

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 and trustee 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.

DICKSON COUNTY AND DICKSON 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)

Dickson County and the Dickson County School Department did not identify and determine the historical value of their capital assets, and the related depreciation amounts of these assets. Therefore, Dickson County and the Dickson 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, Dickson County’s and the Dickson 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 governments that do not implement GASB Statement No. 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. Dickson County’s and the Dickson County School Department’s financial statements are presented in compliance with these requirements.

RECOMMENDATION

Dickson County and the Dickson 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 the 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

Management is aware that the county did not comply with the GASB 34 requirements for the fiscal year 2003. Efforts are already underway to correct this deficiency to be prepared for the fiscal year 2004 Audit under GASB 34. Work is in progress on compiling assets and other information as required. Management will present policies and procedures to the County Commission in the near future for approval.

OFFICE OF COUNTY EXECUTIVE

FINDING 03.02

THE SPECIAL PURPOSE FUND HAD A FUND DEFICIT

(Internal Control – Reportable Condition Under Government Auditing Standards)

The Special Purpose Fund had a fund deficit of \$15,845 at June 30, 2003. This fund deficit resulted from recognizing as encumbrances the unperformed portions of construction contracts totaling \$78,305. This fund deficit should be liquidated subsequent to June 30, 2003.

Generally accepted accounting principles require unperformed contracts to be reflected as a reservation (encumbrance) of fund balance. If unperformed portions of the contracts had not been reserved as an encumbrance of the fund balance in the financial statements, the Special Purpose Fund would have reflected a fund balance of \$62,460. The following statement presents the condition of the Special Purpose Fund at June 30, 2003, if the unperformed portion of the contracts had not been reflected as a reservation of the fund balance:

Fund Balance

Unreserved:

Undesignated \$ 62,460

Fund Balance, June 30, 2003

Restated \$ 62,460

MANAGEMENT’S RESPONSE – COUNTY EXECUTIVE

Management agrees with the finding and will make every effort to correct this deficit.

FINDING 03.03

THE OFFICE HAD DEFICIENCIES IN BUDGET OPERATIONS

(Material Noncompliance Under Government Auditing Standards)

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

- A. The Special Purpose Fund (special revenue fund) was not budgeted.
- B. Expenditures exceeded appropriations approved by the County Commission in the Solid Waste/Sanitation Fund’s Transfers Out major appropriation category by \$56,969.
- C. Expenditures exceeded appropriations approved by the County Commission in the Drug Control Fund by \$10,076.
- D. Expenditures exceeded appropriations approved by the County Commission in the County Attorney (\$5,635), Other Local Health Services (\$5,772), Soil

Conservation (\$849), and Transfers Out (\$80,000) major appropriation categories of the General Fund.

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 government shall be appropriated to such use by the county legislative bodies."

RECOMMENDATION

Expenditures should be held within appropriations approved by the County Commission.

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE

Management agrees with the finding and will make every effort to correct the deficiencies.

FINDING 03.04 **FUND CASH BALANCES WERE NOT RECONCILED WITH THE TRUSTEE'S BALANCES MONTHLY**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The County Executive's Office did not reconcile monthly the cash balances of the various funds it maintained with the trustee's cash balances, as required by Section 92-138, Tennessee Code Annotated. Consequently, posting errors made in these funds were not discovered and corrected until after June 30, 2003. We have corrected any posting errors that we identified in the financial statements of this report.

RECOMMENDATION

The office should reconcile the cash balances of funds with the trustee's cash balances monthly, as required by state statute, and posting errors should be corrected promptly.

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE

Management is aware of this situation and has made the corrections with the staff. Fund balances are being reconciled monthly, and any errors are being addressed at that time.

FINDING 03.05 **THE DICKSON COUNTY MUNICIPAL AIRPORT AUTHORITY WAS NOT AUDITED**
(Material Noncompliance Under Government Auditing Standards)

The county did not require an audit of the Dickson County Municipal Airport Authority, a component unit of Dickson County. As a result, we could not include the authority in the financial statements of this report. Generally accepted accounting principles require that audited financial statements of a component unit be included in the county's comprehensive annual financial report.

RECOMMENDATION

The county should require an annual audit of the Dickson County Municipal Airport Authority, as required by generally accepted accounting principles.

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE

Management agrees with the finding and was aware that an audit had not been done due to the Airport Authority not being willing to spend the additional funds. I have spoken to authority members about the situation.

OFFICE OF ROAD ENGINEER

FINDING 03.06 **THE OFFICE HAD DEFICIENCIES IN ITS ACCOUNTING AND PAYROLL RECORDS** (Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit revealed the following deficiencies in the office's accounting and payroll records:

- A. The office did not reconcile monthly the cash balances of its funds with the trustee's cash balances, as required by Section 9-2-138, Tennessee Code Annotated. Consequently, posting errors made in these funds were not discovered and corrected in a timely manner. We have corrected any posting errors that we identified in the financial statements of this report.
- B. General ledger payroll liability accounts were not reconciled with payroll reports and payments during the year. Numerous posting errors were made in the payroll liability accounts. Routine reconciliation procedures would have identified problems quickly and allowed for correction. The liability accounts are properly reflected in the financial statements of this report.
- C. The office paid garnishments without deducting corresponding amounts from two employees' paychecks. In addition, the office paid garnishments for three employees who no longer work at the Highway Department. These errors cost the county \$627.
- D. In numerous instances, revenues and expenditures were posted incorrectly or misclassified in the accounting records. Errors in posting diminish the usefulness of the financial records as a management tool and result in a loss of budgetary and accounting control. We have properly classified in the financial statements of this report any revenues and expenditures that we identified as incorrectly posted or misclassified.

RECOMMENDATION

The office should reconcile the cash balances of its funds with the trustee's cash balances each month, as required by state statute, and posting errors should be corrected promptly. General ledger payroll liability accounts should be reconciled with payroll records and payments to ensure proper withholding and matching of funds. Also, the office should correctly post and classify all revenues and expenditures.

FINDING 03.07 **SEVERAL PROPERTY OWNERS ERECTED GATES ON COUNTY ROADS**

(Noncompliance Under Government Auditing Standards)

Several property owners had erected gates on county roads to prevent public access. Section 54-10-110, Tennessee Code Annotated (TCA), prohibits any obstructions, such as gates, on public roads. In addition, Section 54-7-201, TCA, authorizes the road engineer to remove any fence, gate, or other obstruction from public roads and rights-of-way.

RECOMMENDATION

The road engineer should ensure the removal of any obstruction from the county's roads.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 03.08 **EXPENDITURES EXCEEDED APPROPRIATIONS**

(Material Noncompliance Under Government Auditing Standards)

The department did not follow sound budgeting practices. Our audit revealed the following deficiencies:

- A. Expenditures exceeded appropriations in the following funds' major categories:

<u>Fund/Major Category</u>	<u>Amount</u>
<u>General Purpose School Fund</u>	
Instruction:	
Regular Instruction Program	\$ 79,440
Alternative Instruction Program	5,198
Adult Education Program	13,709
Support Services:	
Alternative Instruction Program	1,470
Board of Education	6,978
Operation of Plant	190,430
Capital Outlay:	
Regular Capital Outlay	6,013

<u>Fund/Major Category</u>	<u>Amount</u>
School Federal Projects Fund	
Instruction:	
Alternative Instruction Program	\$ 32,396
Vocational Education Program	6,779
Support Services:	
Vocational Education Program	3,608

Section 5-9-401, Tennessee Code Annotated, states that “all funds ... 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.”

- B. Salaries exceeded line-item appropriations in the General Purpose School Fund (\$150,489), the School Federal Projects Fund (\$85,440), and the Central Cafeteria Fund (\$683). The budget resolution approved by the County Commission states that the salary, wages, or remuneration of each official, employee, or agent of the county should not exceed expenditures that accompany this resolution.

RECOMMENDATION

Expenditures should be held within appropriations approved by the County Commission.

OFFICE OF TRUSTEE

FINDING 03.09

THE CASH JOURNAL WAS NOT MAINTAINED PROPERLY, AND BANK STATEMENTS WERE NOT RECONCILED WITH CASH JOURNAL ACCOUNTS

(Internal Control – Material Weakness Under Government Auditing Standards)

The trustee’s cash journal was not maintained properly, and bank statements were not reconciled with cash journal accounts on a current basis. When we arrived in March 2003 to perform preliminary audit procedures, we discovered that bank statements had not been reconciled with cash journal accounts since September 2002. Because bank statements were not reconciled with cash journal accounts, numerous posting errors had gone undetected and uncorrected. Our audit revealed the following errors involving the maintenance of the cash journal and the bank statement reconciliation process:

- A. Several transfers were posted to the cash journal between the master bank account and the check clearing bank account that were not physically transferred in the bank accounts. Conversely, several transfers reflected on the bank statements between the master bank account and the check

clearing bank account were not posted to the cash journal. In addition, several checks issued and deposits made were posted to the cash journal for incorrect amounts. Total uncorrected errors between the check clearing bank account and the cash journal for the year ended June 30, 2003, exceeded \$494,000.

- B. Monthly interest earned on the check clearing bank account was not transferred out of the check clearing bank account to the master bank account; instead, these interest earnings remained in the check clearing bank account.
- C. At June 30, 2003, the trustee had transferred from the master bank account to the check clearing bank account \$1,827,000 more than the amount required to pay outstanding checks. The trustee maintains one master bank account and one check clearing bank account for Dickson County. Theoretically, transfers made from the master bank account to the check clearing bank account should equal the sum of all checks issued for all funds; therefore, at month-end the balance in the check clearing bank account should equal outstanding checks.
- D. Bank charges on the check clearing bank account for check printing were not posted to the cash journal nor refunded to the check clearing bank account by the master bank account.
- E. The trustee's June 30, 2003, outstanding check list contained over \$24,000 of checks that had been previously voided by fund bookkeepers.

The cash journal is the primary cash control record that summarizes the office's financial operations. Therefore, proper maintenance of the cash journal and accurate reconciliations of bank statements are imperative.

RECOMMENDATION

The mathematical accuracy of the cash journal, the master bank account, and the check clearing bank account should be verified and reconciled on a daily basis. Bank accounts should be reconciled with the cash journal on a current basis, and outstanding checks should be accurately listed.

MANAGEMENT'S RESPONSE – TRUSTEE

Management was aware and was making all efforts to reconcile as required. The master bank account and check clearing account are being reconciled on a more regular basis. Changes are being made effective October 1, 2003, which will correct many of these problems.

OFFICE OF CLERK AND MASTER

FINDING 03.10

THE OFFICE HAD A CASH SHORTAGE OF \$160

(Internal Control – Reportable Condition Under Government Auditing Standards)

The office had a cash shortage of \$160, resulting from cash collections on July 31, 2003, (\$60) and August 1, 2003, (\$100) that had not been deposited or otherwise accounted for. The clerk and master discovered the cash shortages on the dates they occurred and liquidated the cash shortage of \$160 by depositing personal funds to the office bank account. The clerk and master notified the Dickson County Sheriff's Department, which conducted an investigation of the cash shortage on August 18, 2003. The clerk and master then notified our office on August 19, 2003, that an employee had admitted to the theft. The clerk and master dismissed this employee on August 20, 2003. We have reviewed this cash shortage with county officials and the district attorney general.

RECOMMENDATION

County officials should promptly notify our office when they discover suspected cash shortages or irregularities.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 03.11

DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE LANDFILL DEPARTMENT; AMBULANCE SERVICE; AND OFFICES OF ROAD ENGINEER, TRUSTEE, AND REGISTER

(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among the officials and employees of the Landfill Department; Ambulance Service; and the Offices of Road Engineer, Trustee, and Register. Officials and 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 departments and offices should segregate duties adequately among employees.

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE

Management is aware of this situation, and efforts will be made to address this deficiency.

MANAGEMENT'S RESPONSE – TRUSTEE

Management is aware of the lack of segregation of duties but the number of personnel and lack of funding prevent any changes at this time.

FINDING 03.12

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

(Internal Control – Reportable Condition Under Government Auditing Standards)

Dickson 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

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

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE

Management is aware that there is not a uniform accounting system in place for all county departments. We will look at the possibility of putting such a system in place.