

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 county mayor's (formerly county executive) written responses are included in this report. Other officials offered oral responses to certain findings and recommendations; however, their oral responses have not been included in this report.

BEDFORD COUNTY AND BEDFORD COUNTY SOLID WASTE AUTHORITY

FINDING 03.01 **GOVERNMENT-WIDE FINANCIAL STATEMENTS WERE NOT PRESENTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**
(Material Noncompliance Under Government Auditing Standards)

Bedford County did not identify and determine the historical value of its capital assets and the related depreciation amounts of these assets. The Bedford County Solid Waste Authority did identify and determine the historical value of its capital assets; however, the authority did not determine the related depreciation amounts of these assets. Therefore, Bedford County and the Bedford County Solid Waste Authority were unable to provide the information necessary to prepare government-wide financial statements for all of their activities, as required by Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. GASB is the standard-setting body for accounting principles that state and local governments are required to follow. As a result of their omission, Bedford County's and Bedford County Solid Waste Authority's financial statements are not presented in accordance with generally accepted accounting principles; thus, we have issued adverse opinions on their financial statements.

The Office of the Comptroller of the Treasury, State of Tennessee, requires governments that do not implement GASB Statement 34 to issue a financial report in compliance with Financial Reporting Standards for County Governments, Component Units of County Governments, and Special School Districts That Do Not Implement Governmental Accounting Standards Board Statement 34, established by the Comptroller of the Treasury. Bedford County's and Bedford County Solid Waste Authority's financial statements are presented in compliance with these requirements.

RECOMMENDATION

Bedford County and Bedford County Solid Waste Authority should present government-wide financial statements in conformity with generally accepted accounting principles, and should compile and maintain records that properly account for their capital assets. These records should document the historical cost of the entities' capital assets and the related depreciation amounts of these assets. This information is necessary to present their financial statements in accordance with generally accepted accounting principles.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

This office will encourage the County Commission to comply with the recommendation.

OFFICE OF COUNTY EXECUTIVE

FINDING 03.02 **THE OFFICE HAD DEFICIENCIES IN BUDGET OPERATIONS
(Noncompliance Under Government Auditing Standards)**

Our audit of the County Executive's Office revealed the following deficiencies in budget operations:

- A. The budget and subsequent amendments submitted to and approved by the County Commission for the General Fund resulted in appropriations exceeding estimated funding by \$40,717.
- B. Expenditures exceeded appropriations in the major appropriation categories of the following funds:

<u>Fund/Major Appropriation Category</u>	<u>Amount</u>
General:	
General Government Other Boards and Committees	\$ 775
County Attorney	19,642
Public Safety Jail	40,253
Civil Defense	19,004
County Coroner/Medical Examiner	325
Agriculture and Natural Resources	3,865
Other Operations Contributions to Other Agencies	781
Employee Benefits	29,778
Miscellaneous	6,367
General Debt Service:	
General Government Debt Service	2,284
Drug Control:	
Public Safety Drug Enforcement	20,280

Section 5-9-401, Tennessee Code Annotated, states, "All funds from whatever source derived, including, but not limited to taxes, county aid funds, federal funds, and fines, which are to be used in the operation and respective programs of the various departments, commissions, institutions, boards, offices and agencies of county governments shall be appropriated to such use by the county legislative bodies."

- C. The county's Budget and Finance Committee approved several General Fund budget amendments between major categories; however, these budget amendments were never presented to or approved by the County Commission. Section 5-9-407(B), Tennessee Code Annotated, provides that "once a budget has been adopted, the budget, including ... major categories, may be amended by a majority of the members of the county legislative body." Therefore, these budget amendments have not been reflected in the financial statements of this report, causing several major appropriation categories to be overspent, as noted in part B. of this finding.

RECOMMENDATION

Appropriations that exceed estimated available funds should not be submitted to the County Commission, and the County Commission should not approve such appropriations. Expenditures should be held within appropriations approved by the County Commission, and the County Commission should approve all budget amendments between major appropriation categories within a fund.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

The County Executive's Office will attempt to comply with these recommendations.

FINDING 03.03 **SOME FINANCIAL ACTIVITY OF THE AGRICULTURAL EDUCATION CENTER WAS NOT SUBJECT TO THE BUDGETARY CONTROL OF THE COUNTY LEGISLATIVE BODY**

(Noncompliance Under Government Auditing Standards)

During the 1997-98 year, Bedford County built an agricultural education center and appointed a Board of Directors to operate the center. A significant portion of the center's expenditures was paid through the county's General Fund; however, the Board of Directors maintained a checking account to deposit event revenues and pay certain operating expenses. The funds channeled through this checking account were not subject to the county's budgetary process.

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RECOMMENDATION

The agricultural education center should operate as a department within the county's General Fund, and all revenues and expenditures related to its operation should be subject to the budgetary control of the county legislative body, as required by state statute.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

This finding has been corrected, and the agricultural education center is now administered correctly.

SOLID WASTE AUTHORITY

FINDING 03.04 **THE AUTHORITY'S MONITORING OFFICE DID NOT PROPERLY MAINTAIN ITS ACCOUNTING RECORDS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Solid Waste Authority's monitoring office did not properly maintain its accounting records. Our audit revealed the following deficiencies:

- A. At June 30, 2003, a receivable totaling \$25,000 due from the primary government and accounts payable totaling \$15,032 were not reflected in the accounting records, as required by generally accepted accounting principles. Audit adjustments have been made to properly reflect these receivables and payables in the financial statements of this report.
- B. Year-end closing entries were not posted to the accounting records at June 30, 2003, as required by generally accepted accounting principles.
- C. One check totaling \$10,000 issued from the surcharge checking account was not prenumbered.

The monitoring office maintained the authority's minutes and manual accounting records, issued 14 checks, and invested in a certificate of deposit. On the other hand, the authority's convenience center office maintained a complete computer accounting system, managed a payroll system, and issued over 1,000 checks a year. Maintaining two accounting systems is a duplication of effort, and it appears that maintaining all accounting records at the convenience center office would be more efficient and cost-effective.

RECOMMENDATION

The Solid Waste Authority should consider consolidating its monitoring and convenience center offices to eliminate duplication of effort, use its computer capabilities, and reduce the cost of operations. If the offices are not consolidated, the monitoring office should

implement the following recommendations. Accounts receivable and payable should be reflected on the accounting records at June 30; the monitoring office should post year-end closing entries; and prenumbered checks should be used.

OFFICE OF SHERIFF

FINDING 03.05 **THE OFFICE USED AN UNAUTHORIZED SIGNATURE STAMP**

(Internal Control – Reportable Condition Under Government Auditing Standards)

The Sheriff's Office used a signature stamp to affix the chief deputy's signature on commissary checks. Tennessee Code Annotated does not provide authority for a Sheriff's Office to use a signature stamp in place of an individual's actual signature.

RECOMMENDATION

In the absence of statutory authority, the office should discontinue using the signature stamp.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 03.06 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF COUNTY CLERK; CIRCUIT, GENERAL SESSIONS, AND JUVENILE 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 Clerk; Circuit, General Sessions, and Juvenile Courts Clerk; Clerk and Master; Register; and Sheriff. Employees responsible for maintaining the accounting records were also involved in receipting, depositing, and/or disbursing funds.

RECOMMENDATION

To strengthen internal controls over operations, these offices should adequately segregate duties among employees.

FINDING 03.07

A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED

(Internal Control – Reportable Condition Under Government Auditing Standards)

Bedford 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

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

MANAGEMENT'S RESPONSE – COUNTY MAYOR

I agree, but so far the County Commission has not approved.