

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 responses of the county executive, director of schools, and trustee are 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.

OFFICE OF COUNTY EXECUTIVE

FINDING 03.01 **THE OFFICE HAD PURCHASING DEFICIENCIES**
(A., B., C., and D. Internal Control – Reportable Condition Under Government Auditing Standards; E. Noncompliance Under Government Auditing Standards)

Our audit revealed the following purchasing deficiencies:

- A. The office did not issue purchase orders for most applicable purchases. Purchase orders are necessary to control who has purchasing authority for the office and to document purchasing commitments.
- B. In several instances, purchase orders were issued after purchases were made. This practice defeats the purpose of issuing a purchase order and makes the purchase order an approval for payment, rather than an approval of the purchase.
- C. Invoices were not on file to support some disbursements. However, our audit procedures determined that these purchases were legitimate purchases of the office.
- D. Several invoices were paid without documentation that goods had been received or services rendered. However, our audit indicated that these goods had been received and services had been rendered.
- E. Competitive bids were not solicited for the purchase of catered meals (\$45,710) for prisoners.

RECOMMENDATION

To strengthen internal controls over the purchasing process and to document purchasing commitments, the office should issue purchase orders for all applicable purchases, ensure that purchase orders are approved before purchases are made, have adequate documentation on file to support all disbursements, and obtain documentation indicating that goods have been received or services have been rendered before invoices are paid. The county should solicit competitive bids for purchases exceeding \$5,000, as required by state statute.

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE

Our office advertised for bids for prisoners' meals on June 11, 2003, and received one bid.

FINDING 03.02 **THE OFFICE HAD DEFICIENCIES CONCERNING THE ROOFING OF THE PERRY COUNTY NURSING HOME**
(Noncompliance Under Government Auditing Standards)

Our audit revealed the following deficiencies concerning the roofing of the Perry County Nursing Home.

- A. Bids were not properly solicited. On April 2, 2003, the county executive published the following notice in the local newspaper: "Perry County is soliciting Bids for Roofing the Perry County Nursing Home. Signed Sealed Bids will be accepted until 2:00 P.M. Friday, April 4, 2003 at the Office of the County Executive. Specifications for Bids may be obtained by calling 931-589-2216." However, while reviewing the bids, we noted that all the bids received were dated in January and February of 2003, more than one month before the public notice. Soliciting bids prior to advertisement violates provisions of Section 5-14-204, Tennessee Code Annotated (TCA), which requires that competitive bids be solicited after public advertisement. It should be noted that the county awarded the project to the vendor who submitted the lowest bid.
- B. The bid advertisement published in the local newspaper stated that bid specifications could be obtained by calling the County Executive's Office; however, when we asked the county executive about the specifications, he stated that there were no written bid specifications.
- C. The county used its tax-exempt status to purchase materials totaling \$15,499 and paid \$11,624 for labor to a building supply company on behalf of the vendor. Section 67-9-209(B), TCA, requires contractors and subcontractors to remit sales tax on tangible personal property that has been furnished to them.

RECOMMENDATION

Written bid specifications should be available prior to the solicitation of bids, and the county should solicit competitive bids for purchases exceeding \$5,000, as required by state statute. Also, contractors and subcontractors should pay sales tax on all materials that are purchased with the county's tax-exempt number.

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE

The Perry County Nursing Home roof repair was an emergency purchase. Water was pouring into one section of the nursing home.

REBUTTAL

Certain provisions in state statutes must be followed before a purchase can be considered an emergency purchase. One of these provisions in Section 5-14-204(3)(A), TCA, states that a “record of any emergency purchase shall be made by the person or body authorizing such emergency purchase, and shall specify the amount paid, the items purchased, from whom the purchase was made and the nature of the emergency.” None of the records on file in the office indicated that this was an emergency purchase. Bids were received in January and February 2003, before the published bid solicitation in April 2003 and the repair work was performed between May and July 2003 – – facts that contradict the need for an emergency purchase.

FINDING 03.03 **THE OFFICE HAD DEFICIENCIES IN BUDGET OPERATIONS** (Noncompliance Under Government Auditing Standards)

Expenditures exceeded appropriations approved by the County Commission in the County Buildings (\$45,902), Juvenile Court (\$11,630), and Jail (\$8,235) major appropriation categories of the General Fund.

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 County Commission, as required by state statute.

FINDING 03.04 **THE COUNTY COMMISSION HAD NOT ADOPTED** **GUIDELINES FOR CREDIT CARD USE** (Internal Control – Reportable Condition Under Government Auditing Standards)

The county had several credit cards that employees used primarily while on travel status and for purchases at discount stores. However, the County Commission had not adopted policies governing the use of the credit cards.

RECOMMENDATION

The County Commission should adopt written guidelines stating the purpose for and intended use of the credit cards and specifying the individuals authorized to use them.

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE

Guidelines will be presented to the County Commission in November 2003.

OFFICE OF HIGHWAY SUPERINTENDENT

FINDING 03.05 **PURCHASE ORDERS WERE NOT ALWAYS ISSUED PROPERLY**

(Internal Control – Reportable Condition Under Government Auditing Standards)

The office did not issue purchase orders for several applicable purchases. Also, in several other instances, the office issued purchase orders after purchases were made. Properly issued purchase orders are 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 issue purchase orders for all applicable purchases prior to the actual purchase.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 03.06 **THE SCHOOL FEDERAL PROJECTS FUND HAD A CASH OVERDRAFT**

(Internal Control – Reportable Condition Under Government Auditing Standards)

The School Federal Projects Fund had a cash overdraft of \$20,801 at June 30, 2003. This cash overdraft resulted from issuing warrants that exceeded cash on deposit with the county trustee. It was liquidated subsequent to June 30 when federal funds were received.

RECOMMENDATION

The office should not issue warrants that exceed cash on deposit with the county trustee.

MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS

Federal funds were requested prior to year-end. The cash overdraft was liquidated when the federal funds were received subsequent to June 30, 2003. The cash overdraft was a temporary problem due to timing differences.

FINDING 03.07 **THE OFFICE HAD DEFICIENCIES IN ITS PURCHASING PROCEDURES**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit revealed the following purchasing deficiencies:

- A. Several invoices were paid without documentation that goods had been received or services rendered. However, our audit indicated that these goods had been received and services had been rendered.
- B. The office purchased a heating and air conditioning unit (\$8,542) as an emergency purchase. The director of schools stated that price quotations were solicited; however, these quotations were not presented for audit inspection.

RECOMMENDATION

Documentation should be obtained indicating that goods have been received or services rendered before invoices are paid. Also, price quotations should be available for audit inspection.

OFFICE OF TRUSTEE

FINDING 03.08 **A DEPOSITORY WAS NOT REQUIRED TO ADEQUATELY COLLATERALIZE FUNDS**
(Noncompliance Under Government Auditing Standards)

The trustee did not require a depository holding county funds to pledge securities sufficient to protect public funds that exceeded Federal Deposit Insurance Corporation (FDIC) coverage, as required by Section 5-8-201, Tennessee Code Annotated. This statute provides for county officials to require a depository of county funds to deposit in an escrow account in a second bank, for the benefit of the county, collateral security equal to 105 percent of such county funds. As of June 30, 2003, deposits at one depository exceeded FDIC coverage and pledged securities by \$265,235.

RECOMMENDATION

The trustee should develop procedures to ensure that all depositories pledge securities sufficient to protect public funds exceeding FDIC coverage.

OFFICE OF REGISTER

FINDING 03.09 **THE REGISTER DID NOT HAVE A LETTER OF AGREEMENT OR COURT DECREE TO AUTHORIZE DEPUTY HIRES**
(Noncompliance Under Government Auditing Standards)

The register presented a letter of agreement to the county executive to authorize the number and salaries of her deputies in lieu of petitioning Chancery Court. However, the county executive refused to sign the letter of agreement, and the register did not petition the court to authorize deputy hires. Section 8-20-101, Tennessee Code Annotated, requires the register to enter into a letter of agreement with the county executive or file suit in Chancery Court for the number and salaries of deputies.

RECOMMENDATION

If the county executive refuses to sign the letter of agreement, the register has no option other than to petition Chancery Court for the number and compensation of her deputies, as required by state statute.

OFFICE OF SHERIFF

FINDING 03.10 **THE OFFICE DID NOT DEPOSIT FUNDS WITHIN THREE DAYS OF COLLECTION**
(Noncompliance Under Government Auditing Standards)

The office did not deposit funds within three days of collection. Section 5-8-207, Tennessee Code Annotated, requires county officials to deposit public funds to the office bank account within three days after receipt of the funds.

RECOMMENDATION

The office should ensure that all funds are deposited to the office bank account within three days of collection, as required by state statute.

FINDING 03.11 **THE SHERIFF DID NOT OBTAIN A LETTER OF AGREEMENT OR COURT DECREE TO AUTHORIZE DEPUTY HIRES**
(Noncompliance Under Government Auditing Standards)

The sheriff did not obtain a letter of agreement or file suit in Circuit Court to authorize the number and salaries of his deputies. Section 8-20-101, Tennessee Code Annotated, permits the sheriff to enter into a letter of agreement with the county executive concerning the number of deputies and the salaries of those deputies or to file suit in Circuit Court.

RECOMMENDATION

The sheriff should obtain a letter of agreement with the county executive or petition Circuit Court for the number and compensation of his deputies, as required by state statute.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 03.12 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF TRUSTEE, 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 Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff. Officials and employees responsible for maintaining the accounting records were also involved in receipting, depositing, and/or disbursing funds.

RECOMMENDATION

To strengthen internal controls over operations, officials in these offices should segregate duties adequately among employees.

MANAGEMENT'S RESPONSE – TRUSTEE

With only two people in the office, this is an inherent problem that cannot be avoided.

AUDITOR'S COMMENT

We realize that due to limited resources and personnel, management may not be able to segregate duties adequately. However, our professional standards require that we bring this matter to the reader's attention in this report.

FINDING 03.13 **RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED ASSETS**
(Internal Control – Material Weakness Under Government Auditing Standards)

Perry County did not inventory, value, and record its general fixed assets (buildings, equipment, etc.), as required by generally accepted accounting principles. The Governmental Accounting Standards Board has adopted Statement 34, which will become effective in Perry County for the year ending June 30, 2004. Statement 34 places an even greater emphasis on the need to maintain general fixed asset records.

RECOMMENDATION

Perry County should inventory, value, and record its general fixed assets in accordance with generally accepted accounting principles.

FINDING 03.14

A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED

(Internal Control – Reportable Condition Under Government Auditing Standards)

Perry 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

Perry 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.