

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 written responses of the trustee 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.

HAYWOOD COUNTY AND HAYWOOD 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)

Haywood County and the Haywood County School Department did not identify and determine the historical value of their capital assets, and the related depreciation amounts of these assets. Therefore, Haywood County and the Haywood 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, Haywood County’s and the Haywood 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. Haywood County’s and the Haywood County School Department’s financial statements are presented in compliance with these requirements.

RECOMMENDATION

Haywood County and the Haywood 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 county’s and the School Department’s 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.

OFFICE OF COUNTY EXECUTIVE

FINDING 03.02 **THE SOLID WASTE DISPOSAL FUND HAD A DEFICIT IN NET ASSETS**

(Material Noncompliance Under Government Auditing Standards)

The Solid Waste Disposal Fund had a deficit of \$1,010,800 in net assets at June 30, 2003. This deficit resulted from the recognition of a liability (\$1,363,373) in the financial statements of the Solid Waste Disposal Fund for costs associated with closing the county's landfill and monitoring the landfill for 30 years after its closure. Generally accepted accounting principles and state statutes require that such costs be reflected in the financial statements.

RECOMMENDATION

Haywood County officials should develop and implement a plan that would fund the deficit in net assets of \$1,010,800 over time.

FINDING 03.03 **THE OFFICE DID NOT ALWAYS ISSUE PURCHASE ORDERS PROPERLY**

(Internal Control – Reportable Condition Under Government Auditing Standards)

The office did not issue purchase orders for some applicable purchases and in other instances, issued purchase orders with no dollar amount indicated. Purchase orders are necessary to control purchasing authority and to document purchasing commitments.

RECOMMENDATION

To strengthen internal controls over purchasing procedures, the office should issue purchase orders for all applicable purchases, and dollar amounts should be included on the purchase orders.

OFFICE OF CHIEF ADMINISTRATIVE HIGHWAY OFFICER

FINDING 03.04 **THE OFFICE DID NOT ALWAYS ISSUE PURCHASE ORDERS PROPERLY**

(Internal Control – Reportable Condition Under Government Auditing Standards)

The Highway Department did not issue purchase orders for some applicable purchases and in other instances, issued purchase orders with no dollar amount indicated. Purchase

orders are necessary to control purchasing authority and to document purchasing commitments.

RECOMMENDATION

To strengthen internal controls over purchasing procedures, the Highway Department should issue purchase orders for all applicable purchases, and dollar amounts should be included on the purchase orders.

FINDING 03.05 **THE HIGHWAY DEPARTMENT DID NOT MAINTAIN A SYSTEM TO ACCOUNT FOR THE USE OF ROAD MATERIALS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Highway Department had a system to determine the use of road materials, such as bridge lumber and rock, for state-aid road projects. However, the department did not have a system to account for materials used on other types of road projects. The failure to maintain a system to document the use of road materials results in a loss of control over the assets and increases the risk of inventory loss.

RECOMMENDATION

The Highway Department should develop and implement a system to account for materials used on all types of road projects.

OFFICE OF TRUSTEE

FINDING 03.06 **THE OFFICE MAINTAINED A DUPLICATE SET OF ACCOUNTING RECORDS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Trustee's Office maintained a complete system of both manual and automated accounting records. The manual posting, totaling, and tracking of accounting records are not only inefficient, but increase the likelihood of errors.

RECOMMENDATION

The office should discontinue maintaining a duplicate set of accounting records. Accounting records should be maintained electronically, giving consideration to the costs associated with the acquisition and on-going maintenance of the computer system and additional labor costs for maintaining manual accounting records.

MANAGEMENT'S RESPONSE – TRUSTEE

This office maintains a duplicate set of accounting records and has done so for approximately 15 years. Contrary to the statement sent to the county mayor and members of the County Commission, the manual posting does not increase the likelihood of errors, but has indeed found potential errors that would not have been prevented if the manual posting had not been maintained. A motion was made and seconded by the County Commission and passed unanimously for the Trustee's Office to keep the set of manual records along with the computer records.

Our office does the best job that we can to make sure that everything is correct and that no errors occur. Also, if Haywood County ever experiences a power outage, our office will be able to continue business. Without the manual documentation and records, we would be forced to come to a halt.

REBUTTAL

The office's software is sufficient to record all accounting transactions, and the office has a disaster recovery plan in place to ensure business continuity. Given consideration to the costs associated with the acquisition and on-going maintenance of the computer system, maintaining manual records is inefficient.

OFFICE OF SHERIFF

FINDING 03.07 **RECEIPTS WERE NOT ISSUED AT THE TIME OF COLLECTION**

(Noncompliance Under Government Auditing Standards)

Receipts were not issued at the time collections were received. Instead, receipts were issued for collections at the time bank deposits were prepared. As a result of this practice, we could not determine if funds were deposited to the office bank account within three days of collection, as required by Section 5-8-201, Tennessee Code Annotated.

RECOMMENDATION

Receipts should be issued for collections at the time the funds are received.

MANAGEMENT'S RESPONSE – SHERIFF

We corrected the problem as soon as it was brought to our attention.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 03.08 **A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Haywood 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

Haywood 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.

FINDING 03.09 **HAYWOOD COUNTY DID NOT REPORT TO THE INTERNAL REVENUE SERVICE FRINGE BENEFITS PROVIDED TO THE COUNTY FARM SUPERVISOR**
(Noncompliance Under Government Auditing Standards)

Haywood County did not report to the Internal Revenue Service (IRS) fringe benefits provided to the county farm supervisor. These fringe benefits were a utilities allowance (\$6,042), telephone allowance (\$1,119), and the value of housing provided to the county farm supervisor. IRS regulations require an employer to report fringe benefits provided to an employee as income on the employee's Form W-2.

RECOMMENDATION

Fringe benefits provided to the farm supervisor should be reported on the employee's Form W-2 in compliance with IRS regulations.

FINDING 03.10 **COUNTY OFFICIALS HAD NOT HELD A DELINQUENT PROPERTY TAX SALE IN RECENT YEARS**
(Noncompliance Under Government Auditing Standards)

County officials had not held a delinquent property tax sale in recent years. Section 67-5-1806, Tennessee Code Annotated, provides that all delinquent property taxes become discharged and uncollectible after ten years from the date when the delinquency originated. Table 1 of the Statistical Section of this report reflects uncollected delinquent property taxes of \$352,346 filed in Chancery Court.

RECOMMENDATION

County officials should hold a delinquent property tax sale in an effort to collect delinquent taxes, as required by state statute.

FINDING 03.11 **HAYWOOD COUNTY HAD NOT ADOPTED GUIDELINES FOR CELLULAR TELEPHONE USE**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Twenty-three Haywood County employees had county-provided cellular telephones. However, the Haywood County Commission had not developed written guidelines stating the purpose for and proper use of cellular telephones and specifying the individuals authorized to use them.

RECOMMENDATION

The Haywood County Commission should adopt written guidelines stating the purpose for and proper use of cellular telephones and specifying the individuals authorized to use them.

FINDING 03.12 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF CHIEF ADMINISTRATIVE HIGHWAY OFFICER, DIRECTOR OF SCHOOLS, AND REGISTER**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among officials and employees in the Offices of Chief Administrative Highway Officer, Director of Schools, and Register. Officials and employees responsible for maintaining the accounting records in these offices were also involved in reconciling cash balances with the county trustee; preparing vendor and payroll warrants; posting accounting and payroll records; preparing payroll reports; mailing vendor warrants; and 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.