIONS

### FINDING 02.11      **RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED ASSETS** (Internal Control – Material Weakness Under Government Auditing Standards)

Polk 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 Polk 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

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

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**FINDING 02.12      THE PROVISIONS OF THE FISCAL CONTROL ACTS OF 1957  
WERE NOT FOLLOWED**  
(Material Noncompliance Under Government Auditing Standards)

The Highway Department maintained its own funds in violation of the County Fiscal Procedure Law of 1957, Section 5-13-101, et seq., Tennessee Code Annotated. Polk County operates under provisions of the Fiscal Control Acts of 1957, which provide for a system of central accounting, budgeting, and purchasing covering all funds administered by the county executive and the highway superintendent. The director of accounts and budgets is responsible for maintaining this centralized system.

**RECOMMENDATION**

In accordance with state statutes, the director of accounts and budgets should maintain Highway Department funds.

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**FINDING 02.13      A CAPITAL OUTLAY NOTE WAS NOT APPROVED BY THE  
STATE DIRECTOR OF LOCAL FINANCE**  
(Noncompliance Under Government Auditing Standards)

Polk County officials issued a \$165,000 capital outlay note to finance the purchase of school buses for the School Department without the approval of the state director of Local Finance. Section 9-21-101, et seq., Tennessee Code Annotated, requires county governments to receive approval of the state director of Local Finance before the issuance of capital outlay notes.

**RECOMMENDATION**

County officials should receive approval of the state director of Local Finance before the issuance of capital outlay notes, as required by state statute.

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**FINDING 02.14      GENERAL FUNDS WERE TRANSFERRED TO THE GENERAL  
PURPOSE SCHOOL FUND TO BE USED FOR A SEWER  
SYSTEM**  
(Material Noncompliance Under Government Auditing Standards)

A transfer of \$114,539 was made from the General Fund to the General Purpose School Fund to provide funds for a sewer system at the new school. The state attorney general has opined that state statutes authorize a county to levy a tax for county purposes and has defined "county general purposes levy" as a levy for all county purposes except roads, bridges, schools, etc. This expenditure represents the use of county general funds for school purposes.

## RECOMMENDATION

General fund monies should be used only for county general purposes, as required by state statutes. The County Commission should not appropriate general fund monies for school purposes.

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FINDING 02.15      **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.