

## **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 response of the highway superintendent is 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.

### **MARSHALL COUNTY AND MARSHALL 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)

Marshall County and the Marshall County School Department did not identify and determine the historical value of their capital assets, and the related depreciation amounts of these assets. Therefore, Marshall County and the Marshall County School Department were unable to provide the information necessary to prepare government-wide financial statements for all of their governments' 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, Marshall County's and the Marshall County School Department's financial statements are not presented in accordance with generally accepted accounting principles; thus, we have issued adverse opinions on the governments' 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. Marshall County's and the Marshall County School Department's financial statements are presented in compliance with these requirements.

#### **RECOMMENDATION**

Marshall County and the Marshall 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 governments' capital assets, and the related depreciation amounts of these assets. This information is necessary to present the governments' financial statements in accordance with generally accepted accounting principles.

#### **MANAGEMENT'S RESPONSE – HIGHWAY SUPERINTENDENT**

We are in the process of completing this at the present time.

**OFFICE OF COUNTY EXECUTIVE**

**FINDING 03.02      **COMPETITIVE BIDS WERE NOT SOLICITED FOR CERTAIN PURCHASES****

(Noncompliance Under Government Auditing Standards)

Our audit noted the following purchasing deficiencies:

- A. Competitive bids were not solicited for cleaning services totaling \$87,222 for county public buildings. Sections 5-14-201 through 5-14-206, Tennessee Code Annotated, provide for all purchases exceeding \$5,000 to be made after public advertisement and solicitation of competitive bids.
- B. The office did not publicly advertise and solicit bids for the purchase of four law enforcement vehicles totaling \$89,447. The patrol cars were purchased from a Lewisburg automobile dealership at the state bid price; however, this dealership had not been awarded the state contract.
- C. The county did not maintain written documentation to validate the rejection of the lowest bid for the purchase of an ambulance and ambulance remount. The bid that was accepted was \$122,025, while the lowest bid was \$115,066. In *Owen of Georgia, Inc., versus Shelby County*, 442F. Supp. 314 (w.b. Tenn. 1997), the court stated that “to reject the bid of the lowest bidder there must be such evidence of the irresponsibility of the bidder as would cause fair-minded and reasonable men to believe that it was not for the best interest of the municipality to award the contract to the lowest bidder.”

**RECOMMENDATION**

The county should solicit competitive bids for purchases exceeding \$5,000, as required by state statute. When making purchases under a state contract, the purchase must be made from a vendor that was awarded the state contract. The county should have written documentation to validate the decision to reject the lowest bidder for a publicly advertised purchase.

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**OFFICE OF HIGHWAY SUPERINTENDENT**

**FINDING 03.03      **PRIOR APPROVAL WAS NOT OBTAINED FOR PURCHASES OVER \$200****

(Material Noncompliance Under Government Auditing Standards)

Highway Department employees did not obtain prior approval from the director of accounts and budgets for purchases exceeding \$200, as required by Chapter 69, Private Acts of 1965. In most instances, Highway Department purchase orders were not submitted to the director for her approval until the end of the month, which in most instances, was after the purchase had been made.

## RECOMMENDATION

Purchase orders for purchases over \$200 should be submitted to the director of accounts and budgets for approval before purchases are made, as required by Chapter 69, Private Acts of 1965.

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## **OFFICE OF COUNTY CLERK**

**FINDING 03.04      A DEPOSITORY HOLDING COUNTY FUNDS DID NOT ADEQUATELY COLLATERALIZE COUNTY FUNDS**  
(Noncompliance Under Government Auditing Standards)

The clerk did not require a depository holding county funds to pledge securities in escrow to protect funds that exceeded Federal Deposit Insurance Corporation (FDIC) coverage, as required by Section 5-8-201, Tennessee Code Annotated. This statute provides for the clerk to require any bank that is a depository of county funds to deposit in an escrow account in a second bank, collateral security equal to 105 percent of such county funds. Deposits exceeded FDIC coverage during two of the 12 months examined in amounts ranging from \$13,356 to \$118,928. Deposits were adequately secured on June 30, 2003.

## RECOMMENDATION

The clerk should ensure that all depositories pledge adequate securities to protect county funds exceeding FDIC coverage.

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## **OFFICE OF CIRCUIT, GENERAL SESSIONS, AND JUVENILE COURTS CLERK**

**FINDING 03.05      THE CIRCUIT AND GENERAL SESSIONS COURTS' EXECUTION DOCKET TRIAL BALANCES DID NOT RECONCILE WITH CASH JOURNAL ACCOUNTS**  
(Noncompliance Under Government Auditing Standards)

Circuit and General Sessions Courts prepared execution docket cause balances as of June 30, 2003, as required by Section 18-2-103, Tennessee Code Annotated (TCA). However, these trial balances did not reconcile with cash journal accounts by \$288,053 in Circuit Court and by \$676 in General Sessions Court. Without these reconciliations, we could not determine the propriety of all transactions and the clerk's compliance with provisions of the Unclaimed Property Act, Section 66-29-101, TCA. This statute provides that any funds held by the courts for one year and unclaimed by the owner are considered abandoned. Section 66-29-113, TCA, further requires these funds to be reported and paid to the state Treasurer's Office. Also, Circuit Court had outstanding checks over one year old totaling \$670 at June 30, 2003.

RECOMMENDATION

The clerk should prepare and reconcile trial balances of execution docket cause balances with cash journal accounts, as required by state statute. To further comply with state statutes, the clerk should report and pay to the state Treasurer's Office any unclaimed funds held for more than one year.

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FINDING 03.06      **A DEPOSITORY DID NOT ADEQUATELY COLLATERALIZE COUNTY FUNDS**  
(Noncompliance Under Government Auditing Standards)

The circuit court clerk did not require a depository holding county funds to pledge securities in escrow to protect funds on deposit that exceeded Federal Deposit Insurance Corporation (FDIC) coverage, as required by Section 5-8-201, Tennessee Code Annotated. This statute provides for the clerk to require any bank that is a depository of county funds to deposit in an escrow account in a second bank, collateral security equal to 105 percent of such county funds. Deposits exceeded FDIC coverage for six months during the year in amounts ranging from \$25,786 to \$140,065. Also, deposits exceeded FDIC coverage on June 30, 2003, by \$129,969.

RECOMMENDATION

The circuit court clerk should ensure that all depositories pledge adequate securities to protect county funds exceeding FDIC coverage.

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**OFFICE OF REGISTER**

FINDING 03.07      **A DEPOSITORY DID NOT ADEQUATELY COLLATERALIZE COUNTY FUNDS**  
(Noncompliance Under Government Auditing Standards)

The register of deeds did not require a depository holding county funds to pledge securities in escrow to protect funds on deposit that exceeded Federal Deposit Insurance Corporation (FDIC) coverage, as required by Section 5-8-201, Tennessee Code Annotated. This statute provides for the register to require any bank that is a depository of county funds to deposit in an escrow account in a second bank, collateral security equal to 105 percent of such county funds. Deposits exceeded FDIC coverage during two of the 12 months examined in amounts ranging from \$4,862 to \$29,770. Deposits were adequately secured on June 30, 2003.

RECOMMENDATION

The register of deeds should ensure that all depositories pledge adequate securities to protect county funds exceeding FDIC coverage.

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## **OTHER FINDINGS AND RECOMMENDATIONS**

**FINDING 03.08      DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE AMBULANCE SERVICE; BOARD OF PUBLIC UTILITIES; AND OFFICES OF TRUSTEE; CIRCUIT, GENERAL SESSIONS, AND JUVENILE COURTS CLERK; CLERK AND MASTER; AND SHERIFF**

(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among the officials and employees of the Ambulance Service; Board of Public Utilities; and the Offices of Trustee; Circuit, General Sessions, and Juvenile Courts Clerk; Clerk and Master; and Sheriff. 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.

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**FINDING 03.09      A SYSTEM OF CENTRAL PURCHASING HAD NOT BEEN ADOPTED**

(Internal Control – Reportable Condition Under Government Auditing Standards)

Marshall County officials had not adopted a central system of purchasing. Establishing a central system would significantly improve internal controls over the purchasing process.

### **RECOMMENDATION**

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