

## **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. 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.

### **OBION COUNTY AND OBION 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)

Obion County and the Obion County School Department did not identify and determine the historical value of their capital assets and the related depreciation amounts of these assets. Therefore, Obion County and the Obion 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, Obion County’s and the Obion County School Department’s financial statements are not presented in accordance with generally accepted accounting principles; thus, we have issued an adverse opinion on the county’s 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. Obion County’s and the Obion County School Department’s financial statements are presented in compliance with these requirements.

#### **RECOMMENDATION**

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

**OFFICE OF COUNTY EXECUTIVE**

**FINDING 03.02**      **THE OFFICE HAD DEFICIENCIES INVOLVING ITS WARRANT-SIGNING MACHINE**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The office used a mechanical warrant-signing machine to affix the county executive’s signature to computer-generated disbursement warrants. The mechanical counter on the machine could be reset and did not indicate the total number of warrants processed.

**RECOMMENDATION**

The machine should have a counter that cannot be reset and that indicates the total number of warrants processed.

---

**OFFICE OF HIGHWAY SUPERINTENDENT**

**FINDING 03.03**      **THE HIGHWAY DEPARTMENT DID NOT MAINTAIN A SYSTEM TO ACCOUNT FOR SOME 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, culvert tiles, 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 DIRECTOR OF SCHOOLS**

### **FINDING 03.04      **THE SCHOOL DEPARTMENT MADE PAYMENTS TO A BUSINESS PARTIALLY OWNED BY THE TRANSPORTATION SUPERVISOR****

(Noncompliance Under Government Auditing Standards)

During the year, payments for charter bus services totaling \$3,269 were paid to K & T Charters, a business partially owned by the county's transportation supervisor. Part of the transportation supervisor's job responsibility is to schedule transportation for students, including any group trips. If school buses are not available, charter buses are used. Section 12-4-101, Tennessee Code Annotated, states, "It is unlawful for any officer, committee person, director, or other person whose duty it is to vote for, let out, overlook, or in any manner to superintend any work or contract in which any ... county shall or may be interested, to be directly interested in such contract. 'Directly interested' means any contract with the official personally or with any business in which the official is the sole proprietor, a partner, or the person having the controlling interest."

### **RECOMMENDATION**

The director of schools should take steps to ensure that payments are not made in violation of conflict of interest statutes.

---

### **FINDING 03.05      **THE CAREER TECHNOLOGY CENTER DID NOT MAINTAIN INVENTORY RECORDS AND CONTROLS OVER ASSETS**** (Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit revealed the following deficiencies in records of and controls over assets owned by the Obion County School Department:

- A. School officials did not maintain inventory records for equipment and tools owned by the Career Technology Center. Teachers at the center informed us that in some instances they used their personal tools for instruction purposes. Since school officials did not maintain inventory records for equipment and tools owned by the center, we could not distinguish between equipment and tools owned by the center and those owned by teachers. Generally accepted accounting principles require accountability for all county-owned assets, such as vehicles, furniture, equipment, and tools. The failure to maintain inventory records results in a loss of control over the assets and the possibility of theft.
- B. Equipment and tools were not identified by property tags, serial numbers, or other means of identification.

- C. Procedures were not in place to ensure that personnel independent of maintaining the inventory records periodically verified the inventory.

RECOMMENDATION

School officials should improve controls over assets by establishing policies and procedures for tagging or labeling all assets as school property, including serial numbers for all equipment and tools, and ensuring that personnel independent of maintaining the inventory verify the inventory.

---

**OFFICE OF TRUSTEE**

**FINDING 03.06**      **THE OFFICE DID NOT DEVELOP FORMAL POLICIES AND PROCEDURES FOR COMPUTER OPERATIONS**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Trustee's Office did not develop written policies and procedures for routine computer operations. Routine operations include system startup/shutdown, application access, system access security, system backup and retention schedules, hardware/software maintenance, output distribution, and other general data processing functions. Formal policies and procedures are necessary to ensure adequate management control over computer operations.

RECOMMENDATION

Management should prepare a computer manual that defines policies and procedures for operations such as system backups, security measures, and other general data processing functions. Upon completion, the manual should be distributed to all appropriate personnel.

---

**FINDING 03.07**      **THE OFFICE HAD DEFICIENCIES IN COMPUTER SYSTEM BACK-UP PROCEDURES**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The following weaknesses regarding computer system back-up procedures in the Trustee's Office were identified:

- A. System backups were not stored off site. In the event of a disaster, all back-up data could be destroyed, resulting in costly delays in generating and recording information accounted for through the automated process.
- B. A back-up log was not maintained. If system backups are not labeled and inventoried systematically, discrepancies may occur and affect the integrity of system backups in the event of a hardware or software failure.

## RECOMMENDATION

A weekly system backup should be performed, and two copies of this backup should be maintained. These backups should be rotated off site on a weekly basis. Some possibilities for an off-site storage location would be another county office building with a fireproof vault or a safe deposit box at a local bank. Furthermore, a current log of all backups that includes label descriptions, date of creation, contents, and storage location should be maintained.

---

## **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)

Obion County and Obion County School Department 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

Obion County officials should consider adopting either 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      **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF TRUSTEE, CIRCUIT AND GENERAL SESSIONS COURTS CLERK, CLERK AND MASTER, JUVENILE COURT CLERK, REGISTER, AND SHERIFF****  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among officials and employees in the Offices of Trustee, Circuit and General Sessions Courts Clerk, Clerk and Master, Juvenile Court Clerk, Register, and Sheriff. Officials and employees responsible for maintaining the accounting records in these offices were also involved in receipting and depositing funds, reconciling bank statements, 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.

**FINDING 03.10      **NUMEROUS DEFICIENCIES WERE NOTED IN OUR LIMITED REVIEW OF THE OBION COUNTY NURSING HOME FOR THE PERIOD JULY 1, 2000, THROUGH MARCH 31, 2003****  
(A.,B.,C.,D.,E.,G.,H.,I.,J.,L.,M. Internal Control – Reportable Condition Under Government Auditing Standards; F.,K.,– Noncompliance Under Government Auditing Standards)

We conducted a limited review of the Obion County Nursing Home operations for the period July 1, 2000, through March 31, 2003. Our examination focused on the areas of purchasing, travel reimbursements, bonuses and salaries paid to employees, vacation pay, time and attendance records, the use of the administrator's personal credit cards, gasoline purchases, and gifts given to employees and individuals not employed by the nursing home. The following findings were noted as a result of our limited review:

- A. Numerous deficiencies were noted in the payment of salaries and bonuses to the nursing home administrator and employees.
- B. Several deficiencies were noted in internal controls over the purchasing process.
- C. Deficiencies were noted in purchases made from Wal-Mart and Sam's Club.
- D. Deficiencies were noted in travel disbursements made to the nursing home administrator.
- E. The nursing home administrator gave individuals not employed by the nursing home and employees of the nursing home gifts and employee awards without the approval of the nursing home board.
- F. Retirement contributions were paid from nursing home funds for the nursing home administrator in violation of state statutes.
- G. The nursing home administrator purchased gasoline for the nursing home van with her personal credit card and submitted the charge slips to the nursing home for reimbursement. There were no controls in place to ensure that the gasoline purchased was placed in the nursing home van.
- H. The nursing home administrator authorized the use of prepaid telephone cards for long distance telephone services.
- I. Several deficiencies were noted in our review of the nursing home payroll records for salaried employees.
- J. Internal control weaknesses were noted in the segregation of duties and check signing.
- K. Nursing home funds were not deposited within three days of receipt, as required by state statute.

- L. The nursing home administrator used the nursing home's vehicles for personal travel other than commuting to and from work.
- M. The nursing home's Board of Directors did not assume sufficient oversight responsibility of the nursing home operations.

Details of these findings are presented in a separate report on the Obion County Nursing Home dated November 13, 2003.