

## **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. The written response of the director of schools is 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.

### **CLAY COUNTY AND THE CLAY 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)

Clay County and the Clay County School Department did not identify and determine the historical value of their capital assets and the related depreciation amounts of these assets. Therefore, Clay County and the Clay 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, Clay County’s and the Clay County School Department’s financial statements are not presented in accordance with generally accepted accounting principles; thus, we have issued adverse opinions on their financial statements.

The Office of the Comptroller of the Treasury, State of Tennessee, requires governments 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. Clay County’s and the Clay County School Department’s financial statements are presented in compliance with these requirements.

### **RECOMMENDATION**

Clay County and the Clay 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 their capital assets and the related depreciation amounts of these assets. This information is necessary to present the financial statements in accordance with generally accepted accounting principles.

### **MANAGEMENT’S RESPONSE – DIRECTOR OF SCHOOLS**

We are implementing GASB 34 following the policies as they are adopted by the Clay County Commission and the Clay County Board of Education. We have values established, and a software program is in place.

**OFFICE OF COUNTY MAYOR**

**FINDING 04.02      **THE OFFICE HAD PURCHASING DEFICIENCIES**  
(Internal Control – Reportable Condition Under Government Auditing Standards)**

The following purchasing deficiencies were noted in the County Mayor’s Office:

- A.     The office had not established a formal purchase order system. Purchase orders are necessary to control who has purchasing authority for the office and to document purchasing commitments.
  
- B.     In several instances, invoices were paid without documentation that goods had been received and/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 establish a formal purchase order system to improve internal controls over the purchasing process and to document purchasing commitments. Documentation should be obtained indicating goods were received and/or services were rendered before invoices are paid.

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**FINDING 04.03      **BUDGET DEFICIENCIES WERE NOTED IN FUNDS ADMINISTERED BY THIS OFFICE**  
(Noncompliance Under Government Auditing Standards)**

Our examination revealed the following deficiencies in budget operations:

- A.     Expenditures exceeded appropriations approved by the County Commission in the Solid Waste/Sanitation Fund by \$35,462 and the Drug Control Fund by \$9,913.
  
- B.     Expenditures exceeded appropriations in nine of the 39 major appropriation categories of the General Fund in amounts ranging from \$205 to \$15,135.

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 the county governments shall be appropriated by the county legislative bodies.”

RECOMMENDATION

Expenditures should be held within appropriations approved by the County Commission.

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FINDING 04.04      **INVENTORY RECORDS WERE NOT MAINTAINED**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Inventory records were not maintained for assets owned by the general county government. Generally accepted accounting principles require accountability for all county-owned assets, such as equipment, furniture, and vehicles.

RECOMMENDATION

The office should maintain inventory records for all assets, as required by generally accepted accounting principles.

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FINDING 04.05      **THE OFFICE HAD DEFICIENCIES IN COMPUTER SYSTEM BACK-UP PROCEDURES**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

System backups were not stored off site. In the event of a disaster, all back-up data could be destroyed, resulting in costly delays in generating and recording information accounted for through the automated process.

RECOMMENDATION

In addition to daily system backups, a weekly system backup should be performed, and two copies of this backup should be maintained. These backups should be rotated off site on a weekly basis. A complete systems backup should also be performed at fiscal year-end. These year-end backups should be stored off site and retained indefinitely. Some possibilities for an off-site storage location would be another county office building with a fireproof vault or a safe deposit box at a local bank.

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## **OFFICE OF HIGHWAY SUPERINTENDENT**

### **FINDING 04.06**

#### **THE OFFICE HAD PURCHASING DEFICIENCIES**

(A. and B. Internal Control – Reportable Condition Under Government Auditing Standards; C. Material Noncompliance Under Government Auditing Standards)

The following purchasing deficiencies were noted in the Highway Superintendent's Office:

- A. The office had not established a formal purchase order system. Purchase orders are necessary to control who has purchasing authority for the office and to document purchasing commitments.
- B. In several instances, invoices were paid without documentation that goods had been received and/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.
- C. The Highway Department solicited bids on a dump truck by using a manufacturer's invoice as the specifications for the vehicle to be purchased. Only one bid (\$60,086.50) was received on the dump truck. The bid was for a truck which was produced by the manufacture who supplied the bid specifications. The Highway Department appeared to have circumvented the bidding process by issuing specifications so narrow in scope that the number of vendors who could submit bids on the dump truck was limited. Section 54-7-113, Tennessee Code Annotated, requires all purchases exceeding \$5,000 be made after public advertisement and the solicitation of competitive bids.

### **RECOMMENDATION**

The office should establish a formal purchase order system to improve internal controls over the purchasing process and to document purchasing commitments. Documentation should be obtained indicating goods were received and/or services were rendered before invoices are paid. Bid specifications should be written so that the bids received can provide management with a proper perspective of the goods and/or services available in order to make sound purchasing decisions.

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### **FINDING 04.07**

#### **THE ACTUAL FUND BALANCE OF THE HIGHWAY/PUBLIC WORKS FUND EXCEEDED THE ESTIMATED BEGINNING FUND BALANCE BY A MATERIAL AMOUNT**

(Material Noncompliance Under Government Auditing Standards)

The actual fund balance of the Highway/Public Works Fund was \$570,610 at July 1, 2003; however, the estimated fund balance reflected in the county's budget document for July 1,

2003, was only \$267,223. Therefore, the actual fund balance was \$303,387 more than the estimated fund balance presented to the County Commission.

RECOMMENDATION

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

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**OFFICE OF DIRECTOR OF SCHOOLS**

**FINDING 04.08**      **THE SCHOOL DEPARTMENT HAD INADEQUATE CONTROLS OVER INVENTORY**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

School Department officials did not maintain adequate controls over inventory. We noted several assets that were not tagged or clearly marked as school property, some assets that were not identified by the tag number on the inventory lists, and some assets whose tag number on the inventory did not agree with the tag number on the asset. Also, no procedures were in place to ensure that newly acquired assets were added to the inventory lists and that personnel independent of maintaining inventory records verified the lists periodically. Generally accepted accounting principles require accountability for all county-owned assets.

RECOMMENDATION

To improve controls over inventory, School Department officials should tag all assets and ensure that inventory lists include property tag numbers, implement procedures for adding assets to inventory records, and ensure that personnel independent of the record-keeping process periodically verify inventory records.

**MANAGEMENT’S RESPONSE – DIRECTOR OF SCHOOLS**

All computers are inventoried. A numbered label is placed on the computer, and a record of the location of the computer is maintained in a database. We are experiencing two problems with inventory at the school building level. Students have removed labels from some machines, and computers were moved from room to room based on the number of students and need of the computers. When computers were moved to a different room, the move was not reflected in the inventory. We are taking steps to correct these problems.

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

**FINDING 04.09      EXECUTION DOCKET TRIAL BALANCES DID NOT RECONCILE WITH GENERAL LEDGER ACCOUNTS FOR CIRCUIT AND GENERAL SESSIONS COURTS**  
(Material Noncompliance Under Government Auditing Standards)

As of June 30, 2004, the clerk prepared trial balances of execution docket cause balances for Circuit and General Sessions Courts, as required by Section 18-2-104, Tennessee Code Annotated (TCA). However, these trial balances did not reconcile with the general ledger accounts by \$51,194 in Circuit Court and by \$4,457 in General Sessions Court. Therefore, we were unable to determine if the clerk had complied with provisions of the Unclaimed Property Act, Section 66-29-110, TCA. This statute provides that any funds held by the courts for more than one year and unclaimed by the owner are considered abandoned. Section 66-29-113, TCA, further requires these funds to be reported and paid to the state Treasurer's Office.

**RECOMMENDATION**

The clerk should reconcile trial balances of execution docket cause balances with cash journal accounts. To comply with state statutes, the clerk should report and pay to the state Treasurer's Office any unclaimed funds held for more than one year.

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**FINDING 04.10      FUNDS WERE NOT DEPOSITED WITHIN THREE DAYS OF COLLECTION**  
(Noncompliance Under Government Auditing Standards)

Funds were not deposited to the office bank account within three days of collection. Section 5-8-207, Tennessee Code Annotated, requires county officials to deposit all funds within three days of collection.

**RECOMMENDATION**

The office should deposit funds within three days of collection, as required by state statute.

## OTHER FINDINGS AND RECOMMENDATIONS

FINDING 04.11      **A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

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

County officials should consider adopting the County Financial Management System of 1981 or a private act which would provide for a central system of accounting, budgeting, and purchasing covering all county departments.

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FINDING 04.12      **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 the 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 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.