

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

Findings and recommendations as a result of our examination of Hamblen County 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, director of schools, trustee, circuit and general sessions courts clerk, and clerk and master are included in this report. Other officials offered oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

OFFICES OF COUNTY MAYOR, DIRECTOR OF FINANCE, AND ROAD SUPERINTENDENT

FINDING 04.01 **THE FINANCE OFFICE HAD DEFICIENCIES IN PURCHASING PROCEDURES** (Internal Control – Material Weakness Under Government Auditing Standards)

The Finance Office was established by an agreement between the county mayor and the County Commission (Hamblen County Government Financial Management System Policies and Procedures). We noted the following deficiencies concerning the Finance Office's purchasing processes for the Offices of County Mayor and Road Superintendent:

- A. The director of finance did not implement a purchasing system in accordance with established policies and procedures. The failure to implement a purchasing system subjected the county to the possibility of unauthorized purchases and weakened controls over the budgeting and accounting process. According to the Hamblen County Government Financial Management System, Article XVIII (a), "The director or a deputy appointed by the director shall serve as the county purchasing agent. The director shall develop policies and procedures for implementing an economical and efficient purchasing system." This section further outlines the director's responsibilities concerning purchasing, including the responsibility to issue purchase orders and to verify budget appropriations before authorizing a purchase.
- B. An employee of the Finance Office had been appointed to serve as the county purchasing agent. However, the agent did not maintain control over the purchase orders. Blank purchase order forms were distributed to the various department heads for the department heads to fill out.
- C. Purchase orders were not returned to the Finance Department until the departments received invoices for payment.

To have proper controls over purchasing and budgeting, the department must have a central approving authority for the purchase orders, and purchase requests must be checked against available appropriations on the accounting records before a purchase order is issued. It is also necessary to record purchase orders on the accounting system when they are issued to encumber the related amount of appropriations.

In May 2004, all departments returned blank purchase orders to the Finance Office. From May 2004 through June 30, 2004, no new purchases were allowed except for emergency purchases. The Finance Office implemented a new purchasing system effective July 1, 2004.

RECOMMENDATION

Officials should ensure that the new purchasing procedures address the weaknesses discussed in this finding. Before obligating the county to any purchase, the director of finance or appointee should verify budget appropriations. Furthermore, purchase orders should be approved by a central authority before the purchase is made and should be recorded on the accounting records when issued to encumber the related amount of appropriations.

MANAGEMENT'S RESPONSE – COUNTY MAYOR (DIRECT QUOTE)

The county mayor reorganized by developing a purchasing department and appointing a purchasing director to serve as the county purchasing agent and implement centralized purchasing in accordance with established policies and procedures. All purchase orders are issued from the Purchasing Department. The Finance Department checks the purchase requests against available appropriations before purchase orders are issued. The purchase orders are recorded in the accounting system in order to encumber the related amount of appropriations.

FINDING 04.02 **THE FINANCE OFFICE HAD DEFICIENCIES RELATED TO DEBT PAYMENTS** (Internal Control – Reportable Condition Under Government Auditing Standards)

The following deficiencies were noted in payments made on debt obligations:

- A. The Finance Office failed to make payments on debt obligations in a timely manner, resulting in late charges. The county paid late charges on capitalized leases in the General Fund (\$363), Drug Control Fund (\$106), and General Debt Service Fund (\$741).
- B. The Finance Office made payments in error on debt obligations. The county wired a payment of \$76,615 for interest on bonds twice in one month. The overpayment was subsequently reimbursed to the county in that same month.
- C. Additionally, the county erroneously made interest payments of \$45,326 from the Special Debt Service Fund in December 2003. This amount represents interest payments on a related loan that is actually an obligation of the City of Morristown, not Hamblen County. The city subsequently reimbursed the county for all but \$408 in June 2004. This amount (\$408) is reflected as due from other governments at June 30, 2004.

RECOMMENDATION

The Finance Office should implement controls to ensure payments of debt obligations are paid in a timely manner, the payments are the obligation of the county, and the payments have not been made previously.

MANAGEMENT'S RESPONSE – COUNTY MAYOR (DIRECT QUOTE)

The current finance director has prepared a schedule of debt payments in order to ensure timely and accurate payment on debt obligations.

FINDING 04.03 **THE OFFICE DID NOT REQUIRE TIME RECORDS FOR CERTAIN EMPLOYEES** (Internal Control – Reportable Condition Under Government Auditing Standards)

Time records were not required for certain employees. The county considers executive, professional, and certain administrative staff members to be exempt employees. Also, the county does not track vacation time for these employees. Because there are no records of time worked, all vacation time earned during the year is rolled into sick leave, whether it is used or not.

RECOMMENDATION

The county should require all employees to provide a record of time worked and should track vacation time, both earned and used, for all employees.

MANAGEMENT'S RESPONSE – COUNTY MAYOR (DIRECT QUOTE)

Approximately three years ago, the county revised and adopted a new personnel policy manual. Our goal was to engage all county departments in the process so that everyone would adhere to the new manual. The county attorney, the county's labor attorney, various elected officials/department heads and County Commissioners prepared the draft manual, which was subsequently approved by the County Commission. Two classes of employees were adopted: exempt (salaried) and non-exempt (hourly). The decision to not require time sheets of exempt employees was a recommendation from the process. Page 15 of the "Personnel Policies and Procedures" manual under section "7.0 Time Records" states "...nonexempt employees are required to fill in this form daily and at the end of the work week, sign and forward them to your supervisor for review and processing." Also, the decision to not deduct vacation time taken by exempt employees was a recommendation from the process. Exempt employees are restricted to the number of vacation days earned according to years of service. At the end of the year, unused (un-assessed) vacation leave days for all employees are rolled into sick leave balances per page 22, section "1.0 Vacation Leave" guidelines of the "Personnel Policies and Procedures" manual. Again, these recommendations were taken at the time to encourage all offices to sign on to a central manual.

AUDITOR'S REBUTTAL

In order to maintain a sound internal control system, all employees should be required to submit records of time worked. Without such records, there is no documentation to support amounts paid to those employees or the leave they take. Also, the decision to not deduct vacation time taken by exempt employees does not appear to be authorized in the formal policy. The policy appears to award the same vacation benefits to both exempt and nonexempt employees. By not deducting used vacation benefits from exempt employees, those employees are obtaining a higher benefit rate than the nonexempt employees.

FINDING 04.04 **THE FINANCE OFFICE HAD DEFICIENCIES IN CONTROLS OVER TRAVEL** (Internal Control – Reportable Condition Under Government Auditing Standards)

The following deficiencies were noted in controls over travel:

- A. Receipts for meals paid with credit card(s) were not itemized. The failure to obtain itemized receipts subjects the county to unauthorized expenditures.
- B. Meals were reimbursed for travel that did not include an overnight stay. In accordance with the county's policy, employees are not to be reimbursed for meals when an overnight stay is not involved.
- C. Approval of travel was not documented in some instances. Also, the county does not require some departments to submit travel claims on a standard form. A standard form for travel claims would help organize the claim process and would add consistency to documentation provided.

RECOMMENDATION

The Finance Office should reimburse for travel in accordance with the travel policy that was adopted by the County Commission. The county should consider requiring all departments to use a standard form that details travel costs, gives explanation of travel, and provides for department head's and employee's signatures to support the amount reimbursed.

MANAGEMENT'S RESPONSE – COUNTY MAYOR (DIRECT QUOTE)

Subsequent to year end, the travel policy was amended and approved by County Commission in order to allow for meal reimbursement for travel that does not include overnight stay. In addition, the Finance Department is now requiring all travel claims to be submitted on a standard form with elected official/department head approval, as well as itemized receipt for meals in order to prevent subjecting the county to unauthorized expenditures.

FINDING 04.05

THE OFFICE HAD DEFICIENCIES IN BUDGETING PROCEDURES

(Material Noncompliance Under Government Auditing Standards)

The following budgeting deficiencies were noted during our audit:

- A. The county did not pass a budget for the Other Special Revenue Fund. Also, the budget for the Drug Control Fund was not adopted until June 2004, the last month of the fiscal year. Section 5-9-401, Tennessee Code Annotated (TCA), requires all funds from whatever source derived that are to be used in operation and respective programs to be appropriated.
- B. The county's budgeting policies provide for the finance director to post certain transfers of appropriations between major categories without County Commission approval. This policy appears to conflict with Section 5-9-407, TCA, which requires that all transfers of appropriations between major categories be approved by the County Commission. The county has no authority to adopt policies that circumvent state statutes.
- C. Expenditures exceeded appropriations in various major categories (the legal level of control) for the General Fund, Highway/Public Works Fund, Special Debt Service Fund, General Debt Service Fund, and Hospital Debt Service Fund.
- D. The Finance Office recorded transfers from the General Fund and the General Debt Service Fund to the General Capital Projects Fund in the amounts of \$89,986 and \$274,730, respectively. The county mayor informed us these transfers were made to correct debt payments paid from the wrong funds for the past several years. However, these transfers were made without the approval of the County Commission.
- E. The county did not accurately estimate beginning fund balance of the General Fund, Solid Waste/Sanitation Fund, General Debt Service Fund, and Hospital Debt Service Fund. The county estimated the beginning fund balance for the General Fund to be \$697,526, when the actual fund balance was \$208,870. The county estimated the beginning fund balance for the Solid Waste/Sanitation Fund to be \$56,265, when the fund actually had a deficit balance of (\$205,578). The county estimated the beginning fund balance for the General Debt Service Fund to be \$5,028,497, when the actual fund balance was \$5,535,944. Finally, the county estimated the beginning fund balance for the Hospital Debt Service Fund to be \$0, when the actual fund balance was \$126,244.

RECOMMENDATION

Formal budgets should be adopted for all applicable funds of the county. Funds should be appropriated prior to the funds being expended. The county's budgeting policies should not conflict with state statutes. Expenditures should be held within appropriations approved by the County Commission. Transfers from one fund to another should be approved by the County Commission. County officials should better estimate the beginning fund balance when adopting the budget.

MANAGEMENT'S RESPONSE – COUNTY MAYOR (DIRECT QUOTE)

The Finance Department has ensured that all special funds are currently budgeted/appropriated, approved by County Commission, and included in the budget resolution.

The Finance Department does not allow transfers of appropriations between major categories without approval by County Commission, even though it is stated in the county's budget policies that this is allowed. This policy is in violation with TCA Code 5-9-407, and the current finance director is complying with the aforementioned state statute, which supersedes local policy.

After discussion with the county trustee and finance director, the county mayor instructed the Finance Department to record transfers from the General Fund and General Debt Service Fund to the General Capital Projects Fund in order to restore those accounts due to debt payments paid from the wrong funds. The county mayor's instructions to the finance director were issued with the goal of restoring the various accounts to the County Commission's original intentions. The fact that payments had been made from the wrong accounts represented an error that ran contrary to the commission's specific capital appropriations over the years.

The county is also taking steps to ensure expenditures are held within appropriations approved by County Commission as well as working to more accurately estimate beginning fund balance when adopting the budget. Centralized purchasing is helping to control spending. All procurement of goods and services is being pre-approved through the purchasing director and finance director, thus ensuring that funds are available, and this system has allowed us to control our spending.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 04.06 **DUTIES WERE NOT ADEQUATELY SEGREGATED OVER
CENTRALIZED FOOD SERVICE OPERATIONS**
(Internal Control – Reportable Condition Under Government Auditing
Standards)

Duties were not adequately segregated among employees in the centralized food service operations. Employees responsible for maintaining the food service accounting records were also involved in receipting, depositing, and/or disbursing funds.

RECOMMENDATION

The responsibility of maintaining the accounting records, receipting, depositing and disbursing funds should be segregated to the extent possible among the employees of this office.

MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS (DIRECT QUOTE)

The Food Service Department will have receipts written by the food service secretary or supervisor so that the bookkeeper will not be receipting money and disbursing funds.

FINDING 04.07 **LATE CHARGES WERE INCURRED DUE TO LATE PAYMENT OF DEBT REQUIREMENTS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Office of the Director of Schools paid late charges totaling \$750 on a capital outlay note from the General Purpose School Fund as a result of the invoices being mailed to the County Mayor's Office, rather than the School Department. However, controls were not in place to ensure all debt payments were made on time.

RECOMMENDATION

The School Department should implement controls to ensure payments of debt obligations are paid in a timely manner.

MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS (DIRECT QUOTE)

The Finance Department has notified the appropriate banks (financial institutions) regarding notification being sent to proper school system officials. The system will maintain an amortization schedule on all debts.

OFFICE OF TRUSTEE

FINDING 04.08 **INTERNAL CONTROL DEFICIENCIES WERE NOTED RELATING TO CASH COLLECTIONS AND DEPOSITS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The following weaknesses were noted in controls relating to cash collections and deposits:

- A. The trustee used only one cash drawer for all employees at the courthouse, although as many as three stations took collections. Using a separate cash drawer for each employee and printing the control register for each station would improve controls over the daily check-out process and would also provide for errors to be identified more quickly.

- B. The trustee collected city property taxes and issued separate prenumbered receipts for these collections. However, the trustee did not deposit all city property tax collections into the bank account for later distribution to the city. Instead, the trustee deposited only the cash portion of the collections into the bank account and took all checks collected to the city.

RECOMMENDATION

Each employee should work from his/her own cash drawer. All city property tax collections should be deposited for subsequent distribution to the city.

MANAGEMENT'S RESPONSE – TRUSTEE (DIRECT QUOTE)

The trustee acknowledges the facts presented in this finding:

- A. The trustee uses one cash drawer for all employees, because it is the most practical use of time and resources for our size operation for the vast majority of the year. We haven't encountered any problems with missing funds because of this practice. The trustee will review the individual cash drawer issue to determine whether a new procedure should be implemented during peak collection periods.
- B. The trustee chooses to deliver tax payments by check directly to the City of Morristown to avoid receiving a check with insufficient funds.

OFFICE OF COUNTY CLERK

FINDING 04.09 THE REMAINING CASH SHORTAGE BALANCE FROM THE PRIOR AUDITOR'S SPECIAL REPORT HAD NOT BEEN LIQUIDATED
(Noncompliance Under Government Auditing Standards)

In a special review performed by the previous auditor of Hamblen County, a cash shortage of \$41,379.85 was reported in the Office of County Clerk. A claim was filed with the county's insurance carrier, and the county received \$26,799.43; however, the remaining \$14,580.42 had not been collected as of June 30, 2004. Therefore, the remaining balance of \$14,580.42 is reflected as a cash shortage in the financial statements of this report.

RECOMMENDATION

Hamblen County officials should continue to pursue the liquidation of the remaining cash shortage of \$14,580.42.

OFFICE OF SHERIFF

FINDING 04.10 THE CASH SHORTAGE FROM THE 2002-03 YEAR AUDIT HAD NOT BEEN LIQUIDATED
(Noncompliance Under Government Auditing Standards)

Our audit of Hamblen County for the 2002-03 year reported a cash shortage of \$14,326.40 in the Office of Sheriff. This cash shortage remains unpaid as of June 30, 2004. Therefore, the \$14,326.40 continues to be reflected as a cash shortage in the financial statements of this report.

RECOMMENDATION

Hamblen County officials should continue to pursue the liquidation of the cash shortage of \$14,326.40.

FINDING 04.11 **ACCOUNTING RECORDS FOR COMMISSARY OPERATIONS WERE NOT PROVIDED** (Internal Control – Material Weakness Under Government Auditing Standards)

Commissary operations in the Sheriff's Office were discontinued during February 2004. The computer used to account for commissary operations became unusable during the year, and the accounting records stored on this machine had not been printed or backed up. The sheriff is taking steps to recover these records; however, as of the date of this report, these records were not available for our examination.

Because of the lack of accounting records, the scope of our audit was not sufficient to enable us to determine the propriety of commissary operations of the Sheriff's Office for the year.

RECOMMENDATION

Steps should be taken to ensure that all accounting records are adequately protected and that back-up records are maintained for computerized systems.

FINDING 04.12 **COLLECTIONS WERE NOT DEPOSITED IN COMPLIANCE WITH THE THREE-DAY DEPOSIT LAW** (Noncompliance Under Government Auditing Standards)

On several occasions, collections of the Office of Sheriff were not deposited within three business days, as required by Section 5-8-207, Tennessee Code Annotated. It is important to deposit all collections into the office bank account within three business days to ensure adequate security over these funds.

RECOMMENDATION

All collections of the Office of Sheriff should be deposited into the office bank account within three business days.

FINDING 04.13 THE SHERIFF PAID SALARIES FROM THE GENERAL FUND WITHOUT PROPER SUPPORTING DOCUMENTATION
(Noncompliance Under Government Auditing Standards)

Salaries of employees of the Sheriff's Office were paid from the county's General Fund. These salaries were not supported by either a court decree or a letter of agreement, as provided for by Section 8-20-101, Tennessee Code Annotated (TCA).

RECOMMENDATION

Salaries paid for office employees should be supported by a court decree or a letter of agreement, as provided for in Section 8-20-101, TCA.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 04.14 DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF TRUSTEE, CIRCUIT AND GENERAL SESSIONS COURTS CLERK, CLERK AND MASTER, AND SHERIFF
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately in the Offices of Trustee, Circuit and General Sessions Courts Clerk, Clerk and Master, and Sheriff. 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 – TRUSTEE (DIRECT QUOTE)

The Trustee acknowledges the facts in this finding; however, the size of the office staff prohibits complete segregation of duties. We separate the functions of the office as much as possible under our staffing situation.

MANAGEMENT'S RESPONSE – CIRCUIT AND GENERAL SESSIONS COURTS CLERK (DIRECT QUOTE)

In order to correct the problem of not having the duties adequately segregated among employees, I have changed my process of receipting checks and cash to allow deputy clerks other than the bookkeepers to write receipts. My clerks that maintain the accounting records will no longer write receipts.

MANAGEMENT'S RESPONSE – CLERK AND MASTER (DIRECT QUOTE)

I do not have enough employees to completely segregate duties in my office, nor do I have the funds to hire enough employees to do so.

FINDING 04.15 **A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Hamblen 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

Hamblen 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.