

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 county executive'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 DID NOT USE THE ACCRUAL BASIS OF ACCOUNTING FOR THE SOLID WASTE DISPOSAL FUND
(Material Noncompliance Under Government Auditing Standards)

County officials did not maintain the Solid Waste Disposal Fund on the accrual basis of accounting. This fund is an enterprise fund, and generally accepted accounting principles require that enterprise funds be maintained on the accrual basis of accounting. We obtained information from county officials and other sources that permitted us to determine fixed assets (\$2,650,386), accumulated depreciation (\$787,451), liability for closure and postclosure care costs (\$971,081), and contributed capital (\$108,015). Using these numbers, we were able to reflect the Solid Waste Disposal Fund in compliance with generally accepted accounting principles in the financial statements of this report.

RECOMMENDATION

County officials should maintain the Solid Waste Disposal Fund on the accrual basis of accounting, as required by generally accepted accounting principles.

FINDING 02.02 THE OFFICE HAD DEFICIENCIES IN PURCHASING PROCEDURES
(A., B. and C. Internal Control – Reportable Conditions Under Government Auditing Standards; D. Material Noncompliance Under Government Auditing Standards)

Our examination of the office's purchasing procedures revealed the following deficiencies:

- A. Purchase orders were not issued for some applicable purchases. Also, in certain other instances purchase orders were not prenumbered and were issued after the purchase had been made. Purchase orders are a necessary internal control procedure to control who has the authority to make purchases and to document purchasing commitments. Also, the practice of issuing purchase orders after purchases are made defeats the purpose of

issuing purchase orders and makes them approval of payment rather than approval of the purchase.

- B. In some instances, disbursements were made without proper supporting documentation. We determined through other auditing procedures that these disbursements were proper.
- C. 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.
- D. Competitive bids were not solicited for the purchase of liability insurance (\$83,616), vehicle and equipment insurance (\$28,441), fire department gear (\$46,920), and a rescue squad boat (\$6,725). Sections 5-14-201 through 5-14-206, Tennessee Code Annotated, require purchases exceeding \$5,000 to be made after public advertisement and solicitation of competitive bids.

RECOMMENDATION

To strengthen internal controls over the purchasing process and to document purchasing commitments, the office should issue purchase orders for all applicable purchases. Purchase orders should be prenumbered and issued before purchases are made. Furthermore, proper supporting documentation should be obtained before making disbursements. Finally, competitive bids should be solicited for all purchases exceeding \$5,000, as required by state statutes.

FINDING 02.03 **DEFICIENCIES WERE NOTED IN AMBULANCE SERVICE OPERATIONS**

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

Our examination of Ambulance Service operations revealed the following deficiencies:

- A. Duties were not segregated adequately. The Ambulance Service's office manager collected funds, issued receipts, deposited funds with the county trustee, maintained the computerized billing and accounts receivable system, computed employees' payroll checks, and distributed the payroll checks. Sound internal controls require segregation of incompatible duties involving the receipt and disbursement of funds.
- B. The Ambulance Service did not follow County Commission policies concerning the collection of patient accounts. Ambulance Service personnel's collection efforts were limited to sending statements to patients. Also, the

computerized billing system's capability to age accounts receivable as a means of enhancing collection efforts for delinquent accounts was not used.

- C. The computerized billing system provided a total of patients' accounts receivable. However, this accounts receivable amount and the related allowance for uncollectible accounts and other deferred revenues were not determined by Ambulance Service personnel and were not recorded in the accounts of the Ambulance Service Fund, as required by generally accepted accounting principles. We determined these amounts from available records and presented them in the financial statements of this report.
- D. County Commission policies for the write-off of uncollectible accounts were not followed. Ambulance Service personnel informed us that uncollectible accounts were substantial but had not been written off in recent years.

RECOMMENDATION

The Ambulance Service should do the following:

- A. Employees' duties should be segregated for effective internal control over the receipt and disbursement of funds.
- B. Collection policies established by the County Commission should be followed.
- C. Accounts receivable and related accounts should be periodically determined and recorded in the financial statements of the Ambulance Service Fund.
- D. Write-off policies established by the County Commission should be followed.

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE

The county executive stated the following:

- A. The Ambulance Service had only one employee working in the office. Due to limited resources and personnel, management was unable to properly segregate duties.
- B. The County Commission recently revisited policies concerning the collection of patient accounts. These policies have been changed and should be complied with currently. Also, aging patient accounts receivable is not always effective as a collection tool since it regularly takes several months for insurance companies and the State of Tennessee to pay claims.
- D. The County Commission recently revisited the patient accounts write-off policy and made changes which should correct this finding.

**FINDING 02.04 A REPORT ON DEBT OBLIGATIONS WAS NOT FILED WITH
THE STATE DIRECTOR OF LOCAL FINANCE**
(Noncompliance Under Government Auditing Standards)

The County Executive's Office did not file a Report on Debt Obligations with the state director of Local Finance for a capitalized lease obligation of \$124,530 for patrol cars. 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 debt obligation and an itemized description of the cost of issuance.

RECOMMENDATION

The County Executive's Office should file a Report on Debt Obligations with the state director of Local Finance, as required by state statute.

**FINDING 02.05 THE OFFICE HAD DEFICIENCIES IN PERSONNEL
RECORDS**
(Internal Control – Reportable Condition Under Government Auditing
Standards)

We noted the following deficiencies in the maintenance of personnel records of the County Executive's Office:

- A. Employees' leave records consisted only of vacation, sick, and compensatory leave used during the month. Records did not document employees' vacation, sick, and compensatory leave earned during the month and their beginning and ending leave balances. Therefore, we could not determine that employees were entitled to the amount of vacation, sick, and compensatory time taken.
- B. Time and attendance records were not maintained for employees in the Offices of Assessor of Property, Trustee, and Election Registrar.
- C. In some instances, multiple employees were paid from a single budgetary line item, and in one instance, an employee was paid from multiple budgetary line items. We were unable to determine salary amounts that should have been paid to these employees since the county did not maintain written salary authorizations or supporting salary schedules.
- D. Two employees were each paid a Christmas bonus of \$100. There are no provisions in the office's personnel policy for employees to receive bonuses, and these bonuses were not approved by the County Commission.
- E. Two employees received overtime pay of \$550 without any documentation of the overtime hours worked.

RECOMMENDATION

The County Executive's Office should do the following:

- A. The office should maintain leave records that document employees' annual, sick, and compensatory leave earned, used, and beginning and ending balances.
- B. All county offices should be required to maintain records documenting employees' time and attendance.
- C. The office should establish written authorizations for each employee's salary, and supporting salary schedules should be maintained for employees who are paid from multiple budget line items or for multiple employees who are paid from a single budget line item.
- D. Employees should not be paid bonuses without authorization.
- E. All payments for overtime should be supported by detailed documentation of the overtime hours worked.

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE

In regard to C, D, and E, these findings resulted from information I furnished to the auditors concerning two employees of the County Executive's Office. These two employees were paid amounts that exceeded what they should have received based on the salary amounts budgeted by the County Commission. Also, I did not authorize the amounts these two employees received as payment for overtime.

REBUTTAL

The county executive signed the payroll warrants issued by the office.

FINDING 02.06 THE OFFICE DID NOT MAINTAIN ACCOUNTING RECORDS ON A CURRENT BASIS
(Internal Control – Reportable Condition Under Government Auditing Standards)

Accounting records for the various funds maintained by the County Executive's Office were not maintained on a current basis. As of June 30, 2002, monthly accounting records had not been closed since April 30, 2002. Also the accounting records for the year ended June 30, 2002, were not closed until the end of September 2002. The failure to maintain accounting records on a current basis diminishes the usefulness of the financial records as a management tool and results in a loss of budgetary and accounting control.

RECOMMENDATION

The County Executive's Office should maintain accounting records on a current basis.

OFFICE OF HIGHWAY SUPERINTENDENT

FINDING 02.07 SUPERVISORY PERSONNEL DID NOT SIGN EMPLOYEES' TIME SHEETS
(Internal Control – Reportable Condition Under Government Auditing Standards)

Employees' time sheets were signed by employees but were not signed for approval by supervisory personnel. Supervisors' signatures on these records are necessary to approve payroll disbursements.

RECOMMENDATION

Supervisory personnel should review and sign all employees' time records as approval for payroll disbursements.

FINDING 02.08 THE OFFICE HAD DEFICIENCIES IN PURCHASING PROCEDURES
(A. and B. Internal Control – Reportable Conditions Under Government Auditing Standards; C. Material Noncompliance Under Government Auditing Standards)

Our examination of the office's purchasing procedures revealed the following deficiencies:

- A. Purchase orders were not issued for some applicable purchases. Purchase orders are necessary to control who has authority to make purchases and to document purchasing commitments.
- B. In some 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.
- C. Competitive bids were not solicited for the purchase of vehicle and equipment insurance for \$20,090. The Uniform Road Law, Section 54-7-113, Tennessee Code Annotated, requires purchases exceeding \$5,000 to be made after public advertisement and solicitation of competitive bids.

RECOMMENDATION

To strengthen internal controls over the purchasing process and to document purchasing commitments, the office should issue purchase orders for all applicable purchases and should obtain proper documentation before making disbursements. Furthermore, competitive bids should be solicited for all purchases exceeding \$5,000, as required by state statute.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 02.09 INVENTORY RECORDS WERE NOT MAINTAINED ADEQUATELY
(Internal Control – Reportable Condition Under Government Auditing Standards)

School officials maintained inventory records of assets owned by the School Department, but all assets were not labeled as property of the School Department. Furthermore, the department did not have policies to ensure that new items were added to the inventory and that the accuracy of the inventories was verified. Generally accepted accounting principles require accountability for all department-owned assets, such as equipment, furniture, and vehicles.

RECOMMENDATION

The School Department should label all assets as department property and ensure that all new items are added to the inventory list. Furthermore, personnel independent of maintaining the inventory should periodically verify the inventory records.

FINDING 02.10 THE OFFICE PURCHASED INSURANCE COVERAGE WITHOUT SOLICITING COMPETITIVE BIDS
(Material Noncompliance Under Government Auditing Standards)

Competitive bids were not solicited for the purchase of liability insurance (\$14,080), building and contents insurance (\$36,490), and vehicle and equipment insurance (\$27,595). Section 49-2-203, Tennessee Code Annotated, requires purchases exceeding \$5,000 to be made after public advertisement and solicitation of competitive bids.

RECOMMENDATION

The School Department should solicit competitive bids for all purchases exceeding \$5,000, as required by state statute.

OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK

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 the office 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 a contingency operations site, as well as 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.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 02.12 **RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED ASSETS**
(Internal Control – Material Weakness Under Government Auditing Standards)

Smith 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 Smith 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

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

FINDING 02.13 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

Smith County officials should consider adopting either 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 02.14 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 of 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.