

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. Management did not offer written responses to the findings and recommendations. Officials did offer oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

HAYWOOD COUNTY AND HAYWOOD 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)

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

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

RECOMMENDATION

Haywood County and the Haywood 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 county’s and the School Department’s financial statements in accordance with generally accepted accounting principles.

OFFICE OF COUNTY MAYOR

FINDING 04.02 **THE SOLID WASTE DISPOSAL FUND HAD A DEFICIT IN NET ASSETS**

(Material Noncompliance Under Government Auditing Standards)

The Solid Waste Disposal Fund had a deficit of \$979,599 in net assets at June 30, 2004. This deficit primarily resulted from the recognition of a liability (\$1,342,713) in the financial statements of the Solid Waste Disposal Fund for costs associated with closing the county's landfill and monitoring the landfill for 30 years after its closure. Generally accepted accounting principles and state statutes require that such costs be reflected in the financial statements.

RECOMMENDATION

Haywood County officials should develop and implement a plan that would fund the deficit in net assets of \$979,599.

FINDING 04.03 **THE OFFICE DID NOT ALWAYS ISSUE PURCHASE ORDERS PROPERLY**

(Internal Control – Reportable Condition Under Government Auditing Standards)

The office did not issue purchase orders for some applicable purchases and issued some purchase orders with no dollar amount indicated. Purchase orders are necessary to control who has purchasing authority for the office and to document purchasing commitments.

RECOMMENDATION

To strengthen internal controls over purchasing procedures, the office should issue purchase orders for all applicable purchases, and dollar amounts should be included on the purchase orders.

FINDING 04.04 **EXPENDITURES AND ENCUMBRANCES EXCEEDED APPROPRIATIONS AT THE MAJOR CATEGORY LEVEL OF CONTROL IN THE GENERAL FUND**

(Noncompliance Under Government Auditing Standards)

Expenditures and encumbrances exceeded appropriations approved by the County Commission in the Jail (\$17,400) and Other Social, Cultural, and Recreational (\$52,254) major appropriation categories of the General Fund. 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 and encumbrances should be held within appropriations approved by the County Commission.

OFFICE OF CHIEF ADMINISTRATIVE HIGHWAY OFFICER

FINDING 04.05 **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 road materials, such as bridge lumber 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.

OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK

FINDING 04.06 **EXECUTION DOCKET TRIAL BALANCES DID NOT RECONCILE WITH GENERAL LEDGER ACCOUNTS FOR CIRCUIT AND GENERAL SESSIONS COURTS**
(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 18-2-103, Tennessee Code Annotated (TCA). However, these trial balances did not reconcile with the general ledger accounts by \$3,620 in Circuit Court and by \$1,244 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 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.

OTHER FINDINGS AND RECOMMENDATIONS

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

Haywood 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

Haywood 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.

FINDING 04.08 **HAYWOOD COUNTY DID NOT REPORT TO THE INTERNAL REVENUE SERVICE FRINGE BENEFITS PROVIDED TO THE COUNTY FARM SUPERVISOR**
(Noncompliance Under Government Auditing Standards)

Haywood County did not report to the Internal Revenue Service (IRS) fringe benefits provided to the county farm supervisor. These fringe benefits were a utilities allowance (\$6,203), telephone allowance (\$710), and the value of housing provided to the county farm supervisor. IRS regulations require an employer to report fringe benefits provided to an employee as income on the employee's Form W-2.

RECOMMENDATION

Fringe benefits provided to the farm supervisor should be reported on the employee's Form W-2 in compliance with IRS regulations.

FINDING 04.09 COUNTY OFFICIALS HAD NOT HELD A DELINQUENT PROPERTY TAX SALE IN RECENT YEARS
(Noncompliance Under Government Auditing Standards)

County officials had not held a delinquent property tax sale in recent years. Section 67-5-1806, Tennessee Code Annotated, provides that all delinquent property taxes become discharged and uncollectible after ten years from the date when the delinquency originated. Table 1 of the Statistical Section of this report reflects uncollected delinquent property taxes of \$375,541 filed in Chancery Court.

RECOMMENDATION

County officials should hold a delinquent property tax sale in an effort to collect delinquent taxes, as required by state statute.

FINDING 04.10 DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF CHIEF ADMINISTRATIVE HIGHWAY OFFICER, DIRECTOR OF SCHOOLS, AND REGISTER
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among officials and employees in the Offices of Chief Administrative Highway Officer, Director of Schools, and Register. Officials and employees responsible for maintaining the accounting records in these offices were also involved in reconciling cash balances with the county trustee; preparing vendor and payroll warrants; posting accounting and payroll records; preparing payroll reports; mailing vendor warrants; and receipting, depositing, reconciling bank statements, and reconciling receipts with cash. 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.