

## 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 response of the sheriff 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.

### OFFICE OF COUNTY MAYOR

FINDING 04.01      **THE GENERAL FUND AND THE SOLID WASTE/SANITATION FUND HAD FUND DEFICITS, AND THE NURSING HOME FUND HAD AN UNRESTRICTED NET ASSETS DEFICIT**  
(Internal Control – Material Weakness Under Government Auditing Standards)

The following funds had fund and/or unrestricted net asset deficits at June 30, 2004:

- A. The General Fund had a fund deficit of \$384,350 at June 30, 2004. This deficit primarily resulted from the transfer of \$1,178,000 from the General Fund to fund operations of the Dickson County Nursing Home (enterprise fund) and from the County Commission's approval of appropriations that exceeded available funding. This deficit should be liquidated when the pending sale of the nursing home is completed.
- B. The Solid Waste/Sanitation Fund had a fund deficit of \$216,972 at June 30, 2004. This fund deficit resulted from expenditures exceeding available funding that was caused, in part, by the county's overestimating the beginning fund balance on July 1, 2003, by \$341,431 in the budget document. This deficit will be liquidated by transfers from the General Fund.
- C. The Nursing Home Fund (enterprise fund) had an unrestricted net assets deficit of \$22,871 at June 30, 2004. This deficit resulted from expenses exceeding available funding. It should be noted that in June 2004 Dickson County entered into an agreement to sell the nursing home; however, in July 2004, the nursing home was decertified, and the sale has been delayed pending re-certification.

### RECOMMENDATION

Dickson County officials should take immediate steps to liquidate the fund and unrestricted net assets deficits and to provide sufficient operating fund and unrestricted net assets balances.

**FINDING 04.02      THE SOLID WASTE/SANITATION FUND AND THE NURSING HOME FUND HAD CASH OVERDRAFTS**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Solid Waste/Sanitation Fund and the Nursing Home Fund (enterprise fund) had cash overdrafts of \$114,879 and \$30,305, respectively, at June 30, 2004. These cash overdrafts resulted from issuing checks that exceeded funds on deposit with the county trustee, and they were liquidated subsequent to June 30.

**RECOMMENDATION**

The office should not issue checks that exceed available cash on deposit with the county trustee.

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**FINDING 04.03      REVENUE ANTICIPATION NOTES WERE NOT RETIRED IN COMPLIANCE WITH STATE STATUTE**  
(Material Noncompliance Under Government Auditing Standards)

The county did not retire revenue anticipation notes in compliance with state statute. During the year, the General Fund borrowed \$750,000 from the General Debt Service Fund to obtain temporary operating funds. Section 9-21-801, Tennessee Code Annotated, requires that revenue anticipation notes “shall mature not later than the close of the current fiscal year.” However, the loans had not been repaid as of the date of this report. The \$750,000 outstanding notes have been reflected in the financial statements of this report as a current notes receivable in the General Debt Service Fund and a current notes payable in the General Fund. It should be noted that between July and November 2004 the General Fund borrowed revenue anticipation notes totaling \$2,205,000 from the General Debt Service Fund.

**RECOMMENDATION**

All revenue anticipation notes should be retired prior to the end of the fiscal year, as required by state statute.

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**FINDING 04.04      THE OFFICE HAD DEFICIENCIES IN BUDGET OPERATIONS**  
(A. Material Noncompliance Under Government Auditing Standards; and B., C., and D. Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit of the County Mayor’s Office revealed the following deficiencies in budget operations:

- A. The County Commission did not budget the Special Purpose Fund (special revenue fund). Expenditures and transfers out for the year totaled \$216,860.

- B. The budget and subsequent amendments submitted to and approved by the County Commission for the General Fund resulted in appropriations exceeding estimated funding, causing a budgeted fund deficit of \$677,644.
- C. The Solid Waste/Sanitation Fund's actual fund balance at July 1, 2003, was \$37,048; however, the estimated fund balance reflected in the county's budget for July 1, 2003, was \$378,479. Therefore, the actual fund balance was \$341,431 less than the estimated fund balance presented to the County Commission.
- D. The General Debt Service Fund's actual fund balance at July 1, 2003, was \$4,441,803; however, the estimated fund balance reflected in the county's budget for July 1, 2003, was \$5,185,524. Therefore, the actual fund balance was \$743,721 less than the estimated fund balance presented to the County Commission.

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, as required by state statute. Appropriations that exceed estimated available funds should not be submitted to the County Commission, and the County Commission should not approve such appropriations. Estimated beginning fund balances 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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FINDING 04.05      **THE DICKSON COUNTY MUNICIPAL AIRPORT AUTHORITY WAS NOT AUDITED**  
 (Material Noncompliance Under Government Auditing Standards)

The county did not require an audit to be performed for the Dickson County Municipal Airport Authority, a component unit of Dickson County. As a result, we could not include the authority in the financial statements of this report. Generally accepted accounting principles require that audited financial statements of a component unit be included in the county's annual financial report.

RECOMMENDATION

The county should require an annual audit of the Dickson County Municipal Airport Authority, as required by generally accepted accounting principles.

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FINDING 04.06

**THE OFFICE HAD PURCHASING DEFICIENCIES**

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

Our audit revealed the following purchasing deficiencies:

- A. The office did not issue purchase orders for some applicable purchases. Purchase orders are necessary to control who has purchasing authority for the county and to document purchasing commitments.
  
- B. In October 1999, the sheriff entered into a five-year contract with Global Tel-Link Corporation for inmate telephone service. In April 2004, the county mayor renewed this agreement for another five years. As part of the contract, Global Tel-Link purchased \$45,000 of computer equipment on behalf of the Sheriff's Department. Our audit revealed these deficiencies involving the office's contract with Global Tel-Link:
  - 1. Competitive bids were not solicited for the inmate telephone service and the computer equipment. Sections 5-14-201 through 5-14-206, Tennessee Code Annotated (TCA), require that competitive bids be solicited for all purchases estimated to exceed \$5,000.
  - 2. The contract with Global Tel-Link was not approved by the County Commission, as required by Section 7-51-904, TCA.

RECOMMENDATION

To strengthen internal controls over the purchasing process and to document purchasing commitments, the office should issue purchase orders for all applicable purchases. Competitive bids should be solicited for all purchases estimated to exceed \$5,000, and the County Commission should approve all contracts, as required by state statutes.

MANAGEMENT'S RESPONSE – SHERIFF

I agree with this finding. I was under the impression that we did not have to rebid a contract if we were going to renew it. Also, I thought that since Global Tel-Link was going to purchase the equipment that it didn't need to go through our purchasing process. I now understand why it should be done as stated in the finding.

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**FINDING 04.07      GENERAL LEDGER PAYROLL LIABILITY ACCOUNTS WERE NOT RECONCILED MONTHLY**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

General ledger payroll liability accounts were not reconciled monthly with payroll reports and payments. The failure to reconcile payroll deduction accounts regularly allows errors to remain undiscovered and uncorrected.

**RECOMMENDATION**

General ledger payroll liability accounts should be reconciled monthly with payroll reports and payments, and errors should be corrected promptly.

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**FINDING 04.08      FINANCIAL ACTIVITY OF THE DICKSON COUNTY LIBRARY WAS NOT AUDITED, AND THE LIBRARY WAS NOT SUBJECT TO THE BUDGETARY CONTROL OF THE COUNTY COMMISSION**  
(Noncompliance Under Government Auditing Standards)

The Dickson County Library operates as a department within the county’s General Fund. A significant portion of the library’s expenditures for the year was paid through the county’s General Fund (\$460,716), which is included in the financial statements of this report. However, the Library Board maintained two checking accounts outside of the county’s control to deposit various revenues and pay certain operating expenses (\$87,689). The balances of these two checking accounts totaled \$9,665 on June 30, 2004. The funds channeled through these checking accounts did not flow through the county’s budgetary process, have not been audited, and are not included in the financial statements of this report. We do not consider the exclusion of these amounts to be material to the financial statements of this report.

Section 5-9-401, Tennessee Code Annotated (TCA), 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.” Also, Section 10-3-106, TCA, states that “all library accounts of every character shall be audited annually by or under the county legislative body and/or city governing body.”

**RECOMMENDATION**

The Dickson County Library should remit all collections to the county’s General Fund or contract for an audit of their checking accounts. All revenues and expenditures related to the library’s operation should be audited and subject to the budgetary control of the County Commission, as required by state statutes.

**FINDING 04.09      A CAPITAL OUTLAY NOTE WAS NOT SUBMITTED TO THE STATE DIRECTOR OF LOCAL FINANCE FOR APPROVAL, AND REPORTS ON DEBT OBLIGATIONS WERE NOT FILED WITH THE STATE DIRECTOR OF LOCAL FINANCE**  
(Noncompliance Under Government Auditing Standards)

The following deficiencies were noted regarding the issuance of debt:

- A. On June 30, 2004, Dickson County officials signed a \$500,000 capital outlay loan agreement with the Tennessee Department of Economic and Community Development to partially finance an energy efficient lighting upgrade for the School Department without the approval of the state director of Local Finance. Proceeds of this agreement were received in July 2004. Section 9-21-101, et seq., Tennessee Code Annotated (TCA), requires county governments to receive approval of the state director of Local Finance before the issuance of capital outlay notes.
  
- B. The County Mayor's Office did not file a Report on Debt Obligations with the state director of Local Finance for the above-noted \$500,000 loan. Also, a Report on Debt Obligations was not filed on a capitalized lease totaling \$169,237 received in June 2004. Section 9-21-151, TCA, requires that within 45 days following the issuance of debt, a county must provide to the state director of Local Finance certain information, such as a description of the purchase for which the debt was issued, a description of the debt obligation, and an itemized description of the cost of issuance.

**RECOMMENDATION**

County officials should receive approval of the state director of Local Finance before the issuance of capital outlay notes, as required by state statute. Also, the County Mayor's Office should file a Report on Debt Obligations with the state director of Local Finance for all debt issues, as required by state statute.

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**OFFICE OF ROAD ENGINEER**

**FINDING 04.10      THE OFFICE HAD DEFICIENCIES IN ITS ACCOUNTING AND PAYROLL RECORDS**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit revealed the following deficiencies in the office's accounting and payroll records:

- A. The office did not reconcile monthly the cash balances of its funds with the trustee's cash balances, as required by Section 9-2-138, Tennessee Code Annotated. Consequently, posting errors made in these funds were not discovered and corrected in a timely manner. We have informed

management of any posting errors that we discovered, and they have corrected them in the financial statements of this report.

- B. General ledger payroll liability accounts were not reconciled with payroll reports and payments during the year. Numerous posting errors were made in the payroll liability accounts. Routine reconciliation procedures would have identified problems quickly and allowed for correction. We presented adjustments to management and management posted these adjustments in order to properly reflect these liability accounts in the financial statements of this report.

#### RECOMMENDATION

The office should reconcile the cash balances of its funds with the trustee's cash balances each month, as required by state statute, and posting errors should be corrected promptly. Also, general ledger payroll liability accounts should be reconciled with payroll records and payments to ensure proper withholding and matching funds.

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#### FINDING 04.11      **THE OFFICE HAD BUDGETING DEFICIENCIES** (Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit revealed the following budgeting deficiencies:

- A. The Highway/Public Works Fund's actual fund balance at July 1, 2003, was \$1,626,356; however, the estimated fund balance reflected in the county's budget for July 1, 2003, was only \$879,959. Therefore, the actual fund balance was \$746,397 more than the estimated fund balance presented to the County Commission.
- B. The Bridge Fund's actual fund balance at July 1, 2003, was \$522,319; however, the estimated fund balance reflected in the county's budget for July 1, 2003, was only \$397,378. Therefore, the actual fund balance was \$124,941 more than the estimated fund balance presented to the County Commission.
- C. Some budget amendments to the Highway/Public Works Fund were not posted to the accounting records. These budget amendments, which were approved by the County Commission, have been recognized in the financial statements of this report.

#### RECOMMENDATION

Estimated beginning fund balances should be made on a more realistic basis to provide county officials with accurate information on which to base funding decisions. Budget amendments should be posted to the accounting records.

**FINDING 04.12      A COUNTY ROAD LIST WAS NOT SUBMITTED TO THE COUNTY COMMISSION FOR APPROVAL**  
(Noncompliance Under Government Auditing Standards)

The road engineer did not submit a list of county roads to the County Commission for approval, as required by Section 54-10-103, Tennessee Code Annotated. This statute requires that a list of county roads be submitted to the County Commission for approval at the commission's January session each year and that the list be maintained in the County Clerk's Office. Highway Department officials need a current, approved list of county roads to determine roads on which the department is authorized to work.

**RECOMMENDATION**

The road engineer should submit a list of county roads to the County Commission for approval at the commission's January session each year, as required by state statute.

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**OFFICE OF DIRECTOR OF SCHOOLS**

**FINDING 04.13      EXPENDITURES EXCEEDED APPROPRIATIONS**  
(Noncompliance Under Government Auditing Standards)

The department did not follow sound budgeting practices. Our audit revealed the following deficiencies:

- A. Expenditures exceeded appropriations approved by the County Commission in the Central Cafeteria Fund (\$37,685).
- B. General Purpose School Fund expenditures exceeded appropriations approved by the County Commission in the following major categories (legal level of control):

<u>Major Category</u>	<u>Amount</u>
Support Services:	
Health Services	\$ 416
Regular Instruction Program	20,206
Board of Education	20,826
Office of the Principal	16,257
Operation of Plant	95,436
Maintenance of Plant	49,543

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.

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## OFFICE OF CIRCUIT COURT CLERK

FINDING 04.14      **THE CIRCUIT COURT CLERK DID NOT REQUIRE A DEPOSITORY TO ADEQUATELY COLLATERALIZE FUNDS**  
(Noncompliance Under Government Auditing Standards)

The circuit court clerk did not require a depository holding county funds to pledge adequate securities to protect funds that exceeded Federal Deposit Insurance Corporation (FDIC) coverage. At June 30, 2004, deposits at this depository exceeded FDIC coverage by \$92,597. 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 securities equal to 105 percent of such county funds.

## RECOMMENDATION

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

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## OTHER FINDINGS AND RECOMMENDATIONS

FINDING 04.15      **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE LANDFILL DEPARTMENT, AMBULANCE SERVICE, AND OFFICES OF TRUSTEE AND REGISTER**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among the officials and employees of the Landfill Department, Ambulance Service, and the Offices of Trustee and Register. Officials and employees responsible for maintaining the accounting records were also involved in receipting, depositing, and/or disbursing funds.

## RECOMMENDATION

To strengthen internal controls over operations, these departments and offices should segregate duties adequately among employees.

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FINDING 04.16      **A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Dickson 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

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