

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 responses of the county mayor 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.

OVERTON COUNTY AND OVERTON 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)

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

RECOMMENDATION

Overton County and the Overton 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 concur. Overton County, like most county governments in Tennessee, has traditionally identified and accounted for capital assets for insurance purposes and proprietary reasons

only. The government's infrastructure has never been identified or valued. As a government we are in the process of beginning to identify, value and establish depreciation schedules for all of Overton County's capital assets and infrastructure. The County Commission will adopt a capitalization policy during the 2004-05 fiscal year, including defining terms, inventorying methods, threshold amounts for recording capital assets, determination of useful lives, and depreciation methods for various classes of capital assets and infrastructure. Overton County plans to accomplish these procedures by June 30, 2005; however, due to limited resources and staff, June 30, 2006, may be a more realistic date for full implementation of compliance with provisions of Statement 34.

OFFICES OF COUNTY MAYOR/DIRECTOR OF ACCOUNTS AND BUDGETS

FINDING 04.02 **DEFICIENCIES WERE NOTED IN THE COUNTY'S PURCHASING PROCEDURES (Noncompliance Under Government Auditing Standards)**

Overton County's purchasing procedures are governed by Section 5-14-101, et seq., Tennessee Code Annotated (TCA), the County Purchasing Law of 1957. Purchasing procedures in the Highway Department are also governed by Section 54-7-113, TCA. In Overton County, the county mayor serves as the purchasing agent. Our audit revealed the following deficiencies in the county's purchasing procedures:

- A. Purchase orders were not issued in some required instances. Section 5-14-109, TCA, requires certification by the director of accounts and budgets that the unencumbered balance in the appropriation to be charged with the expenditure is sufficient to defray the cost of the purchase.
- B. In a few instances, purchase orders were issued without the signature of the county's purchasing agent. Section 5-14-111, TCA, requires the purchasing agent to approve all purchase orders.
- C. Competitive bids were not solicited for the purchase of an all-terrain vehicle for Civil Defense (\$6,500), food supplies at the jail (\$116,838), and diesel motors for the Highway Department (\$15,000). Statutes provide for the purchasing agent to make all purchases for these departments when purchases exceed \$2,500 (\$5,000 for the Highway Department) and to solicit bids through public advertisement for these purchases.

RECOMMENDATION

Purchase orders should be issued for all purchases and should be approved by the county's purchasing agent. Also, all purchases estimated to exceed each department's bid limits should be made on the basis of competitive bids, as required by state statute.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

We concur. Overton County is continuing efforts to increase control over its purchasing procedure. The director of accounts and budgets and the county mayor have taken steps to notify vendors and county officials and department heads of the need to obtain properly completed purchase orders before the commitment to purchase is made. The county mayor, who is the purchasing agent, will strive to ensure all purchases, that meet bidding requirements are made on the basis of competitive bidding. One of the items noted as not being bid, the all-terrain vehicle for the emergency management department, was purchased on the basis of what was thought to be a state Department of General Services bid item. However, there was a miscommunication between the vendor, the emergency management department, and the purchasing agent concerning this vehicle, and the purchase was not made correctly. The purchasing agent will be more aware of state contract bidding requirements for future purchases.

FINDING 04.03 **CONTROLS OVER INVENTORY WERE INADEQUATE**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit revealed the following deficiencies in controls over the county's assets:

- A. Although the county maintained inventory records, several items were not identified adequately with property tags, bar codes, serial numbers, or other means of identification.

- B. An inventory of ambulances or the ambulance equipment was not maintained.

- C. No procedures were in place to ensure that personnel independent of maintaining inventory records verified the records periodically.

Generally accepted accounting principles require accountability for all county-owned assets.

RECOMMENDATION

Inventory records should adequately describe all county property by tags, bar codes, serial numbers, and/or other means of identification. Also, inventory records of the county's ambulances and their equipment should be maintained. To further ensure accountability for the county's assets, personnel independent of maintaining the inventory should verify these records.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

We concur. This area will be addressed and corrected along with finding 04.01.

FINDING 04.04 THE OFFICE DID NOT IMPLEMENT ADEQUATE CONTROLS TO PROTECT ITS INFORMATION RESOURCES AGAINST UNAUTHORIZED MODIFICATION
(Internal Control – Reportable Condition Under Government Auditing Standards)

The office did not implement adequate controls to protect its information resources against unauthorized modification. The failure to provide such controls increases the risk that individuals could inappropriately access and manipulate the county’s computer system, software applications, and sensitive information.

This finding does not identify specific vulnerabilities that could allow someone to exploit the office’s information system or misuse county funds. Disclosure of those vulnerabilities could present a potential security risk by providing the readers with information that might be confidential pursuant to Section 10-7-504(i), Tennessee Code Annotated. We provided the official with detailed information regarding the specific vulnerabilities we identified, as well as our recommendations for improvement.

RECOMMENDATION

The office should ensure that adequate controls over information systems and the resources associated with those systems are implemented. Also, the office should take steps to establish or improve any compensating controls until these conditions are remedied.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 04.05 THE OFFICE DID NOT FILE THE DEBT OBLIGATIONS REPORT WITH THE STATE DIRECTOR OF LOCAL FINANCE
(Noncompliance Under Government Auditing Standards)

The office did not file a Report of Debt Obligations with the state director of Local Finance for a lease-purchase agreement of \$137,066 for geothermal equipment. Section 9-21-151, Tennessee Code Annotated, requires that within 45 days following the issuance of debt, a county must provide to the state director of Local Finance certain information, such as a description of the purchase for which the debt is issued, a description of the debt obligation, and an itemized description of the cost of issuance.

RECOMMENDATION

All debt obligations should be reported to the state director of Local Finance, as required by state statute.

FINDING 04.06 INVENTORY RECORDS OF DEPARTMENT ASSETS WERE NOT VERIFIED BY INDEPENDENT PERSONNEL
(Internal Control – Reportable Condition Under Government Auditing Standards)

Although the School Department maintained lists of its assets, these lists were not periodically verified by personnel independent of maintaining the inventory. Generally accepted accounting principles require accountability for all county-owned assets, such as vehicles, furniture, and equipment. The failure to adequately maintain inventory records results in a loss of control over the assets.

RECOMMENDATION

Personnel independent of maintaining the department’s inventory should periodically verify these records.

OFFICE OF COUNTY CLERK

FINDING 04.07 THE COUNTY CLERK DID NOT REQUIRE A DEPOSITORY TO COLLATERALIZE FUNDS THAT EXCEEDED FDIC COVERAGE
(Noncompliance Under Government Auditing Standards)

The county clerk did not require the depository holding county funds to pledge securities to protect funds that exceeded Federal Deposit Insurance Corporation (FDIC) coverage. At June 30, 2004, funds on deposit exceeded FDIC coverage by \$82,649. 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.

RECOMMENDATION

County officials should require all depositories to pledge securities to protect county funds exceeding FDIC coverage, as required by state statute.

FINDING 04.08 FUNDS WERE NOT DEPOSITED INTACT WITHIN THREE DAYS OF COLLECTION
(Noncompliance Under Government Auditing Standards)

Funds were not deposited to the office bank account intact within three days of collection, as required by Section 5-8-207, Tennessee Code Annotated. This statute requires that county officials deposit all funds within three days of collection.

RECOMMENDATION

Funds should be deposited to the office bank account intact within three days of collection, as required by state statute.

OFFICE OF GENERAL SESSIONS COURT CLERK

FINDING 04.09 RECEIPTS WERE NOT ISSUED FOR TRAFFIC SCHOOL PAYMENTS
(Noncompliance Under Government Auditing Standards)

Receipts were not issued for collections received from individuals attending the county's traffic school. The traffic school was conducted at the courthouse after normal business hours, and office employees collected payments at the time the class was conducted. On the day following the class, the payments were receipted in General Sessions Court on a single receipt for the total amount collected. Section 9-2-103, Tennessee Code Annotated, requires that receipts be issued for all collections as they are received.

RECOMMENDATION

Individual receipts should be issued for all traffic school collections when the payments are received, as required by state statute.

FINDING 04.10 FUNDS WERE NOT DEPOSITED INTACT WITHIN THREE DAYS OF COLLECTION
(Noncompliance Under Government Auditing Standards)

Funds were not deposited to the office bank account intact within three days of collection, as required by Section 5-8-207, Tennessee Code Annotated. This statute requires that county officials deposit all funds within three days of collection.

RECOMMENDATION

Funds should be deposited to the office bank account intact within three days of collection, as required by state statute.

OFFICE OF SHERIFF

FINDING 04.11 FUNDS WERE NOT DEPOSITED WITHIN THREE DAYS OF COLLECTION
(Noncompliance Under Government Auditing Standards)

Funds were not deposited to the office bank account within three days of collection, as required by Section 5-8-207, Tennessee Code Annotated. This statute requires that county officials deposit all funds within three days of collection.

RECOMMENDATION

Funds should be deposited to the office bank account within three days of collection, as required by state statute.

FINDING 04.12 COMMISSARY ACCOUNT TRANSACTIONS WERE NOT MAINTAINED ON THE CASH JOURNAL
(Noncompliance Under Government Auditing Standards)

Although the office maintained accounting records for commissary funds, commissary transactions were not reflected on the cash journal. The cash journal is the office's cash control record and should reflect all financial activity.

RECOMMENDATION

All accounting transactions of the office should be reflected on the cash journal.

FINDING 04.13 THE OFFICE DID NOT DOCUMENT CONFIDENTIAL DRUG FUND EXPENDITURES IN COMPLIANCE WITH STATE GUIDELINES
(Noncompliance Under Government Auditing Standards)

Several forms and reports required by the Office of the Comptroller of the Treasury to account for drug control funds were not completed. These forms and reports are necessary to document the administration of confidential drug funds and to account for cash transactions related to undercover investigative operations.

RECOMMENDATION

The sheriff should ensure that the office completes all forms and reports required by the Office of the Comptroller of the Treasury.

OTHER FINDING

FINDING 04.14

DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF COUNTY MAYOR, DIRECTOR OF ACCOUNTS AND BUDGETS, HIGHWAY SUPERINTENDENT, DIRECTOR OF SCHOOLS, 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 officials and employees in the Offices of County Mayor, Director of Accounts and Budgets, Highway Superintendent, Director of Schools, Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff. Officials and employees responsible for maintaining the accounting records in these offices were also involved in receipting, depositing, and/or disbursing funds. 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.