

## **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. A written response from the trustee is included in this report. Other officials offered oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

### **JEFFERSON COUNTY PRIMARY GOVERNMENT**

#### **FINDING 03.01      **GOVERNMENT-WIDE FINANCIAL STATEMENTS WERE NOT PRESENTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES****

(Material Noncompliance Under Government Auditing Standards)

Jefferson County did not identify and determine the historical value of its capital assets and the related depreciation amounts of these assets for the primary government. Therefore, Jefferson County was unable to provide the information necessary to prepare government-wide financial statements for all of the government's 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, Jefferson County's financial statements are not presented in accordance with generally accepted accounting principles; thus, we have issued an adverse opinion on the financial statements of the primary government.

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. The Jefferson County primary government's financial statements are presented in compliance with these requirements.

#### **RECOMMENDATION**

The Jefferson County primary government should present government-wide financial statements in conformity with generally accepted accounting principles, and should compile and maintain records that properly account for its capital assets. These records should document the historical costs of the county'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      **PURCHASE ORDERS WERE NOT ALWAYS ISSUED PROPERLY****

(Internal Control – Reportable Condition Under Government Auditing Standards)

In several instances, purchase orders were issued after the purchases were made. Most of these instances were related to purchases made by the Emergency Management Service and Sheriff's Department. Purchase orders are necessary to determine who has authority to make purchases and to document purchasing commitments. The practice of issuing purchase orders after the purchases are made defeats the purpose of the purchase order, making it an approval for payment rather than an approval of the purchase.

### **RECOMMENDATION**

Purchase orders should be issued before purchases are made to strengthen internal controls over the purchasing process and to properly document purchasing commitments.

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## **OFFICE OF SANITATION SUPERVISOR**

### **FINDING 03.03      **DEFICIENCIES WERE NOTED IN THE ACQUISITION OF SOLID WASTE EQUIPMENT THROUGH A LEASE-RENTAL AGREEMENT WITH OPTION TO PURCHASE****

(Material Noncompliance Under Government Auditing Standards)

In July 2002, the sanitation supervisor entered into a lease-rental agreement for a roller with the option to purchase. The original value of the roller was \$80,000 with a purchase option of \$81,000. The agreement required a minimum of nine monthly rental payments of \$4,350 that included interest. The agreement also provided for the rental payments, less interest, to apply toward the purchase price of the equipment if the purchase option was executed within ten months. After ten months, only 85 percent of the rental payments would be applied toward the purchase price. In June 2003, the County Commission approved the lease-purchase agreement (11 months after it was executed). The sanitation supervisor then exercised the purchase option and bought the roller in August 2003. The following deficiencies were noted with the agreement and related transactions:

- A. Competitive bids were not solicited for the rental-purchase of the roller. Purchasing procedures for Jefferson County are governed by Sections 5-14-201 through 5-14-206, Tennessee Code Annotated, which require that competitive bids be solicited through newspaper advertisement for all purchases (including leases and lease-purchase agreements) estimated to exceed \$5,000.

- B. County Commission approval was not obtained before the sanitation supervisor entered into the lease-purchase agreement. Section 7-51-904, Tennessee Code Annotated, requires that contracts be approved by resolution adopted by the County Commission and that no contract will be entered into without such approval.
- C. The county did not exercise its purchase option during the first ten months and, based on the agreement, received credit toward the purchase for only 85 percent of the net rental payments made subsequent to that time. This cost the county an additional \$2,505 when the purchase option was exercised in August 2003.

RECOMMENDATION

Competitive bids should be solicited in all applicable instances, as required by state statute, and County Commission approval should be obtained prior to entering into any contract. Furthermore, officials should review agreements to ensure that options are exercised in a manner that provides the most benefit for the least amount of money.

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FINDING 03.04      **THE OFFICE HAD DEFICIENCIES IN MAINTAINING ACCOUNTS RECEIVABLE SUBSIDIARY RECORDS FOR THE SOLID WASTE DISPOSAL FUND**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The office had deficiencies in maintaining accounts receivable subsidiary records for the Solid Waste Disposal Fund. A computerized weight scale system at the county's landfill produced a monthly list of waste received and calculated amounts owed by each customer. These amounts were then entered in a separate software package along with amounts received from customers. This package did not have sufficient capacity to maintain a complete history of all billings and payments received. To enter new transactions, the bookkeeper periodically had to delete history information, often affecting ending balances. Therefore, the receivable balances were not always accurate and had not been reconciled with the general ledger. Also, it should be noted that a policy for the write-off of delinquent accounts had not been developed and approved by the landfill committee.

RECOMMENDATION

Accounts receivable balances should be accurately maintained and reconciled with the general ledger. Also, a policy for the write-off of delinquent accounts should be developed and approved by the landfill committee.

FINDING 03.05      **THE OFFICE HAD DEFICIENCIES IN INVENTORY CONTROLS OVER EQUIPMENT AND VEHICLES**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Sanitation Department maintained inventory records for most equipment and vehicles but did not maintain an inventory list for tools and maintenance equipment located in the shop/garage area. Also, we noted department vehicles and equipment that were not tagged and clearly marked as county property.

RECOMMENDATION

Inventory records should include tools and maintenance equipment located in the shop/garage area, and all county-owned vehicles and equipment should be tagged and clearly marked as county property.

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FINDING 03.06      **PURCHASE ORDERS WERE NOT ALWAYS ISSUED PROPERLY**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

In several instances, purchase orders were issued after the purchases were made. Purchase orders are necessary to determine who has authority to make purchases and to document purchasing commitments. The practice of issuing purchase orders after the purchases are made defeats the purpose of the purchase order and makes it an approval for payment, rather than an approval to make the purchase.

RECOMMENDATION

Purchase orders should be issued before purchases are made to strengthen internal controls over the purchasing process and to document purchasing commitments.

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**OFFICE OF DIRECTOR OF SCHOOLS**

FINDING 03.07      **THE OFFICE HAD BUDGET DEFICIENCIES**  
(Material Noncompliance Under Government Auditing Standards)

The financial records presented to us by the School Department included budget amendments that were submitted to the Jefferson County Board of Education and County Commission in June 2003. These amendments were approved by the Board of Education; however, the County Commission voted not to approve the amendments. Because these amendments were not approved by the County Commission, we did not recognize these

amendments in the individual fund budget statements of this report. As a result, expenditures exceeded appropriations in the following major appropriation categories:

- A. Expenditures exceeded appropriations approved by the County Commission in four major appropriation categories of the General Purpose School Fund in amounts ranging from \$1,304 to \$12,796.
- B. Expenditures exceeded appropriations approved by the County Commission in the following major categories of the School Federal Projects Fund:

Major Appropriation Category

Instruction – Regular Instruction Program  
Instruction – Special Education Program  
Support Services – Other Student Support  
Support Services – Regular Instruction Program

RECOMMENDATION

Expenditures should be held within amounts appropriated by the County Commission.

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**OTHER FINDINGS AND RECOMMENDATIONS**

FINDING 03.08

**DUTIES WERE NOT ADEQUATELY SEGREGATED IN THE OFFICES OF SANITATION SUPERVISOR, TRUSTEE, CIRCUIT AND GENERAL SESSIONS COURTS CLERK, CLERK AND MASTER, AND SHERIFF**

(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not adequately segregated in the Offices of Sanitation Supervisor, Trustee, Circuit and General Sessions Courts Clerk, Clerk and Master, 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.

MANAGEMENT'S RESPONSE – TRUSTEE

Due to the limited number of personnel, it is not possible to properly segregate duties. As trustee, I do the bookkeeping, which includes reconciling all bank accounts and bank deposits. I have implemented internal controls and do segregate duties to the extent possible with the current staff.

FINDING 03.09      **A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Jefferson County 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

Jefferson 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.

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FINDING 03.10      **THE SOLID WASTE DISPOSAL FUND HAD A DEFICIT IN NET ASSETS**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

At June 30, 2003, the Solid Waste Disposal Fund had a deficit in net assets of \$377,354, a decrease of \$39,223 from the deficit at June 30, 2002. The Solid Waste Disposal Fund is an Enterprise Fund, which is required by the Solid Waste Disposal Act of 1991 to account for operations of the landfill. A liability for closure and post-closure care costs is accrued in this fund based on the capacity used. The \$2,031,878 reported as landfill closure and post-closure care liability at June 30, 2003, represents the cumulative amount reported to date based on 28 percent of the estimated capacity of the Patterson Landfill Site (\$509,438) and post-closure care costs of the Highway 92 Landfill Site (\$1,522,440). The deficit in net assets of the Solid Waste Disposal Fund was primarily attributable to the recognition of this liability for landfill closure and post-closure care costs. The Solid Waste Disposal Fund would have had net assets of \$1,654,524 without the recognition of the liability for closure and post-closure care costs.

RECOMMENDATION

County officials should continue efforts to liquidate the net assets deficit over a period of years.