

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

Findings and recommendations as a result of our examination are presented below. We have reviewed these findings and recommendations with management to provide an opportunity for their response. The written responses of the county mayor are quoted directly in this report. Officials offered oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

LAKE COUNTY AND LAKE 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)

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

RECOMMENDATION

Lake County and the Lake 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.

MANAGEMENT’S RESPONSE – COUNTY MAYOR

Our county is in the process of trying to be in complete compliance with the GASB standards by the end of the next fiscal year.

OFFICE OF COUNTY MAYOR

**FINDING 04.02 THE SPECIAL PURPOSE FUND HAD A FUND DEFICIT
(Material Noncompliance Under Government Auditing Standards)**

The Special Purpose Fund had a fund deficit of \$296,344 at June 30, 2004. This fund deficit resulted from recognizing as an encumbrance the unperformed portion of a railroad track rehabilitation contract totaling \$308,742. This fund deficit should be liquidated 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 contract had not been reserved as an encumbrance of the fund balance in the financial statements, the Special Purpose Fund would have reflected a fund balance of \$12,398. The following statement presents the condition of the Special Purpose Fund at June 30, 2004, if the unperformed portion of the contract had not been reflected as a reservation of the fund balance:

Fund Balance

Unreserved:	
Undesignated	\$ <u>12,398</u>
Fund Balance, June 30, 2004, Restated	\$ <u><u>12,398</u></u>

MANAGEMENT'S RESPONSE – COUNTY MAYOR

This finding was a complete oversight. Monies that come to this fund are determined at the time we prepare our budget.

**FINDING 04.03 EXPENDITURES AND ENCUMBRANCES EXCEEDED
APPROPRIATIONS
(Material Noncompliance Under Government Auditing Standards)**

Expenditures and encumbrances exceeded appropriations approved by the County Commission in the Special Purpose Fund by \$613,863. This overexpenditure primarily resulted from recognizing contracts payable (\$305,057) and an encumbrance (\$305,742) associated with a railroad track rehabilitation project. 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 for construction projects should be budgeted in the year the contracts are approved. Also, expenditures and encumbrances should be held within appropriations approved by the County Commission.

FINDING 04.04 **PURCHASE ORDERS WERE ISSUED AFTER PURCHASES WERE MADE**
(Internal Control – Reportable Condition Under Government Auditing Standards)

In most instances, the office issued purchase orders after purchases were made. This practice defeats the purpose of issuing a purchase order and makes the purchase order an approval for payment, rather than an approval for the purchase.

RECOMMENDATION

The office should ensure that purchase orders are issued and approved before purchases are made.

MANAGEMENT’S RESPONSE – COUNTY MAYOR

I agree with the finding. I have taken steps to correct this deficiency.

OFFICE OF ROAD SUPERINTENDENT

FINDING 04.05 **PURCHASE ORDERS WERE ISSUED AFTER PURCHASES WERE MADE**
(Internal Control – Reportable Condition Under Government Auditing Standards)

In most instances, the office issued purchase orders after purchases were made. This practice defeats the purpose of issuing a purchase order and makes the purchase order an approval for payment, rather than an approval for the purchase.

RECOMMENDATION

The office should ensure that purchase orders are issued and approved before purchases are made.

OTHER FINDINGS AND RECOMMENDATIONS

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

Lake 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

Lake 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 04.07 DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF 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 Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff. Employees responsible for maintaining the accounting records in each of these offices were also involved in issuing receipts, preparing bank deposits, taking deposits to the bank, posting receipts to the cash journal, 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.

FINDING 04.08 THE COUNTY HAD DEFICIENCIES IN ACCOUNTING FOR PATIENT ACCOUNTS RECEIVABLE AT THE AMBULANCE SERVICE
(Internal Control – Reportable Condition Under Government Auditing Standards)

A control account for patient accounts receivable of the Ambulance Service was not properly maintained and did not accurately reflect patient accounts receivable at any time during the period under examination. Also, the subsidiary patient account receivable ledger had

not been maintained properly and did not reflect correct individual patient accounts receivable balances. The Ambulance Service has a policy that provides for the write-off of uncollectible accounts receivable that are 18 months old. However, because the control account for patient accounts receivable and the patient subsidiary accounts receivable ledger did not reflect the correct individual accounts receivable balances, we could not determine if this policy had been followed. Because of these deficiencies, patient accounts receivable at June 30, 2004, have not been reflected in the financial statements of this report. The exclusion of patient accounts receivable of the Ambulance Service at June 30, 2004, is not considered to have a material effect on Lake County's financial statements.

RECOMMENDATION

The control account for patient accounts receivable should be maintained properly and should accurately reflect patient accounts receivable at all times. Also, the subsidiary patient accounts receivable ledger should be maintained properly and reconciled with the control account.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

I concur.

FINDING 04.09 **THE OFFICE MADE PAYMENTS TO A COUNTY COMMISSIONER IN VIOLATION OF THE CONFLICT OF INTEREST STATUTE** (Noncompliance Under Government Auditing Standards)

During the year, the Sheriff's Office used General Fund monies to purchase groceries totaling \$20,430 from Bestway Grocery, a business owned by Denny Johnson, a member of the Lake County Commission. These payments to a business owned by a member of the County Commission violate the state conflict of interest statute, Section 12-4-101(a)(1), Tennessee Code Annotated. This statute states that "it is unlawful for any officer, committee member, director, or other person whose duty it is to vote for, let out, overlook, or in any manner to superintend any work or any contract in which any municipal corporation, county ... shall or may be interested, to be directly interested in any such contract."

RECOMMENDATION

County officials should review these payments and resolve the conflict of interest.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

The Sheriff's Department informed me that the groceries had been bid, and Mr. Johnson was the low bidder.

REBUTTAL

These purchases from a county commissioner are a violation of state statute, regardless of whether he was the low bidder.