

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

MARSHALL COUNTY AND MARSHALL 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)

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

RECOMMENDATION

Marshall County and the Marshall 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.

OFFICE OF COUNTY MAYOR

FINDING 04.02 **COMPETITIVE BIDS WERE NOT SOLICITED FOR CERTAIN PURCHASES**
(Noncompliance Under Government Auditing Standards)

Our audit noted the following purchasing deficiencies:

- A. Competitive bids were not solicited for cleaning services (\$88,820) for county buildings, and tires and tubes (\$8,111) for the Ambulance Service and the Sheriff's Department. Sections 5-14-201 through 514-206, Tennessee Code Annotated, provide for all purchases exceeding \$5,000 to be made after public advertisement and solicitation of competitive bids.
- B. County officials properly solicited competitive bids for the demolition and removal of asbestos from a building to provide space for the construction of a new county jail. A contract totaling \$69,842 was awarded to the low bidder. Subsequently, county officials decided to purchase a second building that was located adjacent to the above-noted building. County officials negotiated directly with the low-bid contractor to demolish and remove the second building. Consequently, the scope of the original contract was increased by \$46,000 to include the second building project.

By negotiating and contracting directly with the contractor, the county circumvented the competitive bid process. The scope of the work covered by the contracts was substantially changed. In *Leech vs. Wright* (622 s.w. 2d 807), the Tennessee Supreme Court stated that "competitive bidding requires due advertisement, giving opportunity to bid and contemplate a bidding on the same undertaking upon each of the same material items covered by the contract: upon the same thing. It requires that all bidders be placed on the same plane of equality and that they bid upon the same terms and conditions involved in all items and parts of the contract, and that the proposal specify as to all bids the same, or substantially, similar specifications." Also, the attorney general opined in opinion 85-121 that "any negotiations with a low bidder entailing changes in terms and conditions from the projected bid by all other bidders would contravene the foregoing requirements of competitive bidding."

RECOMMENDATION

The county should solicit competitive bids for purchases exceeding \$5,000, as required by state statute. County officials should not negotiate with bidders to change the terms and conditions of a project; instead, the county should re-bid the project based on the new terms and conditions.

OFFICE OF HIGHWAY SUPERINTENDENT

FINDING 04.03 **PRIOR APPROVAL WAS NOT OBTAINED FOR PURCHASES EXCEEDING \$200**
(Material Noncompliance Under Government Auditing Standards)

Highway Department employees did not obtain prior approval from the director of accounts and budgets for purchases exceeding \$200, as required by Chapter 69, Private Acts of 1965. In most instances, Highway Department purchase orders were not submitted to the director for her approval until the end of the month, which was often after the purchase had been made.

RECOMMENDATION

Purchase orders for purchases exceeding \$200 should be submitted to the director of accounts and budgets for approval before purchases are made, as required by Chapter 69, Private Acts of 1965.

OFFICE OF CIRCUIT COURT CLERK

FINDING 04.04 THE CIRCUIT COURT EXECUTION DOCKET TRIAL BALANCE DID NOT RECONCILE WITH CASH JOURNAL ACCOUNTS
(Noncompliance Under Government Auditing Standards)

The circuit court clerk prepared an execution docket cause balance as of June 30, 2004, as required by Section 18-2-103, Tennessee Code Annotated (TCA). However, the trial balance did not reconcile with cash journal accounts by \$12,939. Without this reconciliation, we could not determine the propriety of all transactions and the clerk's compliance with provisions of the Unclaimed Property Act, Section 66-29-101, TCA. This statute provides that any funds held by the court for 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

The circuit court clerk should prepare and reconcile a trial balance of execution docket cause balances with cash journal accounts, as required by state statute. To further 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 04.05 DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE AMBULANCE SERVICE; BOARD OF PUBLIC UTILITIES; AND OFFICES OF TRUSTEE; CIRCUIT, GENERAL SESSIONS, AND JUVENILE COURTS CLERK; CLERK AND MASTER; AND SHERIFF
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among the officials and employees of the Ambulance Service; Board of Public Utilities; and the Offices of Trustee; Circuit, General Sessions, and Juvenile Courts Clerk; Clerk and Master; and Sheriff. Employees responsible for maintaining the accounting records were also involved in receipting, depositing, and/or disbursing funds.

RECOMMENDATION

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

FINDING 04.06

A SYSTEM OF CENTRAL PURCHASING HAD NOT BEEN ADOPTED

(Internal Control – Reportable Condition Under Government Auditing Standards)

Marshall County officials had not adopted a central system of purchasing. Establishing a central system would significantly improve internal controls over the purchasing process.

RECOMMENDATION

Marshall County officials should consider adopting the County Financial Management System of 1981 or a private act that would provide for a system of central purchasing covering all county departments.