

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, highway commissioner, and the director of schools are paraphrased in this report. Other officials offered oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

LEWIS COUNTY AND LEWIS 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)

Lewis County and the Lewis County School Department did not identify and determine the historical value of their capital assets and the related depreciation amounts of these assets. Therefore, Lewis County and the Lewis 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, Lewis County’s and the Lewis 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 No. 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. Lewis County’s and the Lewis County School Department’s financial statements are presented in compliance with these requirements.

RECOMMENDATION

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

MANAGEMENT'S RESPONSE – COUNTY MAYOR

We now have a new computer system, software, and bar code scanner, which will aid us in complying with GASB 34 by June 30, 2005.

MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS

The School Department has installed a computer software program to account for capital assets and is in the process of entering the data.

OFFICE OF COUNTY MAYOR

FINDING 04.02 **THE OFFICE HAD NOT ESTABLISHED A FORMAL PURCHASE ORDER SYSTEM**
(Internal Control – Reportable Condition Under Government Auditing Standards)

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

MANAGEMENT'S RESPONSE – COUNTY MAYOR

We have been and are still evaluating the best purchase order system we can put in place for Lewis County. We should finalize this process in the very near future.

FINDING 04.03 **COMPETITIVE BIDS WERE NOT SOLICITED FOR THE PURCHASE OF FIRE EQUIPMENT**
(Noncompliance Under Government Auditing Standards)

Competitive bids were not solicited for the purchase of fire equipment (\$48,873). Purchasing procedures for the office are governed by the County Purchasing Law of 1983, Sections 5-14-201 through 5-14-206, Tennessee Code Annotated, that provide for purchases exceeding \$5,000 to be made after public advertisement and solicitation of competitive bids.

RECOMMENDATION

Competitive bids should be solicited for purchases exceeding \$5,000, as required by state statute.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

These funds were from the Department of Homeland Security and were turned over to the Lewis County Fire Department to purchase the equipment. We are in the process of implementing updated purchasing policies, which will eliminate this problem in the future.

FINDING 04.04 **INVENTORY RECORDS WERE NOT MAINTAINED PROPERLY**

(Internal Control – Reportable Condition Under Government Auditing Standards)

Inventory records had not been verified by personnel independent of maintaining the inventory records. In addition, assets were not labeled as property of the Lewis County government. 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. Furthermore, the failure to identify assets as county property weakens the internal controls over those assets and could lead to their theft or misappropriation.

RECOMMENDATION

Personnel independent of maintaining the inventory records should verify the inventory records of county-owned assets, and assets should be labeled as property of the Lewis County government, as required by generally accepted accounting principles.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

We have maintained inventory records of all county assets for many years. We now have the hardware and software necessary to assist us in labeling and adequately controlling all of our capital assets.

FINDING 04.05

**FINANCIAL ACTIVITY OF THE J.H. WARF PUBLIC LIBRARY
WAS NOT AUDITED, AND THE LIBRARY WAS NOT SUBJECT
TO THE BUDGETARY CONTROL OF THE COUNTY
COMMISSION**

(Noncompliance Under Government Auditing Standards)

The J. H. Warf Public Library operated as a department within the county's General Fund, and a significant portion of the library's expenditures was paid through the county's General Fund (\$66,872), which is included in the financial statements of this report. However, the Library Board maintained one checking account to deposit various revenues/grants and pay certain operating expenses, and this account was not audited or included in the financial statements of this report. The balance of this checking account totaled \$7,681 on June 30, 2004. The funds channeled through this checking account did not flow through the county's budgetary process and are not included in the financial statements of this report. It should be noted that we do not consider the exclusion of these amounts to be material to the financial statements of this report.

Section 5-9-401, Tennessee Code Annotated (TCA), 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." Also, Section 10-3-106, TCA, states that "all library accounts of every character shall be audited annually by or under the county legislative body and/or city governing body."

RECOMMENDATION

The J. H. Warf Public Library should remit all collections to the county's General Fund or contract for an audit. All revenues and expenditures related to the library's operation should be audited and subject to the budgetary control of the County Commission, as required by state statutes.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

We have operated the library in this manner for a number of years. However, we will meet with the J. H. Warf Public Library Board in January to discuss this finding.

OFFICE OF ROAD SUPERINTENDENT

FINDING 04.06 SEVERAL PURCHASE ORDERS WERE NOT ISSUED PROPERLY

(Internal Control – Reportable Condition Under Government Auditing Standards)

In several instances, purchase orders were not signed. An authorized signature on a purchase order is a necessary internal control procedure to indicate prior approval of the purchase.

RECOMMENDATION

All purchase orders should contain an authorized signature as evidence of approval of the purchase.

FINDING 04.07 THE ACTUAL FUND BALANCE OF THE HIGHWAY/PUBLIC WORKS FUND AT JULY 1, 2003, EXCEEDED THE ESTIMATED FUND BALANCE BY A MATERIAL AMOUNT

(Internal Control – Reportable Condition Under Government Auditing Standards)

The Highway/Public Works Fund's actual fund balance at July 1, 2003, was \$1,142,585; however, the estimated fund balance reflected in the county's budget for July 1, 2003, was only \$711,703. Therefore, the actual fund balance was \$430,882 more than the estimated fund balance presented to the County Commission.

RECOMMENDATION

The estimated beginning fund balance should be made on a more realistic basis to provide county officials with accurate information on which to base funding decisions.

MANAGEMENT'S RESPONSE – HIGHWAY COMMISSIONER

Some federal and state funds received during 2002-03 were not appropriated until the 2003-04 year and were not included in our beginning budget estimates.

REBUTTAL

The estimated beginning fund balance should include all accumulated funds.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 04.08 **COMPETITIVE BIDS WERE NOT SOLICITED IN COMPLIANCE WITH STATE STATUTE (Noncompliance Under Government Auditing Standards)**

Competitive bids were not solicited for the purchase of refurbished computers (\$21,250). Section 49-2-203, Tennessee Code Annotated, requires purchases exceeding \$5,000 to be made after public advertisement and solicitation of competitive bids.

RECOMMENDATION

The Lewis County School Department should solicit bids for purchases exceeding \$5,000, as required by state statute.

MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS

The technology coordinator had an opportunity to purchase reconditioned computers that met the specifications for replacement machines. This purchase saved the department approximately \$14,000; however, the purchase was made without a bid specifically for refurbished equipment. The director of schools has discussed this finding with the technology department and explained that all purchases expected to exceed \$5,000 require competitive bids.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 04.09 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF COUNTY MAYOR, TRUSTEE, COUNTY CLERK, CIRCUIT AND GENERAL SESSIONS COURTS CLERK, CLERK AND MASTER, AND REGISTER (Internal Control – Reportable Condition Under Government Auditing Standards)**

Duties were not segregated adequately among officials and employees in the Offices of County Mayor, Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, and Register. Employees who were responsible for maintaining accounting records in these offices were also involved in receipting, depositing, and/or disbursing funds.

RECOMMENDATION

To strengthen internal controls over operations, officials in these offices should adequately segregate duties among employees.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

We are a small entity with a very limited number of personnel. It is impossible to comply with this recommendation; however, we will strive to segregate duties to the fullest extent possible.

FINDING 04.10 **A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Lewis 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

Lewis County officials should consider adopting either 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.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

We have been evaluating various systems relative to accounting, budgeting, and purchasing for Lewis County. Our goal is to have the most effective system for our size government in place for the year ending June 30, 2005.