

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 responses of the county mayor and the ambulance service director are included in this report. Other officials offered oral responses to other findings and recommendations; however, these oral responses have not been included in this report.

OFFICE OF COUNTY MAYOR

FINDING 04.01 **THE SOLID WASTE/SANITATION FUND HAD A FUND DEFICIT**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Solid Waste/Sanitation Fund (a special revenue fund) had a fund deficit of \$141,205 at June 30, 2004. This deficit resulted from a building construction contract (\$214,489) being reserved as an encumbrance in the financial statements. This deficit was liquidated when grant proceeds were received subsequent to June 30, 2004.

Generally accepted accounting principles require unperformed contracts to be reflected as a reservation (encumbrance) of fund balance. If unperformed portions of the building construction had not been reserved as an encumbrance of the fund balance in the financial statements, the Solid Waste/Sanitation Fund would have reflected a fund balance of \$73,284. The following statement presents the condition of the Solid Waste/Sanitation Fund at June 30, 2004, if the unperformed portion of the contract had not been reflected as a reservation of the fund balance:

Solid Waste/Sanitation Fund
Fund Equity – Restated
June 30, 2004

Fund Balance

Unreserved:

Undesignated

\$ 73,284

Fund Balance, June 30, 2004, Restated

\$ 73,284

MANAGEMENT'S RESPONSE – COUNTY MAYOR (DIRECT QUOTE)

Grainger County applied for a \$200,000 Material Recovery Facility Grant November 24, 2003, and a few months later in 1st quarter of 2004 was notified the grant was awarded. Bids were requested and Rule Construction was the low bidder. In a special called meeting of County Commission 6-24-04 the Commission finally authorized award of the bid to Rule Construction. Meanwhile steel prices begin to escalate and Rule Construction was able to get two extensions on holding the original bid amount with the last extension expiring 6-30-04. The contract was signed on 6-29-04 in order to take advantage of the original bid price thus saving the county approximately \$8,000 in increased steel prices. This was a reimbursement grant and the deficit was liquidated as noted by the auditor when the

\$200,000 was received from the state. No funds were spent in the 2003-2004 FY, only the signing of the contract.

OFFICES OF COUNTY MAYOR AND AMBULANCE SERVICE DIRECTOR

FINDING 04.02 **INTERNAL CONTROL WEAKNESSES EXISTED IN THE ADMINISTRATION OF AMBULANCE SERVICE RECEIVABLES**

(Internal Control – Material Weakness Under Government Auditing Standards)

Our audit revealed internal control weaknesses in accounting for Ambulance Service receivables. The computer software that the Ambulance Service used was only able to provide aged accounts receivable reports classified by expected source of payment (i.e., Medicare, Medicaid, third-party insurance, and individuals). Also, the payment-pending reports only provided detail for the Medicare, Medicaid, and third-party insurance receivables by trip ticket. Management could not provide us with a report detailing the receivables from individuals. It should also be noted that management had made no attempt to reconcile the receivables reflected on the financial statements with actual charges and collections.

RECOMMENDATION

A detailed list of amounts due from individuals should be periodically prepared and reconciled with account totals. Also, accounts receivable balances should be reconciled with actual charges and collections.

MANAGEMENT'S RESPONSE – AMBULANCE SERVICE DIRECTOR (DIRECT QUOTE)

The reports asked for by the auditors cannot be generated by the present computer software programs used by this office. With this finding, I have discussed with the county mayor the need for a new software program that will provide the detail information now being required by the county auditors. The county mayor will recommend to the Budget Committee and County Commission to appropriate necessary funds to purchase the new software and computer(s) (if required) once approximate costs are determined. It is likely that the cost will exceed \$5,000 and a formal bid will have to be issued.

OFFICE OF SHERIFF

FINDING 04.03 **SEVERAL PURCHASE ORDERS WERE ISSUED AFTER THE PURCHASES WERE MADE**
(Internal Control – Reportable Condition Under Government Auditing Standards)

During the year, a purchase order system was implemented for funds administered by the county mayor. However, in several instances, purchase orders for Sheriff's Department purchases were issued after the purchases were made. This defeats the purpose of the purchase order, making the purchase order an approval for payment rather than an approval for the purchase.

RECOMMENDATION

Purchase orders should be issued before purchases are made.

OFFICE OF DIRECTOR OF SCHOOLS

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

We noted numerous purchase orders that were issued after the purchases were made. The practice of issuing a purchase order after the purchase defeats the purpose of the purchase order and makes the purchase order an approval for payment rather than an approval for the purchase.

RECOMMENDATION

Purchase orders should be issued before purchases are made.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 04.05 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF TRUSTEE, COUNTY CLERK, CIRCUIT AND GENERAL SESSIONS COURTS CLERK, CLERK AND MASTER, REGISTER, SHERIFF, AND AMBULANCE SERVICE**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately in the Offices of Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, Sheriff, and Ambulance Service. Officials and employees responsible for maintaining the accounting records of 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.

MANAGEMENT'S RESPONSE – AMBULANCE DIRECTOR (DIRECT QUOTE)

The duties of the bookkeeper cannot be separated due to lack of employees. All run sheets, billing, filing accounts receivable, receipting of revenue, and running reports must be done on the current program. There is not enough work in this division of our department for two people at this time.

FINDING 04.06 **A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Grainger 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

Grainger 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.

MANAGEMENT'S RESPONSE – COUNTY MAYOR (DIRECT QUOTE)

In FY 2002-2003 Grainger County adopted [provisions similar to the] 1957 General Law for budgeting through a private act. We continue to operate under the 1983 General Law for Purchasing. It is unlikely that the Grainger County Commission will authorize the centralization of budgeting, accounting, and purchasing as recommended. Therefore the

Highway Department and School System will continue to operate under their current systems.

FINDING 04.07 **A PORTION OF THE CITIES' SALES TAX COLLECTIONS WAS RETAINED WITHOUT CONTINUING FORMAL AGREEMENTS**
(Noncompliance Under Government Auditing Standards)

In a prior year, an additional half-cent levy was added to the local sales tax, and the county entered into formal agreements with the various cities in the county to use the cities' portions of this additional half-cent sales tax levy for debt requirements related to air conditioning systems at the various schools in the county. The agreements with the various cities stated that the county would retain the revenues from the additional half-cent tax levy until the air conditioning debt was paid in full. The air conditioning debt was paid in full subsequent to June 30, 2004, and the county has continued to retain the additional half-cent sales tax revenues.

RECOMMENDATION

Grainger County should forward revenues from the cities' portions of these sales tax revenues to the cities unless the county and cities enter into formal agreements to do otherwise.

MANAGEMENT'S RESPONSE – COUNTY MAYOR (DIRECT QUOTE)

Final payment of the Air Condition School debt was made in August, 2004. The resolution authorizing the one-half cent sales tax and formal agreements signed by the three cities permits an extension of the agreement through 2009 with the cities and county agreement to do so. Since Grainger County is in the process of securing funding for the new high school we will be asking for an extension to be granted by all parties and excess funds collected for remainder of 2004-2005 FY be applied to the new high school project. Hopefully this formal agreement will be in place prior to close of 2004-2005 FY.