

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS AND FEDERAL AWARDS

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. The written responses of the county mayor (formerly titled county executive), former county executive, chairman of the County Commission, trustee, county clerk, and sheriff 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 AMBULANCE SERVICE FUND HAD CASH OVERDRAFTS (Internal Control – Reportable Condition Under Government Auditing Standards)**

The Ambulance Service Fund had a cash overdraft of \$1,315 at June 30, 2003. In addition, the fund had cash overdrafts in four other months during the year in amounts up to \$26,014. These overdrafts occurred because the office issued warrants that exceeded funds on deposit with the county trustee. It should be noted that the County Commission approved operating transfers in the budget of up to \$125,000 to supplement Ambulance Service operations; however, only \$110,000 was actually transferred to the Ambulance Service Fund. If all the funds had been transferred it would have helped the cash position of the Ambulance Service Fund. The cash overdraft at June 30, 2003, was liquidated in July by patient receipts.

RECOMMENDATION

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

MANAGEMENT'S RESPONSE – COUNTY MAYOR

Prior to making payments from any fund, including the Ambulance Service Fund, the trustee will be consulted about the amount of funds that are in these accounts, and a warrant will not be issued if the funds are not available.

REBUTTAL

The trustee is the custodian of all county funds and maintains a cash balance for each fund; however, the trustee will not be aware of any outstanding warrants. Therefore, the County Mayor's Office must maintain financial records for each fund that reflects the cash balance in the Trustee's Office, less any outstanding warrants. The County Mayor's Office should reconcile the cash balance reflected in its records with the cash balance on the trustee's records monthly.

FINDING 03.02

DEFICIENCIES WERE NOTED IN BUDGET OPERATIONS
(Noncompliance Under Government Auditing Standards)

Our examination revealed the following budget deficiencies:

- A. Expenditures exceeded appropriations in the Solid Waste/Sanitation Fund by \$60,158 and the General Debt Service Fund by \$104,275. Expenditures also exceeded appropriations in 11 major appropriation categories of the General Fund in amounts ranging from \$117 to \$20,225. Section 5-9-401, Tennessee Code Annotated (TCA), states that “all funds ... 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 government shall be appropriated to such use by the county legislative bodies.”
- B. Salaries exceeded line-item appropriations in 16 accounts in the General Fund in amounts ranging from \$16 to \$8,980. The budget resolution approved by the County Commission states that the wages, salaries, or remuneration of each official, employee, or agent of the county should not exceed estimate of expenditures that accompany this resolution.
- C. Some budget amendments submitted to the County Commission did not specify the funds and accounts to be amended and did not indicate prior approval by the appropriate official or committee. In addition, several amendments that increased expenditures did not include a funding source. A funding source is necessary to determine if the increased expenditures are to be funded from the fund balance, by a decrease in the budget of other expenditure accounts, or from an additional revenue source. These amendments have been recognized in the financial statements of this report based on information provided by the county executive, county clerk, and chairman of the County Commission. Section 5-9-407(B), TCA, requires all amendments to include a description, purpose, amount, line-item account, and funding sources.
- D. We noted several expenditures that were misclassified in the accounting records. By not posting disbursements to the proper classification, the usefulness of the accounting records and the budget as a management tool is diminished. Any misclassifications noted during our examination were reclassified in the financial statements in this report.

RECOMMENDATION

All expenditures should be held within appropriations approved by the County Commission. Budget amendments should be properly prepared and submitted to the County Commission, and amendments should reflect the prior approval of the appropriate official or committee. Also, disbursements should be classified to the proper expenditure account.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

The County Commission has been informed that for my office to make the correct budget entries based on the commission's approved amendments, I need additional information in written form. In the future, all budget amendments will be in the proper format and classified into the proper expenditure account.

MANAGEMENT'S RESPONSE – CHAIRMAN OF THE COUNTY COMMISSION

As a result of this finding auditors have provided the Sequatchie County Commission budget and finance committee with forms to use for making budget transactions and adjustments. The committee adopted the forms that will better state the intentions of each transaction. All of these forms, as well as the minutes of the committee meetings, are filed in order in a central notebook that is kept by the budget chairman. The forms indicate a description, purpose, amount, line-item account, and funding source. Each form is signed after passage of the full commission by the chairman of the budget committee, chairman of the commission, and the county clerk. Each of these forms is then made a part of the regular minutes of the Sequatchie County Commission.

FINDING 03.03 **THE OFFICE HAD DEFICIENCIES IN BIDDING PROCEDURES**

(A., B., C., and D. Noncompliance Under Government Auditing Standards and D. OMB Circular A-133)

We noted the following deficiencies in bidding procedures during our examination of the County Executive's Office:

- A. The county executive requested bids on a maintenance truck with specifications that the truck be a used pickup with a long or short bed and preferably an extended cab. The county received one bid that met specifications, a 1998 extended cab pickup with 46,799 miles for \$6,000. In addition, the county also received a faxed bid for a 1994 utility bed truck, with 123,270 miles for \$5,000. The bid was subsequently awarded to the vendor with the utility bed truck, which did not meet bid specifications of a pickup with either a long or short bed.

- B. The county did not accept the lowest bid for exterminating services for county buildings. Two bids were received: one bid for \$346 per month and another bid for \$165 per month. The bid was awarded to the higher bidder based on the vendor's attendance at a meeting before the budget committee; however, we contacted the low bidder, who stated that he was never invited to meet with the budget committee. Furthermore, the county's bid specifications did not mention that the vendor's attendance at a meeting before the budget committee was mandatory in order to receive the bid.

- C. The county purchased a used patrol car whose bill of sale was dated before the date of the bid opening. The bid notice in the newspaper stated that “the County Executive’s Office will receive bids for the following items until 9 o’clock am CST on Wednesday, November 13, 2002.” Included in the items listed was a used Ford Crown Victoria with a complete police package. The bill of sale for the patrol car was dated October 28, 2002, indicating that the car was purchased 16 days prior to the published date for bids to be opened.

- D. Bids were not solicited for electronic equipment and accessories totaling \$23,385 that were purchased in part with \$19,983 of Domestic Preparedness Equipment Program Grant monies, violating the grant agreement. Section D.6 of the domestic preparedness grant agreement states that “... for the cost of goods, materials, supplies, equipment, and/or services, such procurement shall be made on a competitive basis, including the use of competitive bidding procedures ...” Also, Chapter 750, Private Acts of 1947, and Chapter 10, Private Acts of 1987, require competitive bids for purchases exceeding \$2,000. Because this equipment was purchased with federal grant monies, the entire amount of the \$19,983 grant purchase is listed as a questioned cost in the audit report.

RECOMMENDATION

Purchases should be made in compliance with state statutes and grant agreements. Bid specifications should specify all acceptable products and any restrictions placed on the vendors. In addition, purchases should never be made prior to the date bids are opened and the products are evaluated.

MANAGEMENT’S RESPONSE – COUNTY MAYOR

All purchases will be monitored and bidding procedures followed. The County Commission determines to whom the bid is given.

FINDING 03.04 **THE OFFICE HAD DEFICIENCIES IN PURCHASING PROCEDURES**
 (Internal Control – Reportable Condition Under Government Auditing Standards)

We noted the following deficiencies in purchasing procedures during our examination of the County Executive’s Office:

- A. The office did not have a formal purchase order system. Purchase orders are necessary to control who has purchasing authority for the county and to document purchasing commitments.

- B. In several instances, invoices were paid without documentation that goods had been received or services had been rendered. This practice weakens controls over the purchasing process. We extended our audit procedures and determined that these goods were received and services were rendered.
- C. The office paid several invoices without noting on the invoices that payment had been made. Consequently, the office paid some invoices more than once. These overpayments were brought to our attention by the county executive, who is working to recover these overpayments.
- D. We noted that the county paid late charges on several invoices, even though the county's cash flow was sufficient to pay bills as they became due. The payment of these late charges increased the costs of the goods and services to the county unnecessarily. Included in the late charges paid was \$160.93 to the architect for the Health Department addition, which was paid with state grant proceeds. The payment of late charges with grant monies is not an appropriate use of grant funds.
- E. During our review of expenditures, we noted several expenditures that were not directly related to county business, and the county had not adopted a policy providing for these types of expenditures. Included in these expenditures are expenses related to a retirement reception for the Ambulance Service director (\$605), flowers for funeral arrangements (\$39), disbursements for fruit baskets given as gifts to employees at Christmas (\$240), other fruit baskets (\$50), and grocery items charged to the county at Sam's Club for reception-type items (\$508). While these expenses are not directly related to county business, the office could be allowed to make expenditures of this nature if the County Commission adopted a formal policy authorizing these types of expenditures.

RECOMMENDATION

To correct these deficiencies, the office should do the following:

- A. The office should establish a formal purchase order system and issue purchase orders in all applicable instances.
- B. Documentation should be obtained indicating that goods have been received or services have been rendered before invoices are paid.
- C. Invoices should be marked paid when disbursements are made so that an invoice is not paid twice.
- D. The office should ensure that payments are made to vendors before late charges accrue.
- E. Disbursements that are not directly related to county business should be made in accordance with a policy adopted by the County Commission.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

A formal purchase order system is being implemented. Purchases are being monitored, and the County Commission is consulted about any questionable purchases and/or invoices.

FINDING 03.05 **DEFICIENCIES WERE NOTED IN TRAVEL DISBURSEMENTS** (Internal Control – Reportable Condition Under Government Auditing Standards)

We noted the following deficiencies in the payment of officials' and employees' travel expenses:

- A. In several instances, officials and employees were reimbursed per diem rates for meals when overnight travel or travel outside the county was not required, violating the county's travel policy. The travel policy the County Commission adopted on January 20, 2003, states that reimbursements for meals are to be made only when overnight travel is required or an employee works excessive hours outside the county.
- B. The county's travel policy states that lodging expenditures will be reimbursed in accordance with the county's "reimbursement rate schedule"; however, this schedule was not included in the County Commission minutes and could not be located for audit review.
- C. The county executive charged several travel and other expenditures for the office to the "contributions" expenditure line item. Also, in several other instances, the county executive submitted claims for travel reimbursement that included expenditures that were not travel related. These expenses were then charged to the "travel" or "contributions" expenditure line items. We have reclassified these amounts to the appropriate expenditure line items for financial presentation in the audit report.
- D. The county executive occasionally included per diem meal reimbursements for several people on her travel claims without indicating on the claims who the other individuals were. According to the county executive, she would pay the check for herself and whoever was with her, and then she would claim the number of people on the ticket at a per diem rate. This practice appears questionable.
- E. The county executive paid for the meals for herself and two other individuals to attend the Governor's Inauguration Ball. Travel claims the county executive submitted did not identify the other two individuals who attended the ball. The county executive also was reimbursed from the county for lodging to attend the Governor's Ball. Attendance at the Governor's Ball is a

personal expense and not an expense of the county. When this was brought to the attention of the county executive, she reimbursed the county \$368 on November 7, 2003, for these expenditures.

- F. The county executive was reimbursed the actual cost of \$56 for eight people to attend the Dunlap Facelift Dedication dinner; however, the documentation did not include the individuals in attendance at the meal. Therefore, we could not determine if these were actual expenditures of the county or personal expenditures. In addition, the county executive also charged \$317 to the county credit card for a meal for six people at a Nashville restaurant. Again, there was no documentation of the other five people at the meal to support that this expense was an allowable county expenditure.

RECOMMENDATION

Travel expenditures should be properly documented, should comply with the county's travel policies, and should be for county-related business only. Furthermore, only travel expenditures and related costs should be included on travel claims, and travel expenditures should be properly classified. All county employees should submit their own individual travel claims for their travel expenses. If the county executive pays the expenses of a non-county employee, the identity of the individual and the nature of the county business discussed should be documented on the travel reimbursement.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

The travel policy adopted in January 2003 is not being used properly by county personnel because it appears to be too complex. I have requested that the County Commission rescind the January 2003 policy and adopt a less complex travel policy, which will be easier to follow. Although I deem the trip to the Governor's Inaugural Ball as an appropriate expense, since I went as a representative of Sequatchie County and in response to a formal invitation, I have reimbursed the county for the costs (\$368) of this trip.

FINDING 03.06

THE OFFICE HAD PAYROLL DEFICIENCIES

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

We noted the following deficiencies in payroll during our examination of the County Executive's Office:

- A. During our examination, we were presented with two sets of time sheets for two employees of the County Executive's Office. One set of time sheets indicated that the employees worked a standard 40-hour work week each pay period. However, the other set included regular hours and overtime hours that exceeded the standard work week. Several of these time sheets from both sets were not approved by the county executive; however, for some pay

periods, the county executive had signed both sets of time sheets. As a result, we could not determine which of these two sets of time sheets represent the actual hours worked for these two employees.

- B. The County Commission approved payments to these two employees for compensatory time based on the time sheets noted in A., which exceeded the standard work week. According to these time sheets, these employees were allowed to accrue time that exceeded the 80 hours allowed under the county's personnel policies. The policy states that employees cannot work any additional compensatory time over 80 hours until their accrued compensatory time has dropped below the maximum or the employee has been paid for the additional compensatory time.
- C. The office did not deduct the correct amount for health insurance from one Ambulance Service employee's pay. As a result, the county paid \$576 in unauthorized insurance premiums for the employee. Although this employee was employed by both the Ambulance Service and the County Executive's Office, the employee maintained insurance through the Ambulance Service. This employee deposited \$576 with the county trustee on November 7, 2003, to reimburse the county for these health insurance premiums.
- D. Payroll deductions were not remitted to vendors on a timely basis. Two county officials and two county employees received letters dated August 19, 2003, stating that their cancer insurance had lapsed because their insurance premiums had not been paid for the invoice due on June 5, 2003. The county had deducted the premiums from the employees' checks but had not remitted them to the insurance vendor.
- E. Payroll deduction accounts were not reconciled monthly. Our audit test work revealed several errors the office made in the amounts deducted from employees' pay and amounts paid to various companies. The failure to reconcile payroll deduction accounts regularly allowed these errors to occur and go undetected. We have made adjustments to the financial statements of this report to correct errors we noted.
- F. In several instances, supervisors did not sign employees' time sheets to indicate approval. If time sheets are not properly approved, improper payments could be made.
- G. There were no authorizations for employee gross pay on file. Authorizations for gross pay provide the county executive and her employees with guidance from each official regarding the amount to pay each employee.

RECOMMENDATION

Only one time sheet should be maintained for each employee, and this time sheet should include the accurate amount of time worked; balances of any vacation, sick, compensatory, or holiday time and the amounts earned and used during the pay period; the employee's signature attesting to the hours worked; and the supervisor's signature approving the hours worked. All county employees should follow the county's personnel policies concerning compensatory time. Payroll deduction accounts should be reconciled monthly, and steps should be taken immediately to correct any errors discovered. Furthermore, authorizations for gross pay should be on file in the County Executive's Office.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

The recommendations have been implemented.

MANAGEMENT'S RESPONSE – CHAIRMAN OF THE COUNTY COMMISSION

The Sequatchie County Commission, under legal counsel, was advised to pay the accrued compensatory time to the two employees. The County Commission did have copies of the time cards on which to base the accrued amount of time, some of which were signed by the county mayor and some of which were not. To keep the county in the best possible position, legal counsel with majority support of the commissioners decided to pay this accrued compensatory time to the two employees. The county's policies and procedures are also being revised to ensure that future incidents do not occur.

FINDING 03.07

EMPLOYEES RECEIVED COMPENSATION FOR LEAVE THAT EXCEEDED AMOUNTS ALLOWABLE UNDER THE COUNTY'S PERSONNEL POLICIES

(Noncompliance Under Government Auditing Standards)

The personnel policies on file in the County Commission minutes state that employees are granted one week's vacation after one year of employment and two weeks' vacation for years two through nine to be accrued based on the employee's hire date. Employees also earn one sick day per month. We noted the following three employees' compensation for leave exceeded the amounts the employees were eligible to earn under the county's personnel policies:

- A. The former county executive paid one employee for 15 vacation days when the employee left employment with the county. This individual had only been employed by the county for 13 months and therefore could have only earned a maximum of five vacation days under the county's personnel policy. Thus, this individual was paid improperly for ten days of vacation.
- B. According to the time sheets maintained in the County Executive's Office, it appears one bookkeeper for the current county executive received payment for 11 days off work to care for a sick family member. These 11 days exceeded the leave she had earned under the county's personnel policy. This employee had worked for the county for only seven months when the leave occurred and is one of the two employees in the County Executive's Office who maintained two sets of time sheets, as noted in finding 03.06. We determined that this employee was paid for vacation days to which she was not entitled based on our comparison of the two sets of time sheets maintained for this employee.
- C. One employee in the Circuit Court Clerk's Office was paid for 21 days when she was absent from work to care for a sick family member. This employee had been working for the county for seven months and had earned seven days of sick leave at the time of her absence. Prior to June 30, 2003, the clerk allowed this employee to work additional hours and use any sick or annual leave earned after her return to work to compensate the county for the time she was paid for during her absence.

RECOMMENDATION

County officials should follow the county's personnel policies and procedures when granting leave to employees. Employees should never be paid for leave before it is earned, and employees who are absent from work without leave should be on leave-without-pay status.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

In regard to B., the county mayor stated:

On May 21, 2003, the two employees in question removed all of their time sheets from the County Mayor's Office and left photocopies in the personnel folders. Tennessee Code Annotated, Section 39-16-504, states that (a.) It is unlawful for any person to: (1.) knowingly make a false entry in or false alteration of a governmental record. (2.) Make, present, or use any record, document or thing with the knowledge of its falsity and with the intent that it will be taken as a genuine governmental record; or (3.) Intentionally and unlawfully destroy, conceal, remove, or otherwise impair the verity, legibility or availability of a governmental record. Since these two employees removed county personnel records from the County Mayor's Office without authorization, I have asked the county attorney to investigate this matter and take appropriate legal action against them. The County Commission and I are currently working on amending the base personnel policies and procedures.

MANAGEMENT'S RESPONSE – FORMER COUNTY EXECUTIVE

The County Executive's Office is exempt from the Sequatchie County personnel policy. The employee mentioned in finding 03.07 was the county maintenance man and was under my direct supervision. The vacation policy for my staff was five days of vacation during the first year of employment and ten days after the first year of employment. Upon termination of his employment, the employee received compensation based on the office's vacation policy.

REBUTTAL

We could not find any documentation in the County Commission minutes that the County Executive's Office was exempted from the county's personnel policy. In fact, the personnel policy filed in the County Commission minutes lists the County Executive's Office on the front cover.

FINDING 03.08 **LITTER GRANT PROCEEDS WERE RECEIVED FOR INELIGIBLE EXPENDITURES** (Noncompliance Under Government Auditing Standards)

The County Executive's Office submitted claims for reimbursement to the state Litter Grant Program for salary expenditures of \$4,643 that do not appear to be legitimate grant expenditures. The claims for reimbursement submitted to the state for the Litter Grant Program included the salaries of two full-time employees of the County Executive's Office whose primary duties were unrelated to the Litter Grant. One employee was included on the claim for reimbursement (\$408) for a two-week period; however, this employee stated that her primary duties during this period were recordkeeping duties in the County Executive's Office. The entire salary of a second full-time employee (\$4,235) for the period January 2003 through May 2003 was also included on the Litter Grant claim for reimbursement when this employee's primary duties were as the receptionist/secretary in the County Executive's Office. The claims for reimbursement submitted to the state for Litter Grant proceeds may only include the portion of an employee's salary that is directly applicable to the grant program. These questionable expenditures have been reported to the Tennessee Department of Transportation for investigation.

RECOMMENDATION

Grant proceeds should only be used for eligible program expenditures and should not supplement the general operations of the county.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

The commission approved all transfers within the Litter Grant Program, and the State of Tennessee paid Sequatchie County all of the reimbursement requested through June 30, 2003. We have also been approved for a Litter Grant Program for fiscal year 2003-04 in the same amount of funds as last year.

REBUTTAL

The deficiencies noted in the Litter Grant Program have been reported to the Tennessee Department of Transportation for investigation. Until that investigation is completed, we do not know what, if any, actions will be taken against the county.

FINDING 03.09 **ADJUSTMENTS WERE MADE TO THE GENERAL LEDGER WITHOUT PROPER DOCUMENTATION**
(Internal Control – Reportable Condition Under Government Auditing Standards)

During our examination, we noted numerous adjustments that were made to the general ledger that did not include proper supporting documentation for the adjustment. We have disallowed many of these adjustments in the financial statements of the audit report because the County Executive's Office could not provide adequate supporting documentation for the adjustments. The county executive can make adjustments to the general ledger to correct mistakes; however, these adjustments must include proper documentation to support the adjustments.

RECOMMENDATION

All adjustments posted to the accounting records should include adequate supporting documentation.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

I have implemented a paper trail (documentation) for adjustments made to any of the funds my office maintains.

FINDING 03.10 **INVENTORY RECORDS WERE NOT MAINTAINED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Inventory records were not maintained for all assets owned by the general county government. Generally accepted accounting principles require accountability for all county-owned assets, such as equipment, furniture, and vehicles.

RECOMMENDATION

The office should maintain inventory records of all assets, as required by generally accepted accounting principles. Furthermore, personnel independent of maintaining the inventory should periodically verify the inventory records.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

A rudimentary form of inventory records is on file in my office. To be in compliance, the County Commission needs to obtain software that prepares costs and schedules of depreciation.

REBUTTAL

During our examination, the County Executive's Office was only able to provide us with inventory lists for four of the county's offices.

FINDING 03.11 **DEFICIENCIES WERE NOTED IN THE OPERATIONS OF THE AMBULANCE SERVICE**

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

The following deficiencies were noted in our examination of the Ambulance Service operations:

- A. Official, prenumbered receipts were not issued for collections the Ambulance Service received, as required by Section 9-2-103, Tennessee Code Annotated (TCA). Since collections were not receipted, we were unable to determine if all collections were properly accounted for and were deposited to the bank within three days, as required by Section 5-8-207, TCA.
- B. Collections posted to the accounts receivable records at the Ambulance Service were not reconciled with the collections deposited to the bank and with the amounts remitted to the county trustee.

RECOMMENDATION

All Ambulance Service collections should be receipted and deposited to the office bank account within three days, as required by state statute. Also, receipts should be reconciled with the collections deposited to the bank and remitted to the county trustee.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

The correct procedures will be implemented and monitored.

FINDING 03.12 RECEIPTS WERE NOT WRITTEN FOR COLLECTIONS
(Noncompliance Under Government Auditing Standards)

Receipts were not issued for collections received in the County Executive's Office, as required by Section 9-2-103, Tennessee Code Annotated (TCA). Without receipts, we were unable to determine if all collections had been accounted for and if all funds had been deposited within three days of collection, as required by Section 5-8-207, TCA.

RECOMMENDATION

The county should issue receipts for all collections and should deposit funds within three days of collection, as required by state statutes.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

A duplicate-part, numbered receipt book is now in use in the County Mayor's Office for funds received into the office. These funds are taken immediately to the Trustee's Office for deposit.

**FINDING 03.13 ACCOUNTING RECORDS WERE NOT MAINTAINED FOR
COMMUNITY DEVELOPMENT FUNDS
(Internal Control – Reportable Condition Under Government Auditing Standards)**

The County Executive's Office did not maintain accounting records for some Community Development Program funds. Instead, the Southeast Local Development Corporation (SLDC) maintained these records and received an administrative fee for this service. Community Development Program transactions have been reflected in the Community Development/Industrial Park Fund in the financial statements of this report.

RECOMMENDATION

Community Development Program funds should be placed in a separate county fund and administered by the County Executive's Office. The county may continue to use the expertise and assistance of the SLDC in its Community Development Program; however, the county should be responsible for controlling the funds and maintaining the accounting records.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

Community Development Funds are maintained by the Southeast Tennessee Development District; however, this process is being reviewed.

FINDING 03.14 AN INTERFUND LOAN WAS NOT AUTHORIZED IN ACCORDANCE WITH STATE STATUTE
(Noncompliance Under Government Auditing Standards)

The former county executive transferred \$80,000 from the General Debt Service Fund to the General Fund to provide cash for operations of the General Fund. This transfer was, in effect, an interfund loan and was not approved by the state director of Local Finance, as required by Section 9-21-801, Tennessee Code Annotated (TCA). This loan was repaid to the General Debt Service Fund prior to June 30, 2003.

RECOMMENDATION

All interfund loans should be submitted to the state director of Local Finance for approval, as required by state statute.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

The former county executive made this transfer. All loans, whether interfund or not, have been made in accordance with state statute.

REBUTTAL

We have contacted the state director of Local Finance, who stated that this loan was not approved by his office, as required by Section 9-21-801, TCA.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 03.15 THE OFFICE HAD DEFICIENCIES IN COMPUTER SYSTEM BACK-UP PROCEDURES
(Internal Control – Reportable Condition Under Government Auditing Standards)

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

- A. Daily backups of the Central Cafeteria Fund were not stored in a secure location. Unsecured access to system backups exposes the data to environmental hazards, as well as to possible sabotage.
- B. System backups of the General Purpose and School Federal Projects Funds 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 manual information accounted for through the automated process.

RECOMMENDATION

Management should store daily backups in a secure, fireproof location. In addition to daily system backups, 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. Year-end backups should be stored off site and retained indefinitely. 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.

OFFICE OF TRUSTEE

FINDING 03.16 **THE TRUSTEE ALLOWED CASH OVERDRAFTS TO OCCUR IN THE AMBULANCE SERVICE AND COURTHOUSE AND JAIL MAINTENANCE FUNDS**
(Noncompliance Under Government Auditing Standards)

The trustee honored warrants that exceeded amounts on deposit in his office for the Ambulance Service and Courthouse and Jail Maintenance Funds during the year. The Ambulance Service Fund had cash overdrafts in the Trustee's Office ten days during the period examined, and the Courthouse and Jail Maintenance Fund had overdrafts two days during the period examined. The trustee notified the County Executive's Office of the cash overdrafts and requested that the office not issue warrants that exceed amounts available for each fund. However, the trustee continued to honor the warrants. Section 8-11-104, Tennessee Code Annotated, states that the trustee should honor warrants only if there are adequate deposits available in the office for that fund.

RECOMMENDATION

The trustee should not honor warrants on any fund that exceed amounts on deposit in his office, as required by state statute.

MANAGEMENT'S RESPONSE - TRUSTEE

I was faced with a troubling decision many times this past year concerning the Ambulance Fund. Each time the fund was low, I verbally notified the County Executive's Office to not spend more than the available funds. This warning was ignored, and the County Executive's Office continued to issue warrants. The trustee should be able to depend on the chief executive officer of the county to be responsible enough in this situation to stop issuing warrants. I issued cutoff letters to no avail. When our office receives warrants, they have already been paid.

REBUTTAL

The trustee is required by state statutes to only honor warrants if there are adequate deposits available in the office for that fund.

OFFICE OF COUNTY CLERK

FINDING 03.17

DEFICIENCIES WERE NOTED IN THE MAINTENANCE OF ACCOUNTING RECORDS

(Internal Control – Reportable Condition Under Government Auditing Standards)

We noted the following deficiencies in our audit of the County Clerk's Office:

- A. The general ledger contained numerous posting errors and was not posted on a current basis. During our examination, we noted that the clerk posted the transactions for the entire month to her general ledger just before running her monthly reports. The failure to post the general ledger on a timely basis weakens controls over the operations of the office and increases the likelihood of mistakes going undetected.
- B. Bank statements were not adequately reconciled with general ledger accounts on a monthly basis. The clerk attempted to reconcile the bank statements with the general ledger. However, for seven months during the year, the clerk posted an adjustment to the general ledger for the difference between the bank balance and the book balance to make the two agree. As a result, several posting errors were not discovered and corrected. We have corrected all the errors we discovered during our examination in the financial statements presented in this report.
- C. The clerk used cash from the office to pick up bad checks from the bank. This method of retrieving bad checks from the bank weakens the audit trail on these transactions and could create a cash flow problem in the clerk's office.
- D. The clerk did not require the depository for the office to image both sides of the cancelled checks. The Comptroller of the Treasury requires officials to have both sides of the returned checks and deposits imaged so that all of the information pertaining to that check is available for review, such as the signature, endorsement, payee, and any bank notations.

RECOMMENDATION

The general ledger should be maintained on a current basis. Bank statements should be reconciled with the general ledger monthly and any differences reviewed and corrected. The clerk should not pick up bad checks with cash from the office. Also, the official should require the bank to image both sides of the returned checks.

MANAGEMENT'S RESPONSE – COUNTY CLERK

I agree with the findings and have taken steps to correct them. On my behalf, inexperience was a factor in these findings. I believe that next year's audit will be much better. I do accept full responsibility for the office and the findings.

FINDING 03.18 **THE COUNTY CLERK SIGNED THE CHAIRMAN'S NAME TO COUNTY COMMISSION MINUTES**
(Noncompliance Under Government Auditing Standards)

During our examination, we noted discrepancies concerning the signatures on the minutes of the County Commission meetings. When we asked the clerk about these discrepancies, she stated that she signed the County Commission chairman's name to the September 2002 minutes. At our request, the chairman of the County Commission reviewed these minutes for accuracy and did not note any material discrepancies. The chairman is required to sign the County Commission minutes to attest that the minutes were approved by the commission and that they accurately reflect the actions of the commission during that meeting.

RECOMMENDATION

The county clerk should not sign anyone else's name to official documents.

FINDING 03.19 **FUNDS WERE NOT DEPOSITED WITHIN THREE DAYS OF COLLECTION**
(Noncompliance Under Government Auditing Standards)

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

RECOMMENDATION

The office should deposit funds within three days of collection, as required by state statute.

MANAGEMENT'S RESPONSE – COUNTY CLERK

I agree with the finding and have taken steps to correct it.

OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK

FINDING 03.20

DEFICIENCIES WERE NOTED IN THE MAINTENANCE OF ACCOUNTING RECORDS

(Internal Control – Reportable Condition Under Government Auditing Standards)

We noted the following deficiencies in the maintenance of accounting records:

- A. The bank statements for General Sessions Court were not reconciled with the general ledger for four months during the year. We extended our audit procedures to include a reconciliation of the bank accounts for the year examined.
- B. We noted voided receipts in both Circuit and General Sessions Courts that did not have the original copy of the receipt attached.
- C. Interest on litigants' investments was not posted to subsidiary records, and these subsidiary records were not reconciled with general ledger accounts in Circuit Court.
- D. The clerk did not require the depository for General Sessions Court to image both sides of the cancelled checks. The Comptroller of the Treasury requires officials to have both sides of the returned checks and deposits imaged so that all of the information pertaining to that check is available for review, such as the signature, endorsement, payee, and any bank notations.

RECOMMENDATION

Bank statements should be reconciled with the general ledger monthly, and the original copy of all voided receipts should be maintained. Interest on investments should be posted to the subsidiary records, and the subsidiary records should be reconciled with the general ledger. In addition, all depositories holding county funds should image both sides of the cancelled checks if the checks are not returned to the county.

OFFICE OF SHERIFF

FINDING 03.21

RECEIPTS WERE NOT ISSUED AT THE TIME OF COLLECTION

(Noncompliance Under Government Auditing Standards)

Receipts were not issued at the time collections were received. Instead, receipts were issued for collections at the time bank deposits were prepared. As a result of this practice,

we could not determine if funds were deposited to the office bank account within three days of collection, as required by Section 5-8-201, Tennessee Code Annotated.

RECOMMENDATION

Receipts should be issued for collections at the time the funds are received, and funds should be deposited to the office bank account within three days of collection, as required by state statute.

MANAGEMENT'S RESPONSE – SHERIFF

I have taken the following corrective actions. The receipt book was placed in the dispatch office, and dispatchers and jailers were instructed on how to fill out the receipt for collections received. The bookkeeper then deposits the collections within the three-day period at the bank.

FINDING 03.22 **THE SHERIFF'S OFFICE HAD DEFICIENCIES IN ITS BOOKING PROCEDURES**
(Noncompliance Under Government Auditing Standards)

The office did not maintain records to document that all arrestees were fingerprinted and that the fingerprints were filed with the Tennessee Bureau of Investigation (TBI), as required by Section 8-4-115, Tennessee Code Annotated (TCA). This statute requires that law enforcement agencies take two full sets of classifiable fingerprints at the time of a person's arrest and that the agency file the fingerprints with the TBI.

RECOMMENDATION

The Sheriff's Office should document that all arrestees are fingerprinted and that all fingerprints are filed with the TBI, as required by statute.

MANAGEMENT'S RESPONSE – SHERIFF

I have taken the following corrective action. At the time of arrest, a photocopy of the fingerprints is made and placed in the arrestee's file. At the end of the month, the chief deputy looks over both sets of prints to approve the prints or send them back for corrections to be made. In the state control book, the chief deputy signs off that the prints were reviewed. Once the corrections have been made, the bookkeeper signs off and applies the mailing date in the state control book. This method allows the department to keep track of the fingerprints and have an accurate mailing date.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 03.23 **THE COUNTY DID NOT ASSUME PROPER OVERSIGHT AUTHORITY OVER THE AMBULANCE SERVICE OPERATIONS**

(Internal Control – Reportable Condition Under Government Auditing Standards)

On June 30, 2002, Bledsoe and Grundy Counties dissolved their relationship with Sequatchie Valley Emergency Medical Services, Inc. (Sequatchie Valley EMS), a regional ambulance service jointly owned by Sequatchie, Bledsoe, and Grundy Counties. Between July 1, 2002, and September 30, 2002, the Sequatchie Valley EMS staff continued providing ambulance services to the citizens of Sequatchie County without sufficient oversight from the county. Beginning October 1, 2002, the Sequatchie County Commission assumed the operations of the Sequatchie County Ambulance Service.

The Ambulance Service's operations presented in the financial statements of this report represent its operations for the period October 1, 2002, when the County Commission voted to assume oversight of the operations, through June 30, 2003. No records could be located to support the receipts and disbursements of the Ambulance Service between July 1, 2002, and September 30, 2002. However, we reviewed the transactions that occurred during this time to the extent possible. Disbursements listed on bank accounts were reviewed and appear reasonable. Also, disbursements made from the Ambulance Service to the county were traced to their receipt in the Trustee's Office.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

This problem occurred under the former county executive. The current county mayor has worked with the other two counties involved, Grundy and Bledsoe, to dissolve this corporation. At the present time, there has been no legal dissolution, and a number of questions remain.

MANAGEMENT'S RESPONSE – FORMER COUNTY EXECUTIVE

I was a member of the Board of Directors that provided oversight for the operation of Sequatchie Valley EMS, Inc. The Sequatchie County Ambulance Service was not operated by Sequatchie County during my tenure as county executive that ended August 31, 2002. I have never received any documentation that Bledsoe and Grundy Counties intended to dissolve their relationship with Sequatchie Valley EMS, Inc.

The ambulance service manager and bookkeeper were responsible for the operation and financial accounting of the service. They were employees of Sequatchie Valley EMS, Inc., not Sequatchie County. The Sequatchie County Commission Emergency Services Committee reviewed the financial reports submitted by Sequatchie Valley EMS, Inc., and

recommended the amount of county funds budgeted for the operational subsidy. I appointed an Ambulance Service Advisory Committee that was made up of two commissioners, one local businessman, one retired paramedic, and a retired IRS auditor. I believe that I provided sufficient oversight to document that the funds appropriated by the Sequatchie County Commission were used to provide quality ambulance service for county residents.

REBUTTAL

We have documentation that both Bledsoe and Grundy Counties ceased participating in the Sequatchie Valley EMS, Inc., on June 30, 2002. As a result, the joint venture was effectively dissolved since the only participant left was Sequatchie County. We know of no statutory authority that would allow a single participant (Sequatchie County) to operate as a joint venture. We have questioned the county's level of oversight since the Ambulance Service was allowed to continue to operate during the period July 1, 2002, through September 30, 2002, without any statutory authority and because no records could be located to support the receipts and disbursements of the Ambulance Service during this period. Without records to support the receipts and disbursements of the Ambulance Service, we could not determine if all funds collected were properly received and deposited or if all disbursements were made for the benefit of the Ambulance Service.

MANAGEMENT'S RESPONSE – CHAIRMAN OF THE COUNTY COMMISSION

In the best interest of the county citizens, the Sequatchie County Commission believed it was prudent to assume authority and oversight of the Ambulance Service operations. The full commission voted on this transaction, and the transactions were handled by the county mayor and county attorney. Since assuming the authority and responsibility of the service, a new director has been hired that reports to the commission and an emergency service committee made up of county commissioners. Bookkeeping standards have been greatly improved in regard to receipts, billing, and collections.

FINDING 03.24 **THE PURCHASE OF A PATROL CAR FROM THE SHERIFF IS QUESTIONABLE**

(Noncompliance Under Government Auditing Standards)

The County Commission approved the purchase of a patrol car from the sheriff for \$9,000 without soliciting competitive bids. The sheriff had been a constable prior to his election as sheriff, and this was the car he used when he was a constable. Purchasing the car from the sheriff is an apparent violation of the state's conflict of interest statute. Section 12-4-101(a)(1), Tennessee Code Annotated, prohibits a county official from being directly involved in a contract with the county. In addition, Chapter 750, Private Acts of 1947, and Chapter 10, Private Acts of 1987, require competitive bids for purchases exceeding \$2,000.

RECOMMENDATION

The county should not make purchases from a county official in violation of the conflict of interest statute. In addition, the county should solicit bids in all instances required by the county's purchasing guidelines.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

When I learned of the purchase of this vehicle, I advised the chairman of the County Commission that this vehicle should have been bid. Since this vehicle had not been bid, I would not issue a warrant for it until it was brought before the full County Commission, which authorized the purchase, the fund, and the line-item from which to pay for it.

MANAGEMENT'S RESPONSE – COUNTY COMMISSION

The Sequatchie County Sheriff's Department was in great need of an additional patrol car. The County Commission saw this purchase as an immediate remedy to the situation and chose to purchase the car from the sheriff. However, the County Commission understands it is not the best practice to enter into purchases with county employees and in the future will not enter into these transactions.

FINDING 03.25 **COMMITTEE MEETING MINUTES WERE NOT MAINTAINED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

During the year, minutes were not maintained for committee meetings of the County Commission. Official minutes are vital to document the actions of the committees and provide guidance to the commission as a whole.

RECOMMENDATION

Minutes should be maintained for all committee meetings to document the decisions made.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

I requested that the County Commission provide written committee minutes. I understand that the County Commission has addressed this issue and will comply with this request.

MANAGEMENT'S RESPONSE – CHAIRMAN OF THE COUNTY COMMISSION

The Sequatchie County Commission committees have now adopted the practice of keeping accurate minutes of all committee meetings.

FINDING 03.26

RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED ASSETS

(Internal Control – Material Weakness Under Government Auditing Standards)

Sequatchie 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 Sequatchie 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

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

MANAGEMENT'S RESPONSE – COUNTY MAYOR

Sequatchie County cannot maintain fixed asset records until the County Commission agrees to the purchase of a new computer system and software. Our current system does not have the capacity needed to handle this program. Once the necessary equipment and software are purchased, we will begin the process of maintaining this information.

MANAGEMENT'S RESPONSE – CHAIRMAN OF THE COUNTY COMMISSION

The Sequatchie County Commission is currently taking action to put in place an accounting system that will be in accordance with the Governmental Accounting Standards Board Statement 34. This system will enable Sequatchie County to better record and maintain a working inventory and to value and record all of the county's fixed assets.

FINDING 03.27

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

(Internal Control – Reportable Condition Under Government Auditing Standards)

Sequatchie County officials had not adopted a system of central accounting, budgeting, and purchasing. Establishing a central system would significantly improve internal controls over the accounting, budgeting, and purchasing processes.

RECOMMENDATION

Sequatchie 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.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

This is a decision to be made by the County Commission; however, I would like to have input into the decision.

MANAGEMENT'S RESPONSE – CHAIRMAN OF THE COUNTY COMMISSION

The Sequatchie County Commission is currently taking steps to adopt and put into action a county financial management system.

FINDING 03.28 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF COUNTY EXECUTIVE, HIGHWAY SUPERINTENDENT, DIRECTOR OF SCHOOLS, 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 officials and employees in the Offices of County Executive, Highway Superintendent, Director of Schools, Trustee, 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, 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 – COUNTY MAYOR

The number of staff persons necessary to completely segregate all of the duties in the Office of County Mayor would cost more than the commission will approve.

MANAGEMENT'S RESPONSE – SHERIFF

I have taken the following corrective actions. There have been more duties segregated to the jailers and/or dispatchers. As the collections arrive at the office, these people are responsible for receipting the collections. The bookkeeper is responsible for the journal entries, bank deposits and fund disbursements. Because of limited personnel, these changes were the only action that could be taken.