

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

### **PICKETT COUNTY AND THE PICKETT 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)

Pickett County and the Pickett County School Department did not identify and determine the historical value of their capital assets and the related depreciation amounts of these assets. Therefore, Pickett County and the Pickett 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, Pickett County’s and the Pickett County School Department’s financial statements are not presented in accordance with generally accepted accounting principles; thus, we have issued adverse opinions on the ir financial statements.

The Office of the Comptroller of the Treasury, State of Tennessee, requires governments 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. Pickett County’s and the Pickett County School Department’s financial statements are presented in compliance with these requirements.

#### **RECOMMENDATION**

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

## **OFFICE OF COUNTY MAYOR**

**FINDING 04.02**      **INVENTORY RECORDS WERE NOT MAINTAINED**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Inventory records were not maintained for assets owned by the general county government. Generally accepted accounting principles require accountability for all county-owned assets, such as equipment, furniture, and vehicles.

### **RECOMMENDATION**

The office should maintain inventory records of all assets, as required by generally accepted accounting principles. Furthermore, personnel independent of maintaining the inventory should periodically verify the inventory records.

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**FINDING 04.03**      **THE OFFICE HAD PAID INVOICES WITHOUT PROPER SUPPORTING DOCUMENTATION**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

In several instances, invoices were paid without documentation that goods and services were received. This practice weakens controls over the purchasing process. We extended our audit procedures and determined that these goods and services were received.

### **RECOMMENDATION**

The office should obtain documentation that goods and services were received before invoices are paid.

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**FINDING 04.04**      **DEFICIENCIES WERE NOTED IN LANDFILL OPERATIONS**  
(A. Noncompliance Under Government Auditing Standards; B. and C. Internal Control – Reportable Condition Under Government Auditing Standards)

The following deficiencies were noted in our examination of landfill operations:

- A. Official, prenumbered receipts were not issued for all collections received at the landfill, as required by Section 9-2-103, Tennessee Code Annotated.
- B. The County Commission had not established a formal, written policy for the write-off of uncollectible accounts receivable.

- C. Landfill collections were not reconciled with the amounts deposited with the county trustee.

RECOMMENDATION

Landfill personnel should issue official, prenumbered receipts for all collections, as required by state statute. Also, the County Commission should establish a write-off policy for uncollectible accounts receivable, and landfill collections should be reconciled with amounts deposited with the county trustee.

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FINDING 04.05      **THE COUNTY HAD NOT ADOPTED A CAPITAL ASSETS POLICY**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The county had not adopted a formal capital assets policy for recording capital assets presented in the proprietary fund statements. Officials have historically recorded assets at cost, estimated the useful life, and depreciated assets on a straight-line method based on the estimated useful life.

RECOMMENDATION

The county should adopt a formal capital assets policy detailing the recording of capital assets in the financial statements. This policy should include, at a minimum, the method for determining the cost of the asset, the depreciation method, and a schedule of useful lives of each type of asset.

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**OFFICE OF HIGHWAY SUPERINTENDENT**

FINDING 04.06      **THE OFFICE DID NOT MAINTAIN ADEQUATE CONTROLS OVER CONSUMABLE ASSETS**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The office did not maintain inventory records of consumable assets, such as fuel, tires, repair parts, and rock. The failure to maintain adequate records of consumable assets weakens controls over these assets and increases the risk of inventory loss.

RECOMMENDATION

The office should maintain records of consumable assets, such as fuel, tires, repair parts, and rock. Furthermore, personnel independent of maintaining the inventory should periodically verify these records.

## **OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK**

### **FINDING 04.07      **TRAFFIC SCHOOL COLLECTIONS WERE NOT REPORTED AND PAID TO THE COUNTY IN COMPLIANCE WITH STATE STATUTES****

(Noncompliance Under Government Auditing Standards)

The general sessions court clerk did not report and pay traffic school tuition to the county, as required by Section 58-105, Tennessee Code Annotated (TCA). Instead, the clerk disbursed traffic school collections of \$14,104.93 for community service program expenditures; traffic school expenditures; pagers for the clerk, general sessions judge, and youth services officer; furnishings for the office and courtroom; and a contribution to the DARE program. These disbursements also included payments of \$10,825 that were made to the clerk's bookkeeper for her duties at the traffic school at the order of the general sessions judge. These payments were reported to the IRS on a Form 1099; however federal income taxes, social security and retirement were not withheld.. Section 5-9-401, TCA, requires all funds to be appropriated by the County Commission. On June 30, 2004, the office had traffic school collections of \$11,380.52 in the bank that had not been remitted to the county.

### **RECOMMENDATION**

All traffic school collections should be remitted to the county trustee monthly and placed in the General Fund, and all disbursements of traffic school collections should be made only from the General Fund after being appropriated by the County Commission. In addition, county officials should review the payments made to the clerk's bookkeeper to determine additional liabilities, such as overtime pay and additional retirement benefits.

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### **FINDING 04.08      **COLLECTIONS WERE NOT RECEIPTED AND DEPOSITED PROPERLY****

(Noncompliance Under Government Auditing Standards)

Collections were not receipted and deposited properly. Office employees stated that collections pertaining to a case often were not receipted until a case number was determined. If a case number was not known at the time collections were received, a handwritten receipt from the computer receipt stock was often issued to the individual making the payment to the office. The handwritten receipt and money were then held in the office until a case number was determined. Once the case number was assigned, an official, computer-generated receipt was issued, the receipt was entered into the general ledger, and the funds were deposited. Section 9-2-103, et seq., Tennessee Code Annotated (TCA), requires that official, prenumbered receipts be issued at the time funds are received. Also, Section 5-8-207, TCA, requires that county officials deposit funds within three days of collection.

## RECOMMENDATION

Official receipts should be issued when funds are received, and all collections should be deposited to the office bank account within three days of collection in compliance with state statutes.

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FINDING 04.09      **THE EXECUTION DOCKET TRIAL BALANCES DID NOT RECONCILE WITH GENERAL LEDGER ACCOUNTS FOR CIRCUIT AND GENERAL SESSIONS COURTS**  
(Noncompliance Under Government Auditing Standards)

As of June 30, 2004, the clerk had prepared trial balances of execution docket cause balances for Circuit and General Sessions Courts, as required by Section 18-2-103, Tennessee Code Annotated (TCA). However, these trial balances failed to reconcile with general ledger accounts by \$50,978.45 in Circuit Court and by \$31,563.43 in General Sessions Court. Therefore, we were unable to determine if the clerk had complied with provisions of the Unclaimed Property Act, Section 66-29-101, TCA. This statute provides that any funds held by the courts 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

The clerk should reconcile trial balances of execution docket cause balances with general ledger accounts. 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.

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## OFFICE OF SHERIFF

FINDING 04.10      **ACCOUNTING RECORDS WERE NOT MAINTAINED PROPERLY**  
(A. and B. Internal Control – Reportable Condition Under Government Auditing Standards; C. Noncompliance Under Government Auditing Standards)

The following deficiencies were noted during our examination of the office's accounting records:

- A. The cash journal did not accurately reflect operations because it had not been posted from November 2003 through June 2004. Also, drug control transactions were not posted to the cash journal. Cash receipts and disbursements for this office were determined by substantive testing and alternative auditing procedures.

- B. Bank statements were not reconciled with cash journal accounts. The bank balance was determined by confirmation and alternative auditing procedures.
- C. Official, prenumbered receipts were not issued for some collections. Section 9-2-103, Tennessee Code Annotated, requires that official, prenumbered receipts be issued for all collections.

RECOMMENDATION

The cash journal should be maintained on a current basis and should accurately reflect all operations. Bank statements should be reconciled with cash journal accounts monthly. Also, official, prenumbered receipts should be issued for all collections when received, as required by state statute.

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FINDING 04.11      **REQUIRED FORMS DOCUMENTING CONFIDENTIAL DRUG EXPENDITURES WERE NOT PREPARED**  
(Noncompliance Under Government Auditing Standards)

The office did not use the forms required by the Office of the Comptroller of the Treasury to document confidential drug fund expenditures. The forms required by the Comptroller's Office are necessary to document the administration of confidential drug funds and to account for cash transactions related to undercover investigations.

RECOMMENDATION

The office should use the forms required by the Comptroller's Office to properly account for confidential drug funds.

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FINDING 04.12      **THE SHERIFF'S OFFICE HAD DEFICIENCIES IN ITS BOOKING PROCEDURES**  
(Noncompliance Under Government Auditing Standards)

The office did not maintain records to document that all arrestees were fingerprinted and that the fingerprints were filed with the Tennessee Bureau of Investigation (TBI), as required by Section 8-4-115, Tennessee Code Annotated (TCA). This statute requires that law enforcement agencies take two full sets of classifiable fingerprints at the time of a person's arrest and that the agency file the fingerprints with the TBI.

RECOMMENDATION

The Sheriff's Office should document that all arrestees are fingerprinted and that all fingerprints are filed with the TBI, as required by state statute.

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**OTHER FINDINGS AND RECOMMENDATIONS**

FINDING 04.13      **THE GENERAL SESSIONS JUDGE ORDERED CONTRIBUTIONS TO CHARITABLE OR CIVIC ORGANIZATIONS CONTRARY TO THE STATE ATTORNEY GENERAL'S OPINION**  
(Noncompliance Under Government Auditing Standards)

The general sessions judge ordered defendants to make contributions to charitable or civic organizations in addition to fines and costs on certain General Sessions Court cases. The contributions were collected from defendants by the general sessions court clerk and paid to the charitable or civic organization designated by the judge. The state attorney general opined in opinion number U91-80 that the general sessions judge does not have the authority to order a defendant to make a contribution to a designated charitable or civic organization in addition to a fine or as an alternative to incarceration.

RECOMMENDATION

All General Sessions Court cases should be adjudicated in accordance with provisions specifically authorized by state statutes or other legal authority.

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FINDING 04.14      **A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Pickett 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

Pickett 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.

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FINDING 04.15

**DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF COUNTY MAYOR, 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, 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 accounting records 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.