

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

OFFICES OF COUNTY EXECUTIVE AND SHERIFF

FINDING 03.01 **BIDS WERE NOT SOLICITED FOR THE PURCHASE OF SHERIFF'S OFFICE VEHICLES**

(Noncompliance Under Government Auditing Standards)

The Sheriff's Office purchased seven used vehicles totaling \$42,490 from a local dealership without soliciting competitive bids. These vehicles were paid for from the General Fund (\$26,500) and the Drug Control Fund (\$15,990). The cost of the individual vehicles ranged from \$3,250 to \$14,990. Purchasing procedures for Unicoi County are governed by the County Purchasing Law of 1983, Sections 5-14-201 through 5-14-206, Tennessee Code Annotated, which provides for purchases exceeding \$5,000 to be made after public advertisement and solicitation of competitive bids.

RECOMMENDATION

County officials should ensure that all purchases estimated to exceed \$5,000 are made after soliciting competitive bids through public advertisement, as required by state statutes.

OFFICE OF COUNTY EXECUTIVE

FINDING 03.02 **DEFICIENCIES WERE NOTED IN BUDGET OPERATIONS** (Material Noncompliance Under Government Auditing Standards)

During the period under examination, the following budget deficiencies were noted:

- A. Expenditures exceeded appropriations approved by the County Commission in the General Fund by \$449,669. This deficiency resulted from the county's failure to budget for encumbrances related to contracts for renovations at the county health department building, the recognition of unrecorded liabilities in the Sheriff's Office major category, the recognition of unrecorded encumbrances in the Civil Defense major category for expenditures funded by a homeland security grant, and the recognition of an unrecorded liability in the Employee Benefits major category for employee health insurance.
- B. Expenditures exceeded appropriations approved by the County Commission in the Drug Control Fund by \$4,889 because the county did not amend the budget for the purchase of an electronic fingerprint imaging system.

Section 5-9-401, Tennessee Code Annotated, 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 governments shall be appropriated to such use by the county legislative bodies.”

RECOMMENDATION

Expenditures and encumbrances should be held within the amounts appropriated by the County Commission.

FINDING 03.03 **CONTROLS OVER INVENTORY WERE NOT ADEQUATE**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The county’s controls over inventory were inadequate. The County Executive’s Office maintained inventory records of county-owned assets; however, these records were not updated regularly. In addition, equipment was not tagged or clearly marked as county property. Generally accepted accounting principles require accountability for all county assets, such as vehicles, furniture, and equipment.

RECOMMENDATION

The office should update the county’s inventory records regularly and should ensure that all county-owned assets are tagged or clearly marked as property of Unicoi County.

OFFICE OF ROAD SUPERINTENDENT

FINDING 03.04 **THE OFFICE HAD INTERNAL CONTROL WEAKNESSES RELATED TO USE OF THE COUNTY CREDIT CARD**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit disclosed the following deficiencies:

- A. For the period of July 1, 2002, through December 30, 2003, the road superintendent charged \$2,311.67 in personal expenses to the county’s American Express card. He either reimbursed the credit card company directly or reimbursed the county after the bill was paid. The practice of

intermingling personal and county transactions undermines internal controls over county funds and increases the risk that funds will be misappropriated.

- B. Our audit also revealed that credit card charges for office employee travel expenses were not documented on travel claim forms, as required by the county's travel policy.
- C. The county had not adopted a uniform credit card use policy. Such a policy is necessary to communicate who has authority to use the cards and the purposes for which the cards may be used.

RECOMMENDATION

The use of credit cards should be limited to county expenses, all charges relating to travel expenses should be documented on travel claim forms, and the County Commission should adopt a uniform credit card use policy for all county departments.

FINDING 03.05 **DEFICIENCIES WERE NOTED IN BUDGET OPERATIONS**
(Noncompliance Under Government Auditing Standards)

Expenditures exceeded appropriations approved by the County Commission in the Employee Benefits major appropriation category in the Highway/Public Works Fund by \$49,786 as the result of recognition of an unrecorded liability of \$59,315 for employee health insurance. Section 5-9-401, Tennessee Code Annotated, 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 governments shall be appropriated to such use by the county legislative bodies."

RECOMMENDATION

Expenditures should be held within amounts appropriated by the county legislative body.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 03.06 **A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Unicoi 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

Unicoi 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.

FINDING 03.07 **RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED ASSETS**
(Internal Control – Material Weakness Under Government Auditing Standards)

Unicoi 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 Unicoi 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

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

FINDING 03.08 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF CLERK AND MASTER AND SHERIFF**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among officials and employees in the Offices of Clerk and Master and Sheriff. The officials and employees responsible for maintaining the 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.