

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 did not offer written responses to the findings and recommendations. Officials did offer oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

HUMPHREYS COUNTY AND HUMPHREYS 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)

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

RECOMMENDATION

Humphreys County and the Humphreys 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 their financial statements in accordance with generally accepted accounting principles.

OFFICE OF COUNTY EXECUTIVE

FINDING 03.02 **THE OFFICE DID NOT HAVE A FORMAL PURCHASE ORDER SYSTEM**

(Internal Control – Reportable Condition Under Government Auditing Standards)

The office did not have a formal purchase order system using requisitions and purchase orders. A formal purchasing system is necessary to control who has purchasing authority for the office and to document purchasing commitments.

RECOMMENDATION

To strengthen internal controls over the purchasing process and to document purchasing commitments, the office should establish a formal purchase order system using requisitions and purchase orders.

FINDING 03.03 **COMPETITIVE BIDS WERE NOT SOLICITED IN ACCORDANCE WITH STATE STATUTES**

(Noncompliance Under Government Auditing Standards)

Our examination revealed the following bidding deficiencies:

- A. The office solicited bids for the purchase of furniture and fixtures (\$12,431) for the Humphreys County Public Library; however, the bid specifications were limited to a particular catalog number listed in Dickson Office Supply's catalog. Limiting bid specifications to a particular make, model, or manufacturer violates the intent of the competitive bid law, which requires obtaining the best price for a product. It should be noted that Dickson Office Supply was the only vendor to submit a bid.
- B. The county did not solicit competitive bids for the purchase of victim rescue equipment (\$8,955), as required by the County Purchasing Law of 1983, Sections 5-14-201 through 5-14-206, Tennessee Code Annotated, which provides for all purchases exceeding \$5,000 to be made after public advertisement and solicitation of competitive bids.

RECOMMENDATION

The office should follow competitive bid requirements and should not limit bid specifications to a particular manufacturer. Competitive bids should be solicited through newspaper advertisement for all purchases estimated to exceed \$5,000, as required by state statutes.

FINDING 03.04 THE OFFICE HAD DEFICIENCIES IN BUDGET OPERATIONS
(A. Noncompliance Under Government Auditing Standards; B. Material Noncompliance Under Government Auditing Standards)

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

- A. Expenditures and encumbrances exceeded appropriations approved by the County Commission in the Public Safety - Workhouse (\$1,059) and the Capital Projects - Other General Government Projects (\$22,155) major appropriations categories of the General Fund.
- B. As a result of recognizing an encumbrance for an uncompleted jail construction/renovation project totaling \$1,351,157 at June 30, 2003, expenditures and encumbrances exceeded appropriations approved by the County Commission in the General Capital Projects Fund by \$879,829.

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."

RECOMMENDATION

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

FINDING 03.05 THE OFFICE DID NOT MAINTAIN RECORDS FOR TAP FEES RECEIVABLE IN THE PUBLIC UTILITY FUND
(Internal Control – Reportable Condition Under Government Auditing Standards)

Humphreys County charges an initial tap fee of \$5,000 to connect to the county's wastewater treatment system. Businesses that connect to the system may pay the fee in a lump sum or monthly installments over a two-year period. The County Executive's Office did not maintain complete records documenting the collection of tap fees and delinquent payments. Our examination disclosed that at June 30, 2003, three businesses were delinquent in making the required payments by \$5,623. This amount has been reflected as accounts receivable in the financial statements of this report.

RECOMMENDATION

The county executive should collect delinquent tap fee charges, should maintain ledgers documenting amounts due and collected, and should establish and reflect receivables on accounting records at June 30.

OFFICE OF ROAD SUPERVISOR

FINDING 03.06 **THE OFFICE HAD NO DOCUMENTATION TO SUPPORT EMERGENCY PURCHASES** (Noncompliance Under Government Auditing Standards)

During the audit period, the Highway Department made two purchases that the road supervisor deemed emergency purchases. The road supervisor stated that because Humphreys County experienced severe flooding in May 2003 the Highway Department made an emergency purchase of a backhoe to assist in clean-up efforts. Also, the road supervisor stated that the department's electronic card fueling system for dispensing fuel from county tanks did not operate properly. He felt it was necessary to purchase a new one as quickly as possible, and therefore, he considered this purchase to be an emergency purchase.

Purchasing procedures of the Highway Department are governed by provisions of Chapter 634, Private Acts of 1935, as amended, and the Uniform Road Law, Section 54-7-113, Tennessee Code Annotated. Provisions of the private act require the road supervisor to obtain the approval of the county Road Advisory Commission for all purchases of single items exceeding \$2,500. The Uniform Road Law provides for purchases exceeding \$5,000 to be made after public advertisement and the solicitation of competitive bids, except in specific instances. This law does allow for emergency purchases to be made without soliciting competitive bids if specific conditions are met. We noted the following deficiencies concerning the purchases the road supervisor stated to be emergency purchases:

- A. From our examination of the Road Advisory Commission minutes, we could not find any approval from the commission for the purchase of the backhoe or the fuel system. Therefore, we could not determine that the Road Advisory Commission had approved these purchases, as required by the private act.
- B. Even though state statute does not require the solicitation of competitive bids in emergency situations, sound business practice dictates that the road supervisor make an effort to ensure that the county pays a fair price for the equipment. The road supervisor stated he had taken telephone quotes for the fuel card system and the backhoe. However, he did not maintain any documentation of these price quotes, such as whom he contacted, when he contacted them, and what prices they quoted.

RECOMMENDATION

The Road Advisory Committee should approve all purchases exceeding \$2,500, and the minutes should reflect the approval. Also, when emergency purchases are made, the road supervisor should maintain documentation that the department paid a fair price for the items purchased.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 03.07

THE OFFICE HAD PURCHASING DEFICIENCIES

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

Our audit revealed the following purchasing deficiencies:

- A. The office did not issue purchase orders for some applicable purchases. Purchase orders are necessary to control who has purchasing authority for the office and to document purchasing commitments. Also, in a few instances, purchase orders were issued after the purchases were made. This practice defeats the purpose of issuing a purchase order and makes the purchase order an approval of payment, rather than an approval of the purchase.
- B. School officials indicated that they had solicited competitive bids for the purchase of vinyl floor tiles, heating and air conditioning units, and trusses. However, school officials did not present any documentation indicating that competitive bids had been solicited on these purchases. Section 49-2-203, Tennessee Code Annotated, requires that competitive bids be solicited through newspaper advertisement for all purchases estimated to exceed \$5,000.

RECOMMENDATION

To strengthen internal controls over the purchasing process and to document purchasing commitments, the office should issue purchase orders for all applicable purchases prior to the actual purchase. Competitive bids should be solicited through public advertisement for all purchases estimated to exceed \$5,000, as required by state statutes, and documentation should be maintained to support all bids.

FINDING 03.08

THE OFFICE HAD DEFICIENCIES IN BUDGET OPERATIONS
(Material Noncompliance Under Government Auditing Standards)

Our examination revealed the following deficiencies in budget operations:

- A. In the General Purpose School Fund, expenditures exceeded appropriations approved by the County Commission in five major expenditure categories of the General Purpose School Fund in amounts ranging from \$3,943 to \$59,961. Also, expenditures exceeded appropriations in numerous employee salary line-items of the General Purpose School Fund in amounts ranging from \$1,249 to \$41,724. School personnel made budget entries to the accounting records to amend the salary lines that were overspent; however, these amendments were not approved by the County Commission and the Board of Education. Therefore, these amendments to the salary line-items have not been recognized in the financial statements of this report.
- B. In the Central Cafeteria Fund, expenditures exceeded appropriations approved by the County Commission by \$7,503. Expenditures exceeded appropriations in numerous employee salary line-items of the Central Cafeteria Fund in amounts ranging from \$1,249 to \$41,724. School personnel made budget entries to accounting records to amend the salary line-items that were overspent; however, these amendments were not approved by the County Commission and the Board of Education. Also, some budget amounts posted to the accounting records of the Central Cafeteria Fund did not agree with amounts approved by the County Commission. The financial statements of this report present only budget amounts that have been approved by and that agree with amounts approved by the County Commission and the Board of Education.
- C. In the School Federal Projects Fund, expenditures exceeded appropriations approved by the County Commission by \$55,684.

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."

RECOMMENDATION

Expenditures should be held within appropriations approved by the Board of County Commissioners. Budget amounts approved by the Board of County Commissioners should be the amounts posted to the budget journal.

FINDING 03.09

ACCOUNTING RECORDS WERE NOT CLOSED IN A TIMELY MANNER

(Noncompliance Under Government Auditing Standards)

The accounting records for the funds maintained by the director of schools were not closed in a timely manner. We noted the following deficiencies concerning the closing of the office's records:

- A. The monthly accounting records were not closed in a timely manner. On average, 37 days lapsed between the end of a month and the date accounting records were actually closed. The failure to maintain accounting records on a current basis diminishes the usefulness of the financial records as a management tool and results in a loss of budgeting and accounting control.
- B. When we arrived to complete our audit of the School Department, we discovered that school personnel were unable to reconcile the School Federal Projects Fund for the month of June 2003 and that the year-end closing had not been completed. In order for us to have financial records to audit, the School Department hired a local accounting firm to reconcile this fund with the trustee so that accounting records of the School Federal Projects Fund could be properly closed for the month of June and the financial statements for the year ended June 30, 2003, could be prepared. It should be noted that this procedure was not performed until October 20, 2003, almost four months after the end of the fiscal year.

RECOMMENDATION

Accounting records should be closed on a timely basis to provide accurate financial information at the end of each month.

FINDING 03.10

THE OFFICE HAD ACCOUNTING DEFICIENCIES

(A. Internal Control – Material Weakness Under Government Auditing Standards; B., C., D., E., F. Internal Control – Reportable Condition Under Government Auditing Standards)

The following deficiencies were noted during our examination of the accounting records of the office:

- A. During our examination, we noted that an excessive number of unexplained general journal entries were made to the accounting records of the General Purpose School and School Federal Projects Funds. In the General Purpose School Fund, 66 general journal entries totaling \$2,473,945 were made to the accounting records with such explanations as “reclassify per director of schools,” “correct distribution of salaries,” and “reverse entry.” In the School Federal Projects Fund, we found 151 journal entries totaling \$1,963,309 with

such explanations as “corrections per Donna,” “to correct expenditures,” and “to correct liability.” School Department personnel were unable to further explain these adjustments except to say that they had difficulty in classifying expenditures and payroll distributions and had to adjust payroll liability accounts by journal entry.

- B. Many of the undocumented journal entries noted in part A. of this finding were made to transfer funds between payroll withholding liability accounts in the General Purpose School and School Federal Projects Funds. These accounts were not reconciled with subsidiary payroll records on a monthly basis, and as a result, significant unidentified amounts had accumulated at June 30, 2003, in the withholding accounts for income taxes, insurance, and other payroll deductions. These unidentified balances have been reflected as receivables in the financial statements of this report. Without the necessary reconciliations, errors and omissions in employee payroll deduction accounts have occurred and have not been corrected.
- C. Accounts payable of \$26,176 were not established and reflected on the accounting records of the General Purpose School Fund, as required by generally accepted accounting principles. We have reflected the accounts payable in the financial statements of this report.
- D. Several revenues were misclassified on the accounting records of the School Federal Projects Fund. We have properly classified these revenues in the financial statements of this report.
- E. School personnel attempted to reconcile cash balances reflected in the accounting records of the General Purpose School and School Federal Projects Funds with cash balances in the county Trustee’s Office. However, these reconciliations noted material differences that had not been adequately identified. Because these differences were not identified and corrected promptly, the availability of funds could not be determined. Section 9-2-138, Tennessee Code Annotated, requires all administrative officers to reconcile fund accounts with the trustee’s balances monthly.
- F. The chairman and secretary of the Board of Education did not sign the board’s minutes.

RECOMMENDATION

The office should do the following:

- A. The number of general journal entries should be kept to a minimum, and sufficient supporting documentation should be maintained for all general journal entries.
- B. All general ledger payroll deductions liability accounts should be reconciled monthly with subsidiary payroll records to ensure that amounts withheld

from employees' wages are properly accounted for and remitted to the appropriate agency.

- C. All payables should be established and reflected on the accounting records at June 30 of each year.
- D. To provide for effective budgeting control and the proper accountability of funds, the office should classify revenues properly.
- E. The cash balances of all funds administered by the director of schools should be reconciled with the county trustee's cash balances monthly, as required by state statute. Any difference in the reconciliation should be identified and corrected.
- F. The chairman and secretary of the Board of Education should sign the board's minutes.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 03.11 **A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Humphreys 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

Humphreys 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 03.12 **THE COUNTY USED A QUESTIONABLE METHOD OF FUNDING WORKERS' COMPENSATION EXPENSES, GENERAL LIABILITY INSURANCE, OFFICIALS' CORPORATE SURETY BONDS, AND EMPLOYEES' DISHONESTY BONDS**

(Material Noncompliance Under Government Auditing Standards)

During the year, premiums for workers' compensation expenses, general liability insurance, officials' corporate surety bonds, and employees' dishonesty bonds for the general county government, Highway Department, and School Department were paid from the county's General Fund. The state attorney general has opined that state statutes authorize a county to levy a tax for county general purposes and has defined a county general purposes levy as a levy for all county purposes, except roads, bridges, and schools. Also, the state attorney general has opined that workers' compensation claims and/or insurance coverage for county school employees must be funded through the county's school fund. Therefore, the legality of using General Fund monies to pay for workers' compensation, general liability insurance, officials' corporate surety bonds, and employees' dishonesty bonds for highway and school employees is questionable.

RECOMMENDATION

County officials should take immediate action to change the funding procedures and allocate the costs to the appropriate funds.

FINDING 03.13 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF 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 Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff. Officials and employees responsible for maintaining accounting records in these offices were also involved in receipting, depositing, reconciling bank statements, and/or preparing bank deposits. 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.