

## 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 offered oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

### JACKSON COUNTY AND THE JACKSON 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)

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

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

### RECOMMENDATION

Jackson County and the Jackson 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 financial statements in accordance with generally accepted accounting principles.

## OFFICE OF COUNTY MAYOR

### FINDING 04.02      **SOLID WASTE/SANITATION FUNDS WERE IMPROPERLY TRANSFERRED TO THE GENERAL AND DRUG CONTROL FUNDS**

(Material Noncompliance Under Government Auditing Standards)

During the year, the county transferred \$188,603 from the Solid Waste/Sanitation Fund to the General (\$175,169) and Drug Control (\$13,434) Funds for operating expenditures. The Solid Waste/Sanitation Fund is a special revenue fund whose primary revenue source is property taxes, and it was established solely for the purpose of accumulating resources for the collection and disposal of solid waste. These transfers made from the Solid Waste/Sanitation Funds to the General and Drug Control Funds were not related to the collection and disposal of solid waste.

The state attorney general has opined on numerous occasions that tax funds raised for one purpose, such as solid waste, cannot be used for other purposes. In opinion number U80-13, the state attorney general quoted the case Kennedy v. Montgomery County, which stated, "The taxpayers of every county have the right to know for what purpose they are being taxed, and also to know that taxes collected from them for any specific purpose are applied to such purpose, and not to some other at the discretion of the county officials, and according to their ideas of public policy or expediency."

### RECOMMENDATION

The Solid Waste/Sanitation Fund should only be used for the collection and disposal of solid waste in accordance with the purpose for which the taxes for this fund were levied.

---

### FINDING 04.03      **THE COUNTY PROVIDED SOLID WASTE DISPOSAL SERVICES TO CERTAIN AREA BUSINESSES IN VIOLATION OF ITS DISPOSAL CONTRACT**

(Noncompliance Under Government Auditing Standards)

Jackson County provided free solid waste disposal services to certain local businesses in violation of the county's solid waste disposal contract. The county contracts with a private landfill operator to dispose of household waste collected at county-operated convenience sites and county schools. This contract excludes solid waste collections from private businesses or factories. However, the county delivered solid waste collected from some area businesses to the landfill in violation of the contract. It should be noted that this service is provided only to certain businesses within the county. Other businesses and factories within the county are required to make their own provisions for disposal of solid waste.

RECOMMENDATION

The county should only provide solid waste disposal services for the waste collected at county-operated convenience sites and county schools in accordance with the solid waste disposal contract.

---

FINDING 04.04      **DEFICIENCIES WERE NOTED IN BUDGET OPERATIONS**  
(Noncompliance Under Government Auditing Standards)

Our examination noted the following budget deficiencies:

- A.     The County Commission approved appropriations that exceeded estimated available funds in the General Fund by \$49,024.
  
- B.     Expenditures exceeded appropriations approved by the County Commission in the Solid Waste/Sanitation (\$17,204) and Drug Control (\$33,125) Funds. Expenditures also exceeded appropriations in six major appropriation categories of the General Fund by amounts ranging from \$235 to \$37,958 and in one major appropriation category of the General Debt Service Fund by \$3,572.

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

Appropriations that exceed estimated available funds should not be submitted to the County Commission, and the County Commission should not approve such expenditures. Furthermore, expenditures should be held within appropriations approved by the County Commission.

---

FINDING 04.05      **THE OFFICE HAD ACCOUNTING DEFICIENCIES**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The following deficiencies were noted in the County Mayor’s Office:

- A.     The County Mayor’s Office prepared reconciliations of the trustee’s cash balances with the fund accounting records for each month during the year;

however, these reconciliations included several unidentified errors. Through substantive testing and alternative auditing procedures, we identified these errors, and management has posted adjustments to the financial statements of this report to properly reflect cash balances.

- B. General ledger payroll deduction accounts for the General Fund were not reconciled with payroll records and the disbursements on a monthly basis. As a result, unidentified balances accumulated in the withholding accounts for social security, retirement, insurance and annuity companies, and garnishments and levies. Through substantive testing and alternative auditing procedures, we were able to determine the correct payroll liability accounts, and management has posted adjustments to properly reflect these accounts in the financial statements of this report.

### RECOMMENDATION

Cash on the accounting records should be reconciled properly with trustee cash balances on a monthly basis. The office should reconcile general ledger payroll deduction accounts with payroll records and disbursements monthly to ensure proper withholding and disbursement of payroll deductions.

---

FINDING 04.06      **THE OFFICE HAD DEFICIENCIES IN ITS PURCHASING PROCEDURES**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our examination disclosed the following deficiencies in internal controls over purchasing:

- A. In several instances, purchase orders were issued after the purchases were made. This practice defeats the purpose of the purchase order and makes it an approval of payment rather than an approval of the purchase. Also, some purchase orders did not identify the items or services being purchased or a dollar limit on the purchase. Purchase orders are necessary to control who has authority to make purchases and to document purchasing commitments.
- B. In several instances, invoices were paid without documentation that goods had been received and/or services had been rendered. This practice weakens controls over the purchasing process. We extended our audit procedures and determined that these goods were received and services were rendered.
- C. In some instances, invoices were paid without proper supporting documentation. We extended our audit procedures and determined that these disbursements were for the benefit of the county.

- D. The office paid several invoices without noting on the invoices that payment had been made. This failure to document payment could result in the office's paying an invoice more than once.
- E. We noted several disbursements that were misclassified in the accounting records. By not posting disbursements to the proper classification, the usefulness of the accounting records as a management tool is diminished. Any misclassifications noted during our examination were reclassified by management in the financial statements in this report.

#### RECOMMENDATION

Purchase orders should be issued before purchases are made, should identify the item or service to be purchased, and should include a dollar limit on the purchase. Documentation should be obtained indicating that goods have been received and/or services have been rendered before invoices are paid. Proper documentation should be obtained for all purchases, and invoices should be marked paid when disbursements are made so that an invoice is not paid twice. Also, disbursements should be classified to the proper expenditure account.

---

FINDING 04.07      **THE OFFICE DID NOT PROPERLY MAINTAIN INVENTORY RECORDS AND CONTROLS OVER ASSETS**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

We noted the following deficiencies in controls over county assets:

- A. Several assets were not tagged or otherwise clearly marked as county property.
- B. We also noted certain assets that were not included on the inventory, such as; four vehicles, three computer systems, a voice amplifier, a compact disc player, a digital camera, and a machine gun.
- C. Inventory records were not verified by personnel who are independent of maintaining the inventory records.

Generally accepted accounting principles require accountability for all county-owned assets, such as equipment, furniture, and vehicles. The failure to properly maintain inventory records results in a loss of control over assets.

#### RECOMMENDATION

The county should improve controls over assets. County officials should tag all assets, ensure that inventory lists include all of the county's assets, and implement procedures to

ensure that personnel independent of the record-keeping process periodically verify inventory records.

---

**FINDING 04.08      DEFICIENCIES WERE NOTED IN THE AMBULANCE SERVICE OPERATIONS**  
(Noncompliance Under Government Auditing Standards)

Our examination of the Ambulance Service operations disclosed the following deficiencies:

- A.      Funds were not always deposited to the office bank account within three days of collection. Section 5-8-207, Tennessee Code Annotated, requires county officials to deposit all public funds to the office bank account within three days of collection.
  
- B.      Prenumbered trip tickets were not used.

**RECOMMENDATION**

Funds should be deposited within three days of collection, as required by state statute. In addition, prenumbered trip tickets should be used.

---

**OFFICE OF HIGHWAY SUPERINTENDENT**

**FINDING 04.09      ROCK PURCHASED BY THE HIGHWAY DEPARTMENT WAS NOT ACCOUNTED FOR AND IN SOME INSTANCES WAS PLACED ON PRIVATE PROPERTY IN VIOLATION OF STATE STATUTE**  
(Noncompliance Under Government Auditing Standards)

- A.      Our audit disclosed that numerous private companies and individuals picked up rock at a locally owned rock quarry and charged the rock to the county's account. The highway superintendent stated that he sometimes allowed private companies to have a load of rock in exchange for their services to the Highway Department; however, there was no documentation of these services. Also, there was no documentation that the highway superintendent authorized the locally owned rock quarry to charge the rock to the county's account before private companies picked up the rock. The highway superintendent stated that he permitted county rock to be used at places such as the fire hall, churches, ball fields, and community centers and for people who were in financial or physical need. He also stated that in some instances he provided rock to county citizens upon their request. We determined that the Highway Department gave rock valued at approximately \$30,800 to private companies without any indication that the rock would be

used for a county purpose. Giving rock in exchange for services violates Section 54-7-113, Tennessee Code Annotated (TCA), which requires all expenditures to be made by county warrant.

- B. The county maintained a stockpile of rock. We observed individuals in private vehicles picking up rock from this stockpile at no charge. If county materials are used anywhere other than county property, the county violates Section 54-7-202, TCA, which provides that “the chief administrative officer shall not authorize or knowingly permit ... rock, crushed stone or any other road materials to be used for private use or for the use of any individual for private purposes ...”

We have provided the district attorney general with information concerning this finding.

**RECOMMENDATION**

To comply with state statute, the Highway Department should pay for all services by issuing warrants and should maintain adequate documentation for all department expenses. Furthermore, the department should take steps to ensure that rock is not placed on private property in violation of state statute.

---

**FINDING 04.10**      **NON-TAXED GASOLINE WAS PLACED INTO PRIVATELY OWNED VEHICLES**  
(Noncompliance Under Government Auditing Standards)

The highway superintendent allowed certain employees to place non-taxed fuel in their personal vehicles as reimbursement for driving their personal vehicles to job sites. State and federal regulations prohibit the use of this fuel in privately owned vehicles.

**RECOMMENDATION**

The Highway Department should reimburse employees for the use of their personal vehicles based upon the actual miles driven while performing duties for the Highway Department. Under no circumstances should employees be allowed to place non-taxed fuel in their personal vehicles.

**FINDING 04.11      ADEQUATE CONTROLS OVER CONSUMABLE ASSETS WERE NOT MAINTAINED**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The office did not maintain adequate controls over consumable assets. Our audit disclosed the following weaknesses:

- A. Fuel consumption records were not maintained for fuel dispensed from Highway Department fuel pumps.
- B. Records were not maintained documenting the quantity and use of consumable assets on hand, such as rock.

The failure to maintain adequate records for consumable assets results in a loss of control over the assets and increases the risk of inventory loss.

**RECOMMENDATION**

The office should maintain records of the quantity and use of all consumable assets.

---

**FINDING 04.12      PURCHASE ORDERS WERE NOT ISSUED FOR SOME APPLICABLE PURCHASES**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Purchase orders were not issued for some applicable purchases of the Highway Department. Purchase orders are necessary to control who has purchasing authority for the department and to document purchasing commitments.

**RECOMMENDATION**

Purchase orders should be issued for all applicable purchases.

---

**FINDING 04.13      COMPETITIVE BIDS WERE NOT SOLICITED FOR LIABILITY INSURANCE**  
(Noncompliance Under Government Auditing Standards)

The Highway Department purchased commercial liability insurance coverage (\$42,462) without soliciting competitive bids. Purchasing procedures for this office are governed by Chapter 111, Private Acts of 1951, as amended, and provisions of Section 54-7-113,

Tennessee Code Annotated (the Uniform Road Law), which require all purchases exceeding \$5,000 to be made based on competitive bids solicited through newspaper advertisement.

**RECOMMENDATION**

All purchases exceeding \$5,000 should be made based on competitive bids solicited through newspaper advertisement, as required by state statute.

---

**OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK**

**FINDING 04.14**      **THE OFFICE DID NOT HAVE FORMAL POLICIES AND PROCEDURES FOR COMPUTER OPERATIONS**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Office of Circuit and General Sessions Courts Clerk did not have written policies and procedures for routine computer operations. Routine operations include system startup/shutdown, application access, system access security, system backup and retention schedules, hardware/software maintenance, output distribution, and other general data processing functions. Formal policies and procedures are necessary to ensure adequate management control over computer operations.

**RECOMMENDATION**

Management should prepare a computer policies and procedures manual that defines policies and procedures for operations such as system backups, security measures, and other general data processing functions. Upon completion, the manual should be distributed to all appropriate personnel.

---

**FINDING 04.15**      **THE OFFICE HAD DEFICIENCIES IN COMPUTER SYSTEM BACK-UP PROCEDURES**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The following weaknesses regarding computer system back-up procedures in the Office of Circuit and General Sessions Courts Clerk were identified:

- A. Daily backups were not stored in a secure location. Unsecured access to system backups exposes the data to environmental hazards, as well as to possible sabotage.

- B. System backups were not stored off site. In the event of a disaster, all back-up data could be destroyed, resulting in costly delays in generating and recording information accounted for through the automated process.
- C. A back-up log was not maintained. If system backups are not labeled and inventoried systematically, discrepancies may occur and affect the integrity of system backups in the event of a hardware or software failure.

RECOMMENDATION

Management should implement daily system back-up procedures. A backup labeled for each day of the week should be maintained. Management should store these backups in a secure, fireproof location. In addition to daily system backups, a weekly system backup should be performed, and two copies of this backup should be maintained. These backups should be rotated off site on a weekly basis. A complete system backup should also be performed at fiscal year-end. These year-end backups should be stored off site and retained indefinitely. Some possibilities for an off-site storage location would be another county office building with a fireproof vault or a safe deposit box at a local bank. Furthermore, a current log of all backups that includes label descriptions, date of creation, contents, and storage location should be maintained.

---

FINDING 04.16      **THE OFFICE DID NOT DEVELOP A DISASTER RECOVERY PLAN**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Office of Circuit and General Sessions Courts Clerk did not develop a disaster recovery plan to assist in re-creating its data processing environment in the event of a disaster. Without a formal, written plan, critical computerized applications could be disrupted indefinitely until the system could be repaired or a back-up facility could be found and made operational.

RECOMMENDATION

Management should develop and regularly update a disaster recovery plan defining procedures for personnel to follow in the event of a major hardware or software failure, or temporary or permanent destruction of facilities. The plan should contain provisions for a contingency operations site, as well as the adequate backup of data files, system programs, user documentation, supplies, and computer hardware so that operations could continue as normally as possible. A copy of the plan should be kept in a secure area within the office, as well as at a secure, off-site location.

**OFFICES OF CLERK AND MASTER AND SHERIFF**

**FINDING 04.17 FUNDS WERE NOT DEPOSITED WITHIN THREE DAYS OF COLLECTION IN THE OFFICES OF CLERK AND MASTER AND SHERIFF**  
(Noncompliance Under Government Auditing Standards)

In the Offices of Clerk and Master and Sheriff, funds were not always deposited to their office bank accounts within three days of collection. Section 5-8-207, Tennessee Code Annotated, requires county officials to deposit all public funds to their office bank accounts within three days of collection.

**RECOMMENDATION**

The offices should deposit funds within three days of collection, as required by state statute.

---

**OFFICE OF SHERIFF**

**FINDING 04.18 THE OFFICE HAD DEFICIENCIES IN THE ADMINISTRATION OF DRUG CONTROL FUNDS**  
(Noncompliance Under Government Auditing Standards)

The Sheriff's Office had the following deficiencies in administering drug control funds:

- A. Several forms and reports required by the Office of the Comptroller of the Treasury were not completed or prepared. These forms and reports are necessary to document the administration of confidential funds and to account for cash transactions related to undercover investigative operations.
- B. The transactions for drug control funds were not reflected on the office cash journal.

**RECOMMENDATION**

The sheriff should ensure that the office completes all forms and prepares all reports required by the Office of the Comptroller of the Treasury. Also, all transactions for drug control funds should be reflected on the office cash journal.

---

**FINDING 04.19      SEIZED FUNDS WERE DISBURSED WITHOUT PROPER AUTHORIZATION**  
(Noncompliance Under Government Auditing Standards)

During the audit we noted that the office seized funds of \$7,178. The sheriff placed \$5,678 in the Drug Control Fund and disbursed \$1,500 to a litigant. However, the sheriff only reported seized funds of \$4,650 to the state Department of Safety. Furthermore, these funds were disbursed prior to receiving an Order of Compromise and Settlement from the state Department of Safety. Section 53-11-201, Tennessee Code Annotated, requires that all seized property be reported to the state Department of Safety for disposition.

**RECOMMENDATION**

All seized property should be reported to the State Department of Safety and should be held until a disposition is received from the state, as required by state statute.

---

**OTHER FINDINGS AND RECOMMENDATIONS**

**FINDING 04.20      A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Jackson County officials had not adopted a system of central accounting, budgeting, and purchasing. Establishing a central system would significantly improve internal controls over the accounting, budgeting, and purchasing processes.

**RECOMMENDATION**

Jackson 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 04.21

**DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF COUNTY MAYOR, HIGHWAY SUPERINTENDENT, DIRECTOR OF SCHOOLS, TRUSTEE, COUNTY CLERK, CIRCUIT AND GENERAL SESSIONS 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 County Mayor, Highway Superintendent, Director of Schools, Trustee, County Clerk, Circuit and General Sessions 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, 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.