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 School Department's finance director 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 RECEIPTING SOFTWARE FOR SOME OFFICES DID NOT HAVE ADEQUATE APPLICATION CONTROLS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The receipting software used by the Offices of Code Compliance, Building Permits, and Sewage Disposal did not provide a record of changes to previously issued receipts. Users had the capability to change information on receipts, leaving no evidence of the original receipt. This lack of control could allow inappropriate activity.

RECOMMENDATION

A record of all changes to receipts should be maintained. These controls would help to ensure the reliability of information that is generated by the system.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 03.02 **GENERAL PURPOSE SCHOOL FUND APPROPRIATIONS EXCEEDED ESTIMATED AVAILABLE FUNDS**
(Material Noncompliance Under Government Auditing Standards)

During the year, budget amendments were submitted to the Board of Education and the County Commission that increased appropriations by $7,604,400 and specified the source of funding for these additional appropriations as unappropriated reserves/fund balance. However, the estimated beginning unappropriated reserves/fund balance was only $5,461,604. It should be noted that the actual budgetary basis reserves/fund balance of the General Purpose School Fund at July 1, 2002, was $8,533,330. If School Department officials had estimated the

beginning reserves/fund balances on a more realistic basis or amended the estimated beginning reserves/fund balance, there would have been sufficient budgeted funds available to fund the appropriations.

RECOMMENDATION

Appropriations that exceed estimated available funds should not be submitted to the County Commission, and the board should not approve such appropriations. The estimate of beginning reserves/fund balance should be made on a more realistic basis to provide county officials with accurate information on which to base funding decisions.

MANAGEMENT'S RESPONSE – SCHOOL DEPARTMENT FINANCE DIRECTOR

Two of the budget resolutions presented to the County Commission totaling $4,822,500 were at the request of the County Commission with full knowledge of the school board's actual General Purpose School Fund's fund balance. The intent of the resolution was to reflect that the actual beginning fund balance was sufficient to meet this purpose. School officials are very mindful of all projections and try to make them as truthful as possible to ensure that funds reflect accurate estimates. School officials project the ending fund balance in January for the coming budget year. The growth factor of the Better Education Program (BEP) for the current year is not available until May of each year. This factor of the BEP is very irregular in amount in nature and is based on the State of Tennessee as a whole, not on the particular county. This factor was one of the reasons that the actual fund balance exceeded the projection made in January. However, the estimated fund balance is what it is, an estimate.

REBUTTAL

Beginning reserves/fund balance estimates should be continually updated during the budget process to ensure the most accurate figures available are presented to the County Commission.

FINDING 03.03 **IN THE PRIOR YEAR THE BOARD OF EDUCATION ISSUED A NOTE WITHOUT THE APPROVAL OF THE COUNTY COMMISSION AND THE STATE DIRECTOR OF LOCAL FINANCE**
(Noncompliance Under Government Auditing Standards)

On March 6, 2002, the director of schools and the chairman of the Board of Education obtained, with the approval of the Board of Education, a $5,031,235 capital outlay note to refinance an energy management service lease-purchase agreement. This note had not been approved by the county commission and the

state director of local finance as required by Section 9-21-601, Tennessee Code Annotated. On March 15, 2003, the note was retired and replaced by the issuance of a properly approved capital outlay note.

RECOMMENDATION

Debt should be issued in compliance with state statutes.

MANAGEMENT'S RESPONSE – SCHOOL DEPARTMENT FINANCE DIRECTOR

The board in its resolution intended to refund the issue as a lease-purchase agreement; however, the bank processed the refinance of this lease purchase as a note. In the future, every effort will be made to comply with state statutes.

OFFICE OF JUVENILE COURT CLERK

FINDING 03.04 **THE OFFICE DID NOT HAVE FORMAL POLICIES AND PROCEDURES FOR COMPUTER OPERATIONS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Office of Juvenile Court Clerk did not have 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 policies and procedures 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 03.05 **DUTIES WERE NOT SEGREGATED ADEQUATELY**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among the official and employees in the Office of Juvenile Court Clerk. The clerk was responsible for maintaining accounting records and was involved in receipting, depositing, and/or disbursing funds.

RECOMMENDATION

To strengthen internal controls over operations, the clerk should adequately segregate duties among employees.

OFFICE OF SHERIFF

FINDING 03.06 **COMMISSARY RECORDS WERE NOT PROPERLY MAINTAINED FOR SEVERAL MONTHS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The office did not maintain records that identified individual inmate account balances during the period July 1, 2002, through November 2002; consequently, we could not audit the commissary account during this period. Effective December 1, 2002, sufficient records were maintained.

RECOMMENDATION

The sheriff should ensure that commissary records are maintained properly.