

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. The written response from the county mayor is 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.

McNAIRY COUNTY AND McNAIRY 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)

McNairy County and the McNairy County School Department did not identify and determine the historical value of their capital assets and the related depreciation amounts of these assets. Therefore, McNairy County and the McNairy 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, McNairy County’s and the McNairy 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. McNairy County’s and the McNairy County School Department’s financial statements are presented in compliance with these requirements.

RECOMMENDATION

McNairy County and the McNairy 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 GENERAL FUND HAD A FUND DEFICIT (Material Noncompliance Under Government Auditing Standards)

The General Fund had a fund deficit of \$120,949 at June 30, 2004. This fund deficit resulted from expenditures exceeding available funds.

RECOMMENDATION

County officials should take immediate steps to liquidate the fund deficit and to provide a sufficient operating fund balance in the General Fund.

FINDING 04.03 EXPENDITURES EXCEEDED APPROPRIATIONS (Noncompliance Under Government Auditing Standards)

Expenditures exceeded appropriations approved by the County Commission in the Solid Waste/Sanitation Fund by \$7,259. Also, expenditures exceeded appropriations in four major appropriation categories of the General Fund in amounts ranging from \$39 to \$21,123. 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 should be held within appropriations approved by the County Commission.

FINDING 04.04 TAX ANTICIPATION NOTES WERE NOT RETIRED IN COMPLIANCE WITH STATE STATUTE (Material Noncompliance Under Government Auditing Standards)

The county did not retire tax anticipation notes in compliance with state statute. On August 11, 2003, and September 16, 2003, the General Fund borrowed \$400,000 and \$200,000, respectively, from the General Debt Service Fund to provide temporary operating funds. During the year, the General Fund retired \$500,000 of the tax anticipation notes, leaving an unpaid balance of \$100,000 at June 30, 2004. Section 9-21-801, Tennessee Code Annotated, requires that tax anticipation notes “shall mature not later than the close of the current fiscal year.” The unretired amount of the note (\$100,000) has been reflected in the financial statements of this report as an interfund receivable in the General Debt Service Fund and an interfund payable in the General Fund.

RECOMMENDATION

All tax anticipation notes should be retired prior to the end of the fiscal year, as required by state statute.

FINDING 04.05 **THE SOLID WASTE OFFICE HAD DEFICIENCIES IN THE COLLECTION OF GARBAGE FEES**
(Noncompliance Under Government Auditing Standards)

The Solid Waste Office did not issue receipts for some garbage fees collected, as required by Section 9-2-103, Tennessee Code Annotated (TCA). Because receipts were not issued, we could not determine if all collections had been accounted for and if collections were remitted to the county trustee within three days of collection, as required by Section 5-8-207, TCA.

RECOMMENDATION

Receipts should be issued for all collections, as required by state statute.

OFFICE OF HIGHWAY COMMISSIONER

FINDING 04.06 **EXPENDITURES AND ENCUMBRANCES EXCEEDED APPROPRIATIONS IN THE HIGHWAY/PUBLIC WORKS FUND**
(Material Noncompliance Under Government Auditing Standards)

Expenditures and encumbrances exceeded appropriations approved by the County Commission in the Highway/Public Works Fund by \$163,082. 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 DIRECTOR OF SCHOOLS

**FINDING 04.07 EXPENDITURES AND ENCUMBRANCES EXCEEDED APPROPRIATIONS IN THE CENTRAL CAFETERIA FUND
(Noncompliance Under Government Auditing Standards)**

Expenditures and encumbrances exceeded appropriations approved by the County Commission in the Central Cafeteria Fund by \$29,540. 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 TRUSTEE

**FINDING 04.08 THE TRUSTEE DID NOT REQUIRE A DEPOSITORY TO ADEQUATELY COLLATERALIZE FUNDS
(Noncompliance Under Government Auditing Standards)**

The trustee did not require a depository to pledge adequate securities to protect county funds exceeding Federal Deposit Insurance Corporation (FDIC) coverage. At June 30, 2004, deposits at the depository exceeded FDIC coverage by \$60,405. Section 5-8-201, Tennessee Code Annotated, provides for county officials to require any bank that is a depository of county funds to deposit in an escrow account in a second bank collateral security equal to 105 percent of the funds exceeding FDIC coverage. As of the date of this report, the trustee had required the depository to pledge adequate securities to protect the county’s funds.

OFFICE OF CIRCUIT COURT CLERK

**FINDING 04.09 THE OFFICE HAD DEFICIENCIES IN MAINTAINING THE EXECUTION DOCKET TRIAL BALANCE REPORT
(Noncompliance Under Government Auditing Standards)**

Our examination disclosed the following deficiencies:

- A. In some instances, the office issued manual checks and later entered these checks into the computer system to be posted to the general ledger (cash journal); however, the computer system did not automatically post these transactions to the docket trial balance report. As a result, several case balances were misstated on the docket trial balance report.

- B. When a check was voided in the general ledger, the computer system did not automatically post this entry to the docket trial balance report, causing case balances to be misstated in many instances.
- C. The docket trial balance was not prepared and reconciled with general ledger accounts on a monthly basis. As a result, errors on the docket trial balance were not detected and corrected in a timely manner.
- D. At June 30, 2004, the circuit court clerk had prepared a trial balance of execution docket cause balances, as required by Section 18-2-103, Tennessee Code Annotated (TCA). However, the trial balance did not reconcile with cash journal accounts by \$26,587. Consequently, we were unable to determine if the clerk had complied with the provisions of the Unclaimed Property Act, Section 66-29-110, TCA. This statute provides that any funds held by the court for more than one year and unclaimed by the owner are considered abandoned. Section 66-29-113, TCA, further requires these funds to be reported and paid to the state Treasurer's Office.

RECOMMENDATION

Office personnel should ensure that all manual checks and voided checks are properly posted to the accounting records and reports of the office. The execution docket trial balance should be properly prepared and reconciled with cash journal accounts on a monthly basis. 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.

OFFICE OF GENERAL SESSIONS COURT CLERK

FINDING 04.10 **THE OFFICE HAD DEFICIENCIES IN MAINTAINING THE EXECUTION DOCKET TRIAL BALANCE REPORT** (Noncompliance Under Government Auditing Standards)

Our examination disclosed the following deficiencies:

- A. In several instances involving the collection of bad checks, office employees paid the litigant before receiving restitution, which resulted in these cases having overpaid (negative) balances. However, as of June 30, the restitution was received in each of these cases.
- B. When manual checks were written and later entered into the computer system to be posted to the general ledger (cash journal), the computer system did not automatically post these transactions to the docket trial balance report. Consequently, case balances were misstated on the docket trial balance report.

- C. The computer system did not automatically post voided checks on the docket trial balance report. Consequently, case balances were misstated in many instances.
- D. The docket trial balance was not prepared and reconciled with general ledger accounts on a monthly basis. As a result, errors made on the docket trial balance were not detected and corrected in a timely manner.
- E. At June 30, 2004, the general sessions court clerk had prepared a trial balance of execution docket cause balances, as required by Section 18-2-103, Tennessee Code Annotated (TCA). However, the trial balance did not reconcile with cash journal accounts by \$19,090. Consequently, we were unable to determine if the clerk had complied with the provisions of the Unclaimed Property Act, Section 66-29-110, TCA. This statute provides that any funds held by the court for more than one year and unclaimed by the owner are considered abandoned. Section 66-29-113, TCA, further requires these funds to be reported and paid to the state Treasurer's Office.

RECOMMENDATION

Employees should ensure that restitution has been received for bad checks before paying litigants. Office personnel should ensure that all manual checks and voided checks are posted properly to the accounting records. The execution docket trial balance should be properly prepared and reconciled with cash journal balances monthly. Furthermore, 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 04.11 **A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

McNairy 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

McNairy 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 04.12 THE OFFICES OF TRUSTEE AND REGISTER ALLOWED INDIVIDUALS UNSUPERVISED ACCESS TO THE OFFICES AFTER BUSINESS HOURS
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our examination disclosed that officials in the Offices of Trustee and Register did not adequately control access to their offices. Individuals who were not office employees had unsupervised access to these offices after business hours. Allowing persons who are not employees to have unsupervised access to an office after business hours seriously weakens internal controls over assets.

RECOMMENDATION

Individuals who are not office employees should not have unsupervised access to these offices after business hours.

FINDING 04.13 THE TRUSTEE, COUNTY CLERK, AND CLERK AND MASTER DID NOT HAVE AUTHORIZATION FOR DEPUTY HIRES
(Noncompliance Under Government Auditing Standards)

The trustee, county clerk, and clerk and master did not obtain letters of agreement or file suit in Circuit and/or Chancery Courts to authorize the number and salaries of their deputies. Section 8-20-101, Tennessee Code Annotated, permits these officials to enter into a letter of agreement with the county mayor concerning the number and the salaries of their deputies or to file suit in Circuit and/or Chancery Courts.

RECOMMENDATION

The trustee, county clerk, and clerk and master should obtain a letter of agreement with the county mayor or petition Circuit and/or Chancery Courts for the number and salaries of their deputies, as required by state statute.

FINDING 04.14 DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF TRUSTEE AND SHERIFF
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among officials and employees in the Offices of Trustee and Sheriff. Officials and employees responsible for maintaining accounting records in these offices were also involved in receipting, depositing, reconciling daily business, posting entries 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 04.15 THE COUNTY USED A QUESTIONABLE METHOD OF FUNDING RURAL FIRE PROTECTION
(Material Noncompliance Under Government Auditing Standards)

Tennessee statutes provide that if a city offers fire protection, the county can offer fire protection outside those city limits in one of three ways:

- A. The county can appropriate funds to nonprofit volunteer fire departments.
- B. The county legislative body may establish a county-wide fire department and fund the department by either (1) establishing fire tax districts and levying an annual fire tax upon the property owners in each district sufficient to pay that district's share of the total budget of county-wide fire department, or (2) as an alternative to fire tax districts, fire protection for unincorporated portions of the county can be funded with General Fund revenues generated from situs-based taxes that have already been shared with the cities and from contributions made to the county.
- C. The county can enter into an interlocal agreement with a municipality to provide fire protection to areas outside the municipality.

All incorporated cities or towns located in McNairy County, Tennessee, provide fire protection to citizens living within their city limits. McNairy County provides fire protection to citizens outside the incorporated towns and cities but does not follow any of the above-noted methods. In accordance with a resolution approved by the County Commission on July 14, 2003, the county reimburses the incorporated towns and cities in McNairy County for their purchase of equipment. This reimbursement is based on an allocation formula approved by the County Commission. In addition, the county pays the salary of a county-wide fire chief who coordinates the activities of the rural volunteer fire departments, purchases equipment for the fire chief and rural volunteer fire departments, and pays for maintenance and repair services to vehicles of the volunteer fire departments from the county's General Fund. The county has not established fire tax districts, and the situs-based taxes and contributions the county received and placed into the General Fund were not sufficient to fund the fire department operations paid from the General Fund. Therefore, it appears that McNairy County uses property taxes levied on all county citizens, including those living inside the incorporated towns and cities of McNairy County, to provide fire protection to citizens living outside the incorporated towns and cities.

RECOMMENDATION

McNairy County should provide rural fire protection in a method that complies with state statutes.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

Tennessee statutes provide that if a city offers fire protection, the county can offer fire protection outside those city limits in one of three ways. One of those ways is that the county can appropriate funds to nonprofit volunteer fire departments.

In accordance with a resolution approved on July 14, 2003, by the County Commission, McNairy County makes payments to the cities for reimbursement of fire protection equipment costs incurred by them. These funds are paid to the city once a request has been received from the city along with copies of paid invoices documenting the purchases. I believe this method of funding provides an equal share of dollars to each city and county fire department.

REBUTTAL

Making payments to the cities for rural fire protection equipment does not appear to comply with any of the three options available to counties to fund rural fire protection. City fire departments are not nonprofit volunteer fire departments.