

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 response of the director of accounts and budgets 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.

OFFICE OF COUNTY MAYOR

FINDING 04.01 THE WORKERS' COMPENSATION FUND HAD A NET ASSET DEFICIT
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Workers' Compensation Fund (Internal Service Fund) had a net asset deficit of \$260,031 at June 30, 2004. This net asset deficit resulted from the recognition of outstanding claims at year-end.

RECOMMENDATION

County officials should liquidate this net asset deficit and should closely review and monitor this situation to determine if the fund has the ability to be self-sufficient over an extended period of time.

MANAGEMENT'S RESPONSE – DIRECTOR OF ACCOUNTS AND BUDGETS (PARAPHRASE)

The county recently switched from participation in workers' compensation to a self-funded on-the-job injury model. We will monitor continuing workers' compensation claims, along with on-the-job injury, to ensure the fund's self-sufficiency over the long run.

FINDING 04.02 THE GENERAL DEBT SERVICE FUND'S BEGINNING FUND BALANCE WAS UNDERSTATED BY A SIGNIFICANT AMOUNT
(Internal Control – Reportable Condition Under Government Auditing Standards)

The General Debt Service Fund's actual fund balance at July 1, 2003, was \$23,230,858; however, the estimated fund balance reflected in the county's budget for July 1, 2003, was only \$20,309,682. Therefore, the actual fund balance was \$2,921,176 more than the estimated fund balance presented to the County Commission.

RECOMMENDATION

The estimate of the 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 – DIRECTOR OF ACCOUNTS AND BUDGETS (PARAPHRASE)

We will try to update fund balance estimates based on later data for funds that, like debt service, have relatively stable revenue and expenditure patterns. The situation last year resulted from refunding a large amount of outstanding variable rate debt, which resulted in lower expenditures than originally planned.

OFFICE OF HIGHWAY SUPERVISOR

FINDING 04.03 **A COMPLETE COUNTY ROAD LIST WAS NOT PREPARED**
(Noncompliance Under Government Auditing Standards)

The highway supervisor submitted a road list to the County Commission for approval. However, the list did not include changes made to the list since the previous year. Section 54-10-103, Tennessee Code Annotated, requires that a list of county roads, along with a separate schedule showing a summary of changes in the road list, be submitted to the County Commission for approval at the commission's January session each year and that the list be maintained in the County Clerk's Office.

RECOMMENDATION

The highway supervisor should submit a list of county roads and changes made to the road list to the County Commission for approval at the commission's January session each year, as required by state statute.

OFFICE OF CLERK AND MASTER

FINDING 04.04 **THE OFFICE HAD ACCOUNTING DEFICIENCIES**
(Internal Control – Reportable Condition Under Government Auditing Standards)

We noted the following accounting deficiencies:

- A. Bank statements were not reconciled with general ledger accounts. Differences noted were posted to an unidentified liability account. Upon further investigation, we determined that the majority of this unidentified account balance (\$34,316) was funds held by the office on ten different cases

that did not appear on the docket trial balance, leaving \$2,657 as an unidentified liability.

- B. General ledger ending balances on June 30, 2003, did not agree with the general ledger beginning balances on July 1, 2003.
- C. The computer-generated docket trial balance did not reflect some cases. In addition to the computerized records, some cases were maintained on a separate manual trial balance.
- D. The office's software did not have the ability to produce a detailed report of each account in the general ledger.

RECOMMENDATION

Bank statements should be reconciled monthly, all discrepancies should be investigated and corrected, and any unidentified funds should be identified and posted to the proper accounts. Furthermore, year-end general ledger balances should agree with general ledger balances at the beginning of the year, and all cases should be reflected on the computer-generated docket trial balance. Also, a detailed report of each account in the general ledger should be generated by the office's software.

OFFICE OF SHERIFF

FINDING 04.05 **DEFICIENCIES WERE NOTED IN THE OPERATION OF THE COMMISSARY ACCOUNT**

(A. Noncompliance Under Government Auditing Standards; B., C., and D. Internal Control – Reportable Condition Under Government Auditing Standards)

The Sheriff's Department contracted with Swanson Services Corporation for the company to provide a full-time employee to manage the department's commissary operation. We noted the following deficiencies in the operation of the commissary:

- A. The commissary bank account was a Swanson company bank account in lieu of an official bank account of the Sheriff's Department. Section 5-8-207, Tennessee Code Annotated (TCA), requires that every county official maintain an official bank account to deposit public funds.
- B. A Swanson company employee maintained the commissary bank account and issued company checks upon the inmates' release. Section 5-8-207, TCA, requires that all funds be disbursed by official, prenumbered check.
- C. Swanson company personnel reconciled monthly bank statements at an off-site location. Copies of the bank statements and reconciliations were not forwarded to the Sheriff's Department until the auditors' request.

- D. All receipts and disbursements of the commissary operation were not included on the sheriff's annual financial report.

RECOMMENDATION

The commissary bank account should be an official bank account of the Sheriff's Department, and the sheriff or a designated county employee should sign all checks disbursing inmate monies. Bank statements should be mailed directly from the depository to the Sheriff's Department, and monthly bank reconciliations should be prepared by, or at a minimum, reviewed by personnel of the Sheriff's Department. In addition, all receipts and disbursements of the commissary should be included on the sheriff's annual financial report.

FINDING 04.06 **THE SHERIFF DID NOT OBTAIN A LETTER OF AGREEMENT
OR COURT DECREE TO AUTHORIZE DEPUTY HIRES**
(Noncompliance Under Government Auditing Standards)

The sheriff did not obtain a letter of agreement or file suit in Circuit Court to authorize the number and salaries of his deputies. Section 8-20-101, Tennessee Code Annotated, requires the sheriff to enter into a letter of agreement with the county mayor concerning the number and the salaries of deputies or to file suit in Circuit Court.

RECOMMENDATION

The sheriff should obtain a letter of agreement with the county mayor or petition Circuit Court for the number and salaries of deputies, as required by state statute.