

## 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.

### OFFICE OF COUNTY MAYOR

FINDING 04.01      **THE OFFICE PAID INVOICES WITHOUT DOCUMENTATION THAT GOODS AND SERVICES HAD BEEN RECEIVED**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

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

### RECOMMENDATION

Documentation should be obtained indicating goods and services have been received before invoices are paid.

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### OFFICE OF HIGHWAY COMMISSION

FINDING 04.02      **GENERAL LEDGER PAYROLL LIABILITY ACCOUNTS WERE NOT RECONCILED**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

General ledger payroll liability accounts were not reconciled with payroll reports and payments of insurance premiums. In addition, we discovered that numerous posting errors were made in these accounts. Routine reconciliation procedures would have identified problems quickly and allowed for correction. We have provided management with audit adjustments to properly reflect these liability accounts in the financial statements of this report.

### RECOMMENDATION

The office should reconcile general ledger payroll liability accounts with payroll reports and insurance premium invoices to ensure proper withholding and matching funds. Posting errors should be corrected in a timely manner.

**FINDING 04.03      THE HIGHWAY DEPARTMENT DID NOT MAINTAIN A SYSTEM TO ACCOUNT FOR THE USE OF ROAD MATERIALS**  
(Internal Control –Reportable Condition Under Government Auditing Standards)

The Highway Department had a system to determine the use of materials, such as bridge lumber, culvert tiles, and rock, for state-aid road projects. However, the department did not have a system to account for materials used on other types of road projects. The failure to maintain a system to document the use of road materials results in a loss of control over the assets and increases the risk of inventory loss.

**RECOMMENDATION**

The Highway Department should develop and implement a system to account for materials used on all types of road projects.

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**OFFICE OF TRUSTEE**

**FINDING 04.04      THE TRUSTEE DID NOT REQUIRE A DEPOSITORY TO ADEQUATELY COLLATERALIZE FUNDS**  
(Noncompliance Under Government Auditing Standards)

The trustee did not require a depository to pledge adequate securities to protect county funds exceeding Federal Deposit Insurance Corporation (FDIC) coverage. At June 30, 2004, deposits at this depository exceeded FDIC coverage by \$294,541. Section 5-8-201, Tennessee Code Annotated, provides for county officials to require any bank that is a depository of county funds to deposit in an escrow account in a second bank collateral security equal to 105 percent of the funds exceeding FDIC coverage. As of the date of this report, the trustee had required the depository to pledge adequate securities to protect the county's funds.

**RECOMMENDATION**

The trustee should require depositories to pledge adequate securities to protect county funds exceeding FDIC coverage, as required by state statute.

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**OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK**

**FINDING 04.05      SUFFICIENT USER DOCUMENTATION FOR THE OPERATING SYSTEM AND SOFTWARE APPLICATIONS WAS NOT MAINTAINED**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The circuit and general sessions courts clerk did not maintain formal user documentation pertaining to the accounting software and operating system. This documentation is necessary to provide users with information regarding system maintenance, system inputs, application processing requirements, output definitions, and system recovery. Inadequate documentation may result in inaccurate and inefficient processing of applications.

**RECOMMENDATION**

The office should maintain user documentation pertaining to all software applications and the operating system. Management should contact their vendor and obtain current user documentation for all components of their computer system.

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**OTHER FINDINGS AND RECOMMENDATIONS**

**FINDING 04.06      DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF CIRCUIT, GENERAL SESSIONS, AND JUVENILE COURTS CLERK; CLERK AND MASTER; REGISTER; SHERIFF; AND DIRECTOR OF SCHOOLS**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among the officials and employees in the Offices of Circuit, General Sessions, and Juvenile Courts Clerk; Clerk and Master; Register; Sheriff; and Director of Schools. Officials and employees responsible for maintaining the accounting records in these offices were also involved in receipting, depositing, and/or disbursing funds. In the Office of Director of Schools, the bookkeeper reconciled cash balances with the trustee, issued purchase orders, entered invoices into the computer system, and generated warrants. 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.

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FINDING 04.07      **A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Carroll 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

Carroll 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.