

## **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 written responses of the county executive, director of accounts and budgets, director of schools, and sheriff are paraphrased in this report. Other officials offered oral responses to certain findings and recommendations; however, we did not include these oral responses in this report.

### **COCKE COUNTY AND THE COCKE COUNTY SCHOOL DEPARTMENT**

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

Cocke County did not identify and determine the historical value of its capital assets and the related depreciation amounts of these assets. The Cocke County School Department did identify and assign historical value to its capital assets and determined the related depreciation of these assets. However, the School Department did not have documentation on file to support the historical value used.

Therefore, Cocke County and the Cocke County School Department 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 this omission, Cocke County’s and the Cocke County School Department’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 counties 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. Cocke County’s and the Cocke County School Department’s financial statements are presented in compliance with these requirements.

### **RECOMMENDATION**

Cocke County and the Cocke County School Department 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 their capital assets and the related depreciation amounts of these assets. This information is necessary to present the financial statements in accordance with generally accepted accounting principles.

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

We have begun the process of identifying and determining the historical value of our capital assets and expect this process to be completed for the June 30, 2004, financial statements. Other compliance issues have already been addressed for the year ended June 30, 2004. We have budgeted and recorded employee benefits on a departmental basis to comply with the functional reporting requirement of GASB 34.

MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS

We have contracted with an accounting firm to help us set up GASB Statement No. 34. We will get the firm to provide the needed information as required. These records should document the historical cost of the government's capital assets.

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**OFFICES OF COUNTY EXECUTIVE AND DIRECTOR OF ACCOUNTS AND BUDGETS**

**FINDING 03.02    **MANY PROVISIONS OF THE BUDGETING, FISCAL PROCEDURES, AND PURCHASING LAWS OF 1957 WERE NOT IMPLEMENTED****

(Material Noncompliance Under Government Auditing Standards)

In October 2002, Cocke County officials adopted the provisions of the Budgeting, Fiscal Procedures, and Purchasing Laws of 1957. These laws provide for a central system of accounting, budgeting, and purchasing covering all funds administered by the county executive and road superintendent and for the purchasing agent to make purchases for the Offices of County Executive and Road Superintendent. However, as of January 30, 2004, many of the provisions of these laws had not been implemented. The county hired a director of accounts and budgets during the 2002-03 fiscal year, but the accounting, budgeting, and purchasing functions for the Highway Department are still performed by Highway Department personnel. A centralized purchasing system for the Offices of County Executive and Road Superintendent has not been implemented.

RECOMMENDATION

County officials should comply with all provisions of these laws, including establishing a central system of accounting, budgeting, and purchasing for the Offices of County Executive and Road Superintendent.

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

We have currently implemented various provisions of the 1957 Purchasing Act and will further act to formalize the provisions and extend the provisions to all departments.

The planning process has begun to integrate the accounting system of the Highway Department with the Office of County Executive, and this process is proceeding with the full cooperation of both departments. Careful and deliberate planning is necessary to implement these changes in a positive and productive way.

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**FINDING 03.03      **POOR BUDGETING PRACTICES RESULTED IN A FUND DEFICIT IN THE GENERAL FUND****

(Internal Control – Material Weakness Under Government Auditing Standards)

The General Fund had a fund deficit of \$66,936 at June 30, 2003. This fund deficit resulted from appropriating nearly all of the beginning fund balance, overestimating revenues for the year, and failing to adequately monitor the budget and make adjustments when the estimated revenues did not materialize.

The original budget for the General Fund appropriated \$998,161 of the \$1,332,719 unencumbered beginning fund balance. The budget was later amended to appropriate an additional \$238,447 from fund balance, reducing the estimated fund balance to \$96,110. In addition, total estimated revenues and other sources exceeded the actual amounts received by \$538,526. The county overestimated revenues for delinquent tax collections from Circuit Court by \$136,570 and overestimated fees and commissions from the constitutional officers by \$138,147.

**RECOMMENDATION**

County officials should take immediate steps to liquidate the fund deficit and to provide a sufficient operating fund balance in the General Fund. Budgeted revenue estimates should be monitored, and adjustments should be made to operations when it becomes apparent that estimated revenues will not materialize.

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

The budget prepared for the year ended June 30, 2003, assumed the implementation of a wheel tax authorized by private act to offset the use of beginning fund balance. The private act failed for lack of legislative representation. The substantial additional expenditures requiring appropriations were primarily linked to the lack of jail certification and the resultant cancellation of law enforcement liability insurance by our primary carrier. Replacement liability insurance was obtained, but at a substantially higher premium than originally budgeted, and the continuation of this insurance was linked to obtaining jail certification and retaining law enforcement liability insurance coverage for the county.

The revenues in the current budget were prepared with a more conservative approach and will be monitored to see if adjustment is required during the year. The county passed a

budget based on a property tax increase that allowed for liquidating the unappropriated fund balance deficit and rebuilding the fund balance.

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**FINDING 03.04      THE OFFICE HAD DEFICIENCIES IN ITS CONTROLS OVER INVENTORY**

(Internal Control – Reportable Condition Under Government Auditing Standards)

The following deficiencies were noted in controls over county-owned assets:

- A.     The office did not have procedures in place to ensure that newly acquired assets were added to the inventory lists and that items disposed of were deleted from the inventory lists.
  
- B.     Personnel who were independent of maintaining the inventory records did not periodically verify the records.

Generally accepted accounting principles require accountability for all county-owned assets.

**RECOMMENDATION**

To improve controls over inventory, the office should implement procedures to ensure that new assets are added to the inventory records, items disposed of are removed from the inventory records, and independent personnel verify the records.

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

The process for documenting all county inventory and capital assets, whether depreciable or non-depreciable, has been started. As we meet the compliance requirements for the implementation of GASB 34, we will also implement the appropriate controls for other county inventory. Procedures will be developed for adding newly acquired assets to the inventory lists and deleting items that have been disposed of. Periodic verification of the inventory will be conducted by personnel who are not responsible for maintaining the inventory records.

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## **OFFICE OF DIRECTOR OF SCHOOLS**

### **FINDING 03.05**

### **THE SCHOOL DEPARTMENT DID NOT DOCUMENT COMPLIANCE WITH THE REQUIREMENTS OF THE SCHOOL RENOVATION GRANT PROGRAM**

(Material Weakness in Internal Control and Material Noncompliance Under OMB Circular A-133)

Our audit revealed the following deficiencies in documenting compliance requirements of the school renovation grant program:

- A. The School Department did not document compliance with the Davis Bacon Act for a renovation project. Additionally, the contract for the project did not contain a clause indicating that the contractor would be required to comply with the Davis-Bacon Act provisions. Federal regulations require that contractors and subcontractors pay prevailing wage rates on any construction contract exceeding \$2,000 that is financed either wholly or in part by federal funds. The School Department paid \$448,909 from a federally funded school renovation grant for labor and materials to renovate schools.
- B. Additionally, the School Department did not obtain the required certifications from the contractors regarding suspension and debarment. Federal regulations require that contractors and subcontractors receiving individual awards of \$100,000 or more certify that the organization and its principals are not suspended or debarred when the project is financed either wholly or in part by federal funds.

### **RECOMMENDATION**

The School Department should implement procedures to comply with the provisions of the Davis-Bacon Act, including adding prevailing wage rate clauses to all future federally funded construction contracts and monitoring contractors' and subcontractors' payrolls for compliance with prevailing wage rate requirements. Also, the School Department should obtain the required certifications from contractors and subcontractors stating that they are not suspended or debarred from participating in a federally funded program.

### **MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS**

We will implement procedures to comply with the provisions of the Davis-Bacon Act, including adding prevailing wage rate clauses in all future federally funded construction contracts and monitoring contractors' and subcontractors' payrolls for compliance with prevailing wage rate requirements. Also, we will obtain the required certifications from contractors and subcontractors stating that they are not suspended or debarred from participating in a federally funded program. After being notified of this finding, we obtained letters from the construction manager and architect stating that all contractors and subcontractors were not suspended or debarred.

**OFFICE OF ROAD SUPERINTENDENT**

**FINDING 03.06      **THE OFFICE HAD DEFICIENCIES IN PURCHASING PROCEDURES****  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit revealed the following deficiencies in the office's purchasing procedures:

- A. Purchase orders were not used properly. In numerous instances, purchase orders were issued after purchases were made and in other instances were not issued at all. Also, in several instances, purchase order information was not completed (i.e., account number, items to be purchased, and dollar value).
- B. Attendance sheets and bid tally sheets were not maintained for bid openings.
- C. Receiving reports and/or invoices were not always signed to indicate that goods had been received and services had been rendered.

**RECOMMENDATION**

Purchase orders should be completed before purchases are made and should include all necessary information. Attendance sheets and bid tally sheets should be maintained for all bid openings. Also, receiving reports and/or invoices should be signed indicating that goods and/or services have been received.

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**FINDING 03.07      **CONTROLS OVER CONSUMABLE ASSETS WERE INADEQUATE****  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit revealed the following weaknesses in controls over consumable assets:

- A. The Highway Department maintained its own fuel tanks for fueling department vehicles, and prenumbered fuel tickets were used for fuel disbursed from the tanks. However, the department did not reconcile these fuel tickets with the total amount of fuel actually used.

- B. Inventory records were not maintained documenting the receipt, usage, and storage of consumable assets such as tires and repair parts. In addition, maintenance and repair records were not maintained for Highway Department vehicles and equipment.

RECOMMENDATION

The Highway Department should periodically reconcile fuel tickets with the quantity of fuel used, maintain inventory records for consumable assets, and maintain maintenance and repair records for department vehicles and equipment.

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FINDING 03.08      **THE OFFICE HAD DEFICIENCIES IN MAINTAINING ACCOUNTING RECORDS**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit revealed the following deficiencies in the maintenance of the accounting records for the Highway/Public Works Fund:

- A. As of June 30, 2003, certain payroll deduction accounts maintained on the general ledger reflected balances that were not supported with documentation.
- B. Year-end receivables and payables were not reflected accurately on the accounting records. Receivables were understated by over \$155,000, while payables were understated by a net amount of over \$116,000. The financial statements of this report were adjusted to reflect corrected balances.
- C. The general ledger balance of “Cash on Deposit With Trustee” was not adequately reconciled with the trustee’s balance. There was an unidentified variance of over \$1,000 between the Highway Department’s records and the trustee’s records.
- D. Prior-year audit adjustments were not posted to the general ledger.

RECOMMENDATION

The Highway Department should do the following:

- A. Monthly reconciliations should be performed to document that all balances on the general ledger are accurate.
- B. Year-end receivables and payables should be posted correctly to the records.

- C. Variances between the Highway Department's records and the trustee's records should be identified and corrected.
- D. Audit adjustments should be posted to the records in a timely manner.

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**FINDING 03.09      A COUNTY ROAD LIST WAS NOT SUBMITTED TO THE COUNTY COMMISSION IN ACCORDANCE WITH STATE STATUTE**

(Noncompliance Under Government Auditing Standards)

A county road list was not submitted to the County Commission for its approval in accordance with Section 54-10-103, Tennessee Code Annotated. This statute requires the highway superintendent to submit a list of county roads to the County Commission for approval each January.

**RECOMMENDATION**

A list of county roads should be submitted for the County Commission's approval at the January meeting each year. The list should provide adequate descriptions of each road, the name of the road, the location and mileage of each road, and the type of road and condition. Also, the list should include a summary of changes, including any additions and/or deletions.

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**OFFICE OF TRUSTEE**

**FINDING 03.10      AMOUNTS REFLECTED IN THE ACCOUNTING RECORDS WERE INACCURATE AND WERE NOT RECONCILED WITH VARIOUS STATEMENTS**

(Internal Control – Material Weakness Under Government Auditing Standards)

The accounting records did not accurately reflect transactions and balances of all investments and short-term bank accounts, and as of June 30, 2003, the investment and short-term account balances were materially misstated on the accounting records. We have made audit adjustments to properly reflect the investment and short-term account balances in the financial statements of this report. The misstatements and other deficiencies in the maintenance of the accounts are discussed below:

- A. The trustee did not record all investment purchases, redemptions, and investment income/loss for the period July 1, 2002, through June 30, 2003. As a result, investments on the accounting records were understated by \$27,373 as of April 30, 2003, and overstated by \$199,772 as of June 30, 2003.

Additionally, the trustee did not document withdrawals from the accounts. This documentation had to be obtained from the broker.

- B. The trustee did not record all interest earnings on certificates of deposit and other short-term accounts for the period July 1, 2002, through June 30, 2003. As a result, these accounts were understated on the accounting records by \$13,953 as of April 30, 2003, and \$23,416 as of June 30, 2003.
- C. Reconciliations of general ledger balances with bank balances were not prepared for certificates of deposit and other short-term accounts.

#### RECOMMENDATION

All investments and account activity, including purchases, redemptions, withdrawals, and investment income/loss, should be posted to the accounting records. Reconciliations should be performed on a monthly basis for all accounts. In addition, all adjustments necessary for reconciliation should be identified, and adjustments should be made to the accounting records to correct the errors.

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#### **OFFICE OF SHERIFF**

#### **FINDING 03.11      **DEFICIENCIES WERE NOTED IN COMMISSARY OPERATIONS**** (Internal Control – Reportable Condition Under Government Auditing Standards)

Commissary account activity was not posted to the office cash journal, and as of June 30, 2003, the commissary bank account had not been reconciled since November 30, 2002. We also noted that the financial institution was not required to provide an image of the back of cancelled checks.

#### RECOMMENDATION

Commissary account activity should be posted to the cash journal, and bank reconciliations should be performed on a monthly basis. Also, the official should require the financial institution to provide an image of the back of cancelled checks.

#### MANAGEMENT'S RESPONSE – SHERIFF

The Cocke County Jail is in the process of working with the commissary vendor to develop a program to reconcile account statements on a monthly basis.

Since the audit, the department has requested that the bank provide us with copies of the back of checks to be in compliance with your finding.

## **OTHER FINDINGS AND RECOMMENDATIONS**

**FINDING 03.12      DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF GENERAL SESSIONS COURT CLERK, CLERK AND MASTER, JUVENILE COURT CLERK, REGISTER, AND SHERIFF**

(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among officials and employees in the Offices of General Sessions Court Clerk, Clerk and Master, Juvenile Court Clerk, Register, and Sheriff. Officials and employees responsible for maintaining the accounting records in these offices 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.

### **MANAGEMENT'S RESPONSE – SHERIFF**

The Sheriff's Department is in the process of segregating duties in our department. We have added duties to an employee to be able to help in accounting.

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**FINDING 03.13      AUDITED FINANCIAL STATEMENTS WERE NOT OBTAINED FOR THE RECREATION DEPARTMENT (OTHER SPECIAL REVENUE FUND)**

(Noncompliance Under Government Auditing Standards)

In March 2000, Cocke County adopted Chapter 95 of the Private Acts of 2000 that provided for the Cocke County Recreation Department to maintain a bank account for its activity funds outside the Office of Trustee. However, county officials had not obtained an audit of the Recreation Department's bank account transactions for the period July 1, 2002, through June 30, 2003. Therefore, the financial statements of this report do not include transactions channeled through the outside bank account of the Recreation Department. It should be noted that the Recreation Department was not audited for the previous two fiscal years.

### **RECOMMENDATION**

County officials should ensure that audited financial statements are obtained for the Recreation Department's accounts.

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

The county has arranged for the audit of the Recreation Department's bank transactions for the period July 1, 2002, through June 30, 2003. Due to circumstances beyond our control, the auditor has not yet been able to complete the arranged audit.