

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. 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 **A FORMAL PURCHASE ORDER SYSTEM HAD NOT BEEN ESTABLISHED**

(Internal Control – Reportable Condition Under Government Auditing Standards)

The County Mayor’s Office had not established a formal purchase order system. Purchase orders are necessary to control who has purchasing authority for the county and to document purchasing commitments.

RECOMMENDATION

The office should establish a formal purchase order system to improve internal controls over the purchasing process and to document purchasing commitments.

FINDING 04.02 **THE OFFICE HAD DEFICIENCIES IN ITS ACCOUNTING RECORDS**

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

Our audit revealed the following accounting deficiencies in the County Mayor’s Office:

- A. Office personnel did not adequately reconcile the cash balance of the General Fund with the trustee’s cash balance. Instead, journal entries were made to the General Fund’s cash balance for the difference needed to agree with the trustee’s cash balance without identifying errors and omissions in revenues and expenditures. We have identified and corrected these errors and omissions, and management has properly presented revenues and expenditures in the financial statements of this report. Section 9-2-138, Tennessee Code Annotated, requires all administrative officers to reconcile fund accounts with the trustee’s balances on a monthly basis.
- B. Several expenditures were misclassified on the accounting records of the General Fund. Because of the number of misclassified expenditures, we did not attempt to properly classify these expenditures. Misclassifying expenditures diminishes the usefulness of the financial records as a management tool and results in a loss of budgetary control. In most instances, we noted that the misclassifications only affected items within major category appropriations. Therefore, we do not believe that the

financial statements of the General Fund are materially misstated in this report.

RECOMMENDATION

The cash balance of the General Fund should be reconciled with the trustee's cash balance monthly, as required by state statute, and posting errors should be corrected promptly. Also, to ensure effective budgetary control and accountability of funds, the office should classify expenditures in the appropriate accounts.

FINDING 04.03 **GENERAL LEDGER PAYROLL DEDUCTION ACCOUNTS WERE NOT RECONCILED WITH SUBSIDIARY PAYROLL RECORDS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

General ledger payroll deduction accounts were not reconciled with subsidiary payroll records on a monthly basis. Unidentified balances were allowed to accumulate in the withholding accounts for social security, income taxes, and insurance deductions. The failure to reconcile general ledger payroll liability accounts with employee payroll deductions could result in errors and omissions in reporting and paying employee deductions.

RECOMMENDATION

The office should reconcile general ledger payroll liability accounts with payroll reports, deposits of payroll taxes, and payments of insurance premiums to ensure the accurate reporting of all payroll deductions.

OFFICE OF ROAD SUPERINTENDENT

FINDING 04.04 **THE ACTUAL BEGINNING FUND BALANCE OF THE HIGHWAY/PUBLIC WORKS FUND EXCEEDED THE ESTIMATED FUND BALANCE**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Highway/Public Works Fund's actual fund balance was \$557,356 at July 1, 2003; however, the estimated fund balance reflected in the county's budget document for July 1, 2003, was only \$418,381. Therefore, the actual fund balance was \$138,975 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.

OFFICE OF COUNTY CLERK

**FINDING 04.05 COLLECTIONS WERE NOT DEPOSITED PROPERLY
(Noncompliance Under Government Auditing Standards)**

The county clerk did not deposit collections intact; i.e., funds collected during a specific period of time were not deposited together. Instead, the clerk deposited even amounts of cash, did not maintain a set amount of cash on hand, and deposited checks randomly. Because the clerk used this method of depositing collections, we could not trace all collections to deposits and could not determine if funds were deposited to the office bank account within three days of collection, as required by Section 5-8-207, Tennessee Code Annotated.

RECOMMENDATION

To strengthen internal controls over cash collections and deposits, the county clerk should deposit all funds intact.

OFFICE OF SHERIFF

**FINDING 04.06 THE OFFICE HAD DEFICIENCIES IN ITS INMATE AND COMMISSARY ACCOUNT
(A. Noncompliance Under Government Auditing Standards; B. Internal Control – Reportable Condition Under Government Auditing Standards)**

Our audit revealed the following deficiencies:

- A. Funds were not deposited to the office bank account within three days of collection, as required by Section 5-8-207, Tennessee Code Annotated. During the year, as many as eight days lapsed between the date funds were received and the date funds were deposited to the office bank account. Failing to deposit collections within three days not only violates this statute, but also weakens internal controls over funds and increases the potential for loss or theft.
- B. Bank statements were not reconciled with inmate and commissary general ledger accounts, and a list of outstanding checks was not prepared during the year. The failure to reconcile bank statements with the general ledger and to prepare outstanding check lists could result in undetected errors.

RECOMMENDATION

To strengthen internal controls over cash collections and deposits, the sheriff should deposit funds to the office bank account within three days of collection, as required by state statute. Also, the office should reconcile bank statements with general ledger controls and prepare an accurate list of outstanding checks.

FINDING 04.07 FEES AND COUNTY REVENUES WERE NOT REPORTED AND PAID ON A CURRENT BASIS
(Noncompliance Under Government Auditing Standards)

Fees and county revenues collected in the Sheriff's Office were not reported and paid to the county trustee by the fifteenth day of the month, as required by Section 67-4-213, Tennessee Code Annotated. Fees and county revenues collected in the office from November 2003 through March 2004 were remitted to the trustee on April 19, 2004.

RECOMMENDATION

Fees and county revenues should be remitted to the trustee by the fifteenth day of the month, as required by state statute.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 04.08 A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED
(Internal Control – Reportable Condition Under Government Auditing Standards)

Houston 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

Houston 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 04.09 DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF TRUSTEE; COUNTY CLERK; CIRCUIT, GENERAL SESSIONS, AND JUVENILE 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 Trustee; County Clerk; Circuit, General Sessions, and Juvenile Courts Clerk; Clerk and Master; Register; and Sheriff. Officials and employees responsible for maintaining the accounting records in these offices were also involved in receipting, depositing, disbursing, and/or reconciling bank statements. 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.