

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 other findings and recommendations; however, these oral responses have not been included in this report.

CANNON COUNTY AND CANNON COUNTY SCHOOL DEPARTMENT

FINDING 04.01 **GOVERNMENT-WIDE FINANCIAL STATEMENTS WERE NOT PRESENTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

(Material Noncompliance Under Government Auditing Standards)

Cannon County and the Cannon County School Department did not identify and determine the historical value of their capital assets and the related depreciation amounts of these assets. Therefore, Cannon County and the Cannon County School Department were unable to provide the information necessary to prepare government-wide financial statements for all of their activities, as required by Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. GASB is the standard-setting body for accounting principles that state and local governments are required to follow. As a result of this omission, Cannon County and the Cannon County School Department’s financial statements are not presented in accordance with generally accepted accounting principles; thus, we have issued an adverse opinion on the county’s financial statements.

The Office of the Comptroller of the Treasury, State of Tennessee, requires counties that do not implement GASB Statement 34 to issue a financial report in compliance with Financial Reporting Standards for County Governments, Component Units of County Governments, and Special School Districts That Do Not Implement Governmental Accounting Standards Board Statement 34, established by the Comptroller of the Treasury. Cannon County and the Cannon County School Department’s financial statements are presented in compliance with these requirements.

RECOMMENDATION

Cannon County and the Cannon County School Department should present government-wide financial statements in conformity with generally accepted accounting principles and should compile and maintain records that properly account for their capital assets. These records should document the historical cost of the county’s capital assets and the related depreciation amounts of these assets. This information is necessary to present the county’s financial statements in accordance with generally accepted accounting principles.

OFFICE OF COUNTY MAYOR

FINDING 04.02 **AN INDUSTRIAL DEVELOPMENT LOAN WAS NOT AUTHORIZED IN ACCORDANCE WITH STATE STATUTE**
(Material Noncompliance Under Government Auditing Standards)

During the year, the Cannon County Industrial Development Board entered into a loan agreement with the Cumberland Area Investment Corporation on behalf of the county to borrow \$300,000 for the purchase of land and the construction of an industrial building. The proceeds of this loan were deposited into the Industrial/Economic Development Fund, and the loan is being repaid from the General Debt Service Fund. This loan was not approved by the County Commission or the state director of Local Finance, as required by Section 9-21-408, Tennessee Code Annotated.

RECOMMENDATION

All debt obligations of the county should be approved by the County Commission and the state director of Local Finance, as required by state statute.

FINDING 04.03 **EXPENDITURES AND ENCUMBRANCES EXCEEDED APPROPRIATIONS APPROVED BY THE COUNTY COMMISSION**
(Material Noncompliance Under Government Auditing Standards)

Expenditures and encumbrances exceeded appropriations approved by the County Commission in the Industrial/Economic Development Fund by \$986,982. 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 appropriations approved by the County Commission.

FINDING 04.04 **THE OFFICE HAD DEFICIENCIES IN PURCHASING PROCEDURES**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our examination of purchasing procedures revealed the following deficiencies:

- A. Purchase orders were not issued in some required instances. 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.

RECOMMENDATION

The office should improve purchasing procedures by issuing purchase orders for all applicable county purchases and by obtaining documentation that goods have been received or services have been rendered before invoices are paid.

FINDING 04.05 **INVENTORY RECORDS WERE NOT MAINTAINED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

County officials did not maintain inventory records for assets owned by the general county government. Generally accepted accounting principles require accountability for all county-owned assets, such as vehicles, furniture, and equipment. The failure to maintain inventory records results in a loss of control over assets.

RECOMMENDATION

County officials should maintain inventory records for all county-owned assets.

OFFICE OF HIGHWAY SUPERINTENDENT

FINDING 04.06 **RECEIVABLES WERE NOT DETERMINED AND POSTED TO THE ACCOUNTING RECORDS**

(Material Noncompliance Under Government Auditing Standards)

Receivables were not determined and recorded on the accounting records, as required by generally accepted accounting principles. We performed additional audit procedures to determine receivables at June 30, 2004. Audit adjustments totaling \$119,100 have been posted by the county to properly present these receivables in the financial statements of this report.

RECOMMENDATION

Receivables should be determined and reflected on the accounting records in accordance with generally accepted accounting principles.

FINDING 04.07 **A COMPLETE LIST OF COUNTY ROADS WAS NOT SUBMITTED TO THE COUNTY COMMISSION FOR APPROVAL**

(Noncompliance Under Government Auditing Standards)

A complete list of all county roads was not submitted to the County Commission for approval. Instead, the highway superintendent only submitted a list of additions to the county road list. Section 54-10-103, Tennessee Code Annotated, states that "the chief administrative officer of the county highway department shall submit a listing of all county roads to the county legislative body. The listing shall include a summary of all changes from the road listing submitted the previous year."

RECOMMENDATION

The highway superintendent should submit a complete list of all county roads to the County Commission for approval, as required by state statute.

FINDING 04.08 **ACTUAL BEGINNING FUND BALANCE EXCEEDED THE ESTIMATED BEGINNING FUND BALANCE BY A MATERIAL AMOUNT**

(Material Noncompliance Under Government Auditing Standards)

The actual beginning fund balance in the Highway/Public Works Fund was \$986,270 at July 1, 2003; however, the estimated fund balance reflected in the county's budget document for that date was only \$601,705. Therefore, the actual fund balance was

\$384,565 more than the estimated fund balance presented to the County Commission during the budget approval process.

RECOMMENDATION

The estimate of beginning fund balance should be made on a more realistic basis to provide county officials with accurate information on which to base funding decisions.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 04.09 **EXPENDITURES EXCEEDED APPROPRIATIONS APPROVED BY THE COUNTY COMMISSION**

(Material Noncompliance Under Government Auditing Standards)

Expenditures exceeded appropriations approved by the County Commission in the Central Cafeteria Fund by \$85,297. 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 appropriations approved by the County Commission.

FINDING 04.10 **THE OFFICE HAD DEFICIENCIES IN PURCHASING PROCEDURES**

(Internal Control – Reportable Condition Under Government Auditing Standards)

Our examination of purchasing procedures revealed the following deficiencies:

- A. Purchase orders were not issued in some required instances. 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.

RECOMMENDATION

The department should improve purchasing procedures by issuing purchase orders for all applicable county purchases and by obtaining documentation that goods have been received or services have been rendered before invoices are paid.

OFFICE OF SHERIFF

FINDING 04.11 **DEFICIENCIES WERE NOTED IN THE ADMINISTRATION OF DRUG CONTROL FUNDS**
(A. Noncompliance Under Government Auditing Standards and B. Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit revealed the following deficiencies in drug control funds:

- A. The office did not maintain forms and reports required by the Office of the Comptroller of the Treasury. These forms and reports are necessary to document the administration of confidential funds and to account for cash transactions related to undercover investigative operations.

- B. Bank statements were not reconciled with cash journal accounts. Failing to reconcile bank statements with the cash journal could result in undetected errors. We reviewed the bank statements and cash journal accounts and found no evidence of material errors.

RECOMMENDATION

The office should maintain drug control forms and reports, as required by the Office of the Comptroller of the Treasury. Also, bank statements should be reconciled with cash journal accounts monthly.

FINDING 04.12 **COLLECTIONS WERE NOT DEPOSITED WITHIN THREE DAYS**
(Noncompliance Under Government Auditing Standards)

In some instances, collections were not deposited to the office bank account within three days of collection, as required by Section 5-8-207, Tennessee Code Annotated.

RECOMMENDATION

All collections should be deposited to the office bank account within three days of collection, as required by state statute.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 04.13 A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED
(Internal Control – Reportable Condition Under Government Auditing Standards)

Cannon 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

Cannon 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 04.14 DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF COUNTY MAYOR, 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 Mayor, 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 the 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.

FINDING 04.15 THE PRACTICE OF PAYING SCHOOL DEPARTMENT BUILDINGS AND CONTENTS INSURANCE PREMIUMS FROM THE GENERAL FUND IS OF QUESTIONABLE LEGALITY
(Material Noncompliance Under Government Auditing Standards)

During the year, the county expended \$46,806 from the General Fund to pay buildings and contents insurance premiums for the School Department. Opinion No. 77-226A issued by the Tennessee Attorney General's Office states that taxes collected for the county General Fund may not be diverted for education purposes. Therefore, we question the legality of

using General Fund monies to pay buildings and contents insurance premiums for the School Department.

RECOMMENDATION

Buildings and contents insurance premiums for the School Department should be appropriated and paid from school funds. General Fund monies should not be used to pay education expenses.