

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 03.01 **THE COUNTY ALLOWED A NONPROFIT CORPORATION TO USE COUNTY ASSETS**

(Material Noncompliance Under Government Auditing Standards)

Grundy County allowed a nonprofit corporation to use county property and equipment. Ambulance services are provided to Grundy County by Grundy County EMS, Inc., a nonprofit corporation. Grundy County EMS, Inc., operates from a county-owned building and uses five emergency vehicles that are titled to Grundy County. The county also pays the liability insurance on the building. Section 5-9-109, Tennessee Code Annotated, permits a county to make contributions to nonprofit organizations with County Commission approval. However, the County Commission has never approved the use of the county-owned vehicles and building by the nonprofit corporation, and the county does not have a written agreement (contract) with Grundy County EMS, Inc., concerning the use of county property and equipment.

RECOMMENDATION

County property should not be used by a nonprofit agency without the approval of the County Commission, as required by state statute. The county should enter into a contract with the nonprofit agency detailing each party's responsibilities concerning the building and equipment.

FINDING 03.02 **TRANSACTIONS RELATED TO THE OPERATION OF THE COUNTY-OWNED SEWER SYSTEM WERE NOT ACCOUNTED FOR THROUGH AN ENTERPRISE FUND**

(Material Noncompliance Under Government Auditing Standards)

The County Executive's Office did not account for transactions of the county-owned sewer system through an enterprise fund. Instead, these transactions were accounted for through the county's General Fund. Section 68-221-208, Tennessee Code Annotated, and paragraph 8(m) of the Wastewater Facility Revolving Fund Loan Agreement provide for Grundy County to establish a sewer user's fee and/or ad valorem taxes as necessary to provide sufficient funds to pay the costs of operation and maintenance, including depreciation, according to generally accepted accounting principles and debt service requirements of the sewer system. Reporting the sewer system through an enterprise fund is the only method that would ensure sufficient funds are provided to pay the costs of operations and maintenance, including depreciation and debt service requirements of the sewer system.

RECOMMENDATION

Transactions related to the operations of the county-owned sewer system should be accounted for through an enterprise fund established expressly for those purposes, as required by state statute and the Wastewater Facility Revolving Fund Loan Agreement.

FINDING 03.03 **DEFICIENCIES WERE NOTED IN SEWER DEPARTMENT OPERATIONS**

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

The following deficiencies were noted in our examination of the Sewer Department operations:

- A. Official, prenumbered receipts were not issued for collections the County Executive's Office made for the Sewer Department, as required by Section 9-2-103, Tennessee Code Annotated (TCA). Because receipts were not issued, we were unable to determine if collections were deposited to the bank account within three days, as required by Section 5-8-207, TCA. This statute requires that county officials deposit funds to the office bank account within three days of collection.
- B. The County Commission had not established a formal, written policy for the write-off of uncollectible accounts receivable.

RECOMMENDATION

All collections of the Sewer Department should be receipted and deposited to the bank account within three days, as required by state statute. The County Commission should establish a write-off policy for uncollectible accounts receivable.

OFFICE OF HIGHWAY SUPERINTENDENT

FINDING 03.04 **PURCHASE ORDERS WERE NOT ISSUED FOR SOME PURCHASES**

(Internal Control – Reportable Condition Under Government Auditing Standards)

Purchase orders were not issued for some purchases. Purchase orders are necessary to control who has purchasing authority for the county and to document purchasing commitments.

RECOMMENDATION

Highway officials should issue purchase orders for all applicable purchases.

FINDING 03.05 **A COUNTY ROAD LIST WAS NOT SUBMITTED TO THE COUNTY COMMISSION**
(Noncompliance Under Government Auditing Standards)

The highway superintendent did not submit a list of county roads to the County Commission. Section 54-10-103, Tennessee Code Annotated, requires that the highway superintendent submit a list of county roads to the County Commission for approval at its January session each year. This list must include the classification, width, and distance of each county-maintained road, and a summary of changes from the prior year. Highway Department officials need a current, approved list of county roads to determine which roads they are responsible for maintaining.

RECOMMENDATION

The highway superintendent should submit to the County Commission a list of county roads for approval. This list should include the classification, width, and distance of each road, and a summary of changes, as required by state statute.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 03.06 **THE SCHOOL FEDERAL PROJECTS FUND HAD A CASH OVERDRAFT**
(Noncompliance Under Government Auditing Standards)

The School Federal Projects Fund had a cash overdraft of \$109,573 at June 30, 2003. This cash overdraft resulted from issuing warrants that exceeded funds on deposit with the county trustee. The cash overdraft was liquidated subsequent to June 30, 2003, when federal funds were received.

RECOMMENDATION

The office should not make disbursements that exceed available cash on deposit with the county trustee.

FINDING 03.07

DEFICIENCIES WERE NOTED IN BUDGET OPERATIONS
(Noncompliance Under Government Auditing Standards)

Our examination revealed the following budget deficiencies:

- A. Expenditures exceeded appropriations approved by the County Commission in the General Purpose School Fund in ten of 24 major categories ranging from \$1,488 to \$32,338. Also, expenditures exceeded appropriations in the Regular Instruction Program (\$11,103), Vocational Education Program (\$55,707), and Transportation (\$580) major appropriations categories in the School Federal Projects Fund. 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 the line-item appropriations in 22 accounts in the General Purpose School Fund in amounts ranging from \$122 to \$20,533 and in five accounts in the School Federal Projects Fund in amounts ranging from \$160 to \$33,175. 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.
- C. We noted certain budget amendments posted to the General Purpose School Fund that were not approved by the County Commission. The budget resolution approved by the County Commission states that the director of schools must receive approval of both the Board of Education and County Commission for transfers between major categories, as required by law. These budget amendments have not been reflected in the financial statements of this report.
- D. The School Federal Projects Fund budget was not posted to the accounting records until February 2003. Consequently, its usefulness as a management tool was greatly diminished.

RECOMMENDATION

Expenditures, including line items for salary, should be held within appropriations approved by the County Commission, and budget amendments should be approved by the County Commission. Also, the budget should be entered into the accounting records as soon as it is approved so that it may be useful as a management tool.

FINDING 03.08

THE SCHOOL DEPARTMENT HAD DEFICIENCIES IN ITS PURCHASING PROCEDURES

(Internal Control – Reportable Condition Under Government Auditing Standards)

We noted the following deficiencies in purchasing procedures during our examination of the School Department:

- A. In several instances, purchase orders were not issued when required or were not issued properly. The failure to issue purchase orders properly reduces controls over who has purchasing authority for the department and the ability to document the department's purchasing commitments.
- B. In several instances, only copies of invoices were provided as documentation of purchases. Original documentation helps to ensure that goods and services are actually received. However, we extended our audit procedures and were able to determine that goods had been received and services had been rendered.
- C. In several instances, the department paid invoices without signing receiving reports or invoices. Signatures on these documents help to ensure that goods and services are actually received. We extended our audit procedures to determine that goods and/or services were received.
- D. In several instances, expenditures were not properly classified in the accounting records. We have properly classified in the accompanying financial statements of this report expenditures that we noted which were not properly classified.
- E. We noted that the School Department paid sales tax on several invoices, even though the county is exempt from sales tax. The payment of sales tax increases the costs of the goods and services to the county unnecessarily.
- F. On numerous occasions, we observed that the keys to the check-signing machine were kept in the machine when it was not in use. Without adequate controls, unauthorized persons could sign and issue checks.

RECOMMENDATION

Purchase orders should be issued properly for all applicable expenditures. Original documentation should be maintained for all expenditures, and receiving reports should be signed indicating that goods have been received and/or services have been rendered. Furthermore, expenditures should be properly classified within the accounting records, purchases should be made using the county's tax-exempt status, and the keys to the check-signing machine should be accessible to authorized personnel only.

FINDING 03.09

CONTROLS OVER INVENTORIES WERE INADEQUATE

(Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit revealed the following deficiencies in controls over the School Department's assets:

- A. Teachers and librarians at individual schools prepared annual inventory records; however, these lists were not verified by personnel independent of maintaining the inventory records.
- B. The School Department did not have procedures to ensure that newly acquired assets were added to the inventory lists and that items that had been surplused or destroyed were removed from the lists.

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

RECOMMENDATION

The School Department should implement procedures to ensure personnel independent of the record-keeping process periodically verify inventory records. Also, procedures should be implemented to ensure that new equipment is added to the inventory and that surplused and destroyed items are removed from the inventory.

FINDING 03.10

TIME AND ATTENDANCE RECORDS WERE NOT MAINTAINED

(Internal Control – Reportable Condition Under Government Auditing Standards)

The School Department did not maintain time and attendance records for all employees. These records are necessary to support payroll disbursements.

RECOMMENDATION

Time and attendance records should be maintained for all employees. These time and attendance records should include, at a minimum, the dates, hours worked, and signatures of the employee and supervisor.

FINDING 03.11 DEFICIENCIES WERE NOTED IN THE ADMINISTRATION OF THE LITTLE JACKETS DAYCARE

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

The School Department operates a child care program known as the Little Jackets Daycare. The daycare's financial transactions are channeled through the county's General Purpose School Fund. Our examination of the daycare program disclosed the following deficiencies:

- A. The duties of daycare employees were not segregated adequately. The site director took roll, calculated tuition, collected funds, and prepared deposits. These duties were performed without effective monitoring or review by supervisory personnel.
- B. Receipts were not deposited within three days of collection. For example, we noted receipts dated November 2002 that were not deposited with the county trustee until January 2003. Section 5-8-207, Tennessee Code Annotated (TCA), requires that county officials deposit all funds within three days of collection.
- C. Official, prenumbered receipts were not issued for all funds collected. In several instances, collections appeared on a county trustee's receipt; however, there were no receipts issued from the daycare for these funds. Section 9-2-103, TCA, requires official, prenumbered receipts to be issued for all collections.
- D. We noted several altered receipts. We also noted other receipts that appear to have been issued twice. These deficiencies diminish the usefulness of the receipt as an internal control.
- E. The receipt books were not maintained intact at the daycare. As receipts were written, they were removed from the receipt books and kept in a box at the daycare in no particular order. This practice diminishes the usefulness of the receipts as an internal control.
- F. Daycare funds were not safeguarded adequately. The site director took funds home at night and kept them until the program director took the funds to the Central Office, where they were given to the School Department's bookkeeper. In several instances, we noted funds lying on the bookkeeper's desk for several days before they were taken to the Trustee's Office. No records of the funds that were transferred between School Department personnel were maintained; therefore, we did not have an audit trail of the receipt issued to the parent at the school and the receipt of funds in the Trustee's Office. Funds could be lost or stolen if they are not kept in a secure, locked location and if a proper audit trail is not maintained.

- G. Collections were not reconciled with deposits made with the county trustee. Because of this deficiency and the deficiencies noted above, we were not able to trace cash receipts of \$1,048 and checks of \$360 to the Trustee's Office.
- H. Prenumbered checks were not issued for all disbursements. In one instance, a cash refund was given to the parent and documented on the receipt. Section 5-8-207, TCA, requires that all disbursements are to be made by official, prenumbered checks.
- I. The daycare did not maintain adequate accounts receivable records. The daycare charged \$15 per day with that amount being due at the beginning of each month. However, officials allowed some parents to pay weekly. The only records maintained on student accounts were weekly lists of students that the site director printed so that she could make a notation of who had paid. Also, there were families who received daycare assistance from the state, and the daycare services provided were never compared with the amounts received from the state.

RECOMMENDATION

The School Department should do the following:

- A. Duties of daycare employees should be segregated adequately and properly supervised.
- B. Funds should be deposited with the county trustee within three days of collection at the daycare.
- C. Official, prenumbered receipts should be issued at the time funds are received.
- D. Receipts should not be altered and should not be issued twice for the same collection.
- E. Receipt books should be maintained intact.
- F. Funds should be kept in a secure, locked location until the money is deposited with the county trustee. Also, a proper audit trail should be maintained for funds if they are transferred between personnel of the School Department.
- G. Collections should be reconciled with deposits made with the county trustee.
- H. Official, prenumbered checks should be issued for all disbursements.
- I. Accounts receivable records should be maintained for each student.

OFFICE OF SHERIFF

FINDING 03.12 COLLECTIONS WERE NOT DEPOSITED IN COMPLIANCE WITH STATE STATUTES
(Noncompliance Under Government Auditing Standards)

The Sheriff's Office did not deposit funds to the office bank account within three days of collection. Section 5-8-207, Tennessee Code Annotated, requires county officials to deposit funds within three days of collection.

RECOMMENDATION

The Sheriff's Office should deposit funds to the office bank account within three days of collection, as required by state statute.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 03.13 RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED ASSETS
(Internal Control – Material Weakness Under Government Auditing Standards)

Grundy 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 Grundy 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

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

FINDING 03.14 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

Grundy County officials should consider adopting 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 03.15

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.