

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

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. Management offered oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

OFFICE OF HIGHWAY SUPERINTENDENT

FINDING 03.01 **THE OFFICE DID NOT USE PURCHASE ORDERS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The office did not issue purchase orders. Purchase orders are necessary to control who has purchasing authority for the county and to document purchasing commitments.

RECOMMENDATION

To strengthen internal controls over the purchasing process, the office should implement a purchase order system.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 03.02 **INTERFUND LOANS WERE NOT AUTHORIZED OR REPAID
IN ACCORDANCE WITH STATE STATUTE**
(Material Noncompliance Under Government Auditing Standards)

The office made two transfers (\$38,000 and \$45,000), from the General Purpose School Fund to the School Federal Projects Fund to provide temporary operating funds. These transactions were, in effect, interfund loans and were not approved by the County Commission and the state director of Local Finance, as required by Section 921-408, Tennessee Code Annotated. Also, these interfund loans were not repaid prior to June 30, 2003, as required by the above-noted statute. Those interfund loans have been reflected as current notes receivable in the General Purpose School Fund and current notes payable in the School Federal Projects Fund in the financial statements of the Hartsville/Trousdale County Government on June 30, 2003. On October 20, 2003, the School Federal Projects Fund repaid the \$38,000 interfund loan to the General Purpose School Fund.

RECOMMENDATION

All interfund loans should be approved by the County Commission and the state director of Local Finance and should be repaid prior to the end of the fiscal year in which they are issued, as required by state statute. School officials should immediately repay the remaining \$45,000 interfund loan.

FINDING 03.03 COMPETITIVE BIDS WERE NOT SOLICITED FOR THE PURCHASE OF A VAN
(Noncompliance Under Government Auditing Standards)

The office purchased a van for \$18,626 without soliciting competitive bids. Section 49-2-203, Tennessee Code Annotated, requires competitive bids to be solicited for purchases exceeding \$5,000.

RECOMMENDATION

Competitive bids should be solicited for all purchases exceeding \$5,000, as required by state statute.

FINDING 03.04 PAYROLL LIABILITY ACCOUNTS WERE NOT RECONCILED MONTHLY
(Internal Control – Reportable Condition Under Government Auditing Standards)

General ledger payroll liability accounts were not reconciled with payroll reports and payments of insurance premiums, and our audit revealed that numerous posting errors were made in these accounts. Routine reconciliation procedures would have identified problems quickly and allowed for correction. The liability accounts are properly reflected in the financial statements of this report.

RECOMMENDATION

The office should reconcile general ledger payroll liability accounts with payroll records and insurance premium invoices to ensure proper withholding and matching funds.

FINDING 03.05 THE OFFICE HAD DEFICIENCIES IN THE PURCHASING PROCESS
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our examination disclosed the following deficiencies in internal controls over purchasing:

- A. Purchase orders were not issued for some purchases. Also, in several instances in which purchase orders were issued, the purchase orders were issued after the purchases were made. Purchase orders are necessary to control who has purchasing authority and to document purchasing commitments. The practice of issuing purchase orders after the purchase has been made defeats the purpose of the purchase order and makes the purchase order an approval of payment rather than an approval of the purchase.

- B. In several instances, invoices were paid without documentation that goods and services were received. This practice weakens controls over the purchasing process. We extended our audit procedures and determined that these purchased goods and services were received.

RECOMMENDATION

The office should improve purchasing procedures by issuing purchase orders for all applicable purchases before purchases are made. Furthermore, county officials should obtain documentation that goods and services were received before invoices are paid.

OFFICE OF SHERIFF

FINDING 03.06 **A SERVICE CONTRACT FOR COMMISSARY OPERATIONS WAS AWARDED WITHOUT COUNTY COMMISSION APPROVAL**

(Noncompliance Under Government Auditing Standards)

During the year, the sheriff awarded a five-year service contract for commissary operations to Swanson Services Corporation without following the provisions of Section 7-51-904, Tennessee Code Annotated. This statute provides that whenever the term of a contract is for five years or more a notice of public meeting must be published in a newspaper of general circulation in the county describing the contract to be considered and the contracting party. This statute further provides that the contract can only be entered into after being approved by a resolution of the County Commission.

RECOMMENDATION

All contracts should be entered into in accordance with state statutes.

FINDING 03.07 **DEFICIENCIES WERE NOTED WITH A CAPITAL LEASE FOR COMMISSARY EQUIPMENT**

(Noncompliance Under Government Auditing Standards)

During the year, the sheriff entered into a five-year capital lease of \$5,200 with Swanson Services Corporation for commissary computer equipment. We noted the following deficiencies involving the capital lease:

- A. The capital lease was not approved by the County Commission, as required by Section 7-51-904, Tennessee Code Annotated (TCA). This statute requires capital leases to be approved by the County Commission and prohibits entering a capital lease without the County Commission's approval.

- B. The computer equipment was purchased without soliciting competitive bids, as required by Section 5-14-204, TCA. This statute requires purchases exceeding \$5,000 (excluding emergency purchases) to be made based on competitive bids solicited through newspaper advertisement.
- C. A Report on Debt Obligation was not filed with the state director of Local Finance, as required by Section 9-21-151, TCA. This statute requires the report to be filed with the director within 45 days following the issuance of debt by a public entity.

RECOMMENDATION

All capital leases should be approved by the County Commission before they are negotiated, and all purchases exceeding \$5,000 should be made based on competitive bids solicited through newspaper advertisement, as required by state statutes. Also, a Report on Debt Obligation should be filed with the state director of Local Finance for all debt, as required by statute.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 03.08 **RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED ASSETS**
(Internal Control – Material Weakness Under Government Auditing Standards)

Hartsville/Trousdale County Consolidated Government 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 for Hartsville/Trousdale County Consolidated Government for the year ending June 30, 2004. Statement 34 places an even greater emphasis on the need to maintain general fixed asset records.

RECOMMENDATION

Hartsville/Trousdale County Consolidated Government should inventory, value, and record its general fixed assets in accordance with generally accepted accounting principles.

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

Hartsville/Trousdale County Consolidated Government 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

Hartsville/Trousdale County Consolidated Government 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.

FINDING 03.10

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 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.