

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 executive, director of schools, and county clerk 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.

PUTNAM COUNTY AND PUTNAM 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)

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

RECOMMENDATION

Putnam County and the Putnam 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.

MANAGEMENT’S RESPONSE – COUNTY EXECUTIVE

I concur with this finding. The valuing of assets and associated recordkeeping mandated by GASB 34 have been difficult and time consuming to implement. While we worked hard to

have everything in place by year-end, we still were unable to meet all of the requirements. We hope to have everything correct by the end of this fiscal year.

MANAGEMENT’S RESPONSE – DIRECTOR OF SCHOOLS

I concur. The School Department is currently maintaining an inventory of our capital assets. Every effort will be made to properly account for these capital assets prior to June 30, 2005.

OFFICE OF COUNTY EXECUTIVE

FINDING 04.02 **INVENTORY RECORDS WERE NOT PROPERLY MAINTAINED**
(Internal Control – Reportable Condition Under Government Auditing Standards and Noncompliance Under OMB Circular A-133)

During the prior fiscal year, the county contracted with a vendor to inventory, label, and value county assets. However, we noted that these records had not been properly updated for any purchases or disposals of assets since the inventory was initiated. In particular, we noted that assets purchased from an Assistance to Fire Fighters Grant (CFDA #93.044) were not labeled as county property or included on the inventory records of the county. OMB Circulars A-133 and A-122 Common Rule require that equipment records will be maintained for all equipment purchased with grant proceeds. In addition, generally accepted accounting principles require accountability for all county-owned assets, such as equipment, furniture, and vehicles. When inventory records are not maintained properly, controls over assets are weakened.

RECOMMENDATION

County officials should maintain inventory records of all county-owned assets, as required by generally accepted accounting principles, and assets purchased with federal grant funds should be inventoried, as required by applicable OMB Circulars A-133 and A-122.

MANAGEMENT’S RESPONSE – COUNTY EXECUTIVE

I concur with this finding. This is the area of compliance that we were unable to complete. We will continue to work to correct this finding.

FINDING 04.03 DEFICIENCIES WERE NOTED IN SOLID WASTE DEPARTMENT OPERATIONS

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

The following deficiencies were noted in our examination of the Solid Waste Department operations:

- A. The county’s Solid Waste Department maintained accounts receivable records for tipping fees paid by commercial haulers. Collections posted to these accounts receivable records were not reconciled with the collections deposited with the county trustee. We performed substantive testing and alternative auditing procedures on these revenues to determine that collections were deposited with the county trustee.

- B. Receipts were not issued for some solid waste collections, as required by Section 9-2-103, Tennessee Code Annotated (TCA). Without receipts, we were unable to determine if all collections had been accounted for and if all funds had been deposited within three days of collection, as required by Section 5-8-207, TCA.

RECOMMENDATION

Solid Waste Department receipts should be reconciled with the collections submitted to the county trustee monthly, and receipts should be issued for all collections, as required by state statute.

MANAGEMENT’S RESPONSE – COUNTY EXECUTIVE

I concur with this finding. Corrective action will be taken to prevent these deficiencies in the future.

OFFICE OF HIGHWAY SUPERINTENDENT

**FINDING 04.04 CONTROLS OVER INVENTORY WERE INADEQUATE
(Internal Control – Reportable Condition Under Government Auditing Standards)**

Our audit revealed the following deficiencies in controls over assets owned by the Highway Department:

- A. We noted several assets that were not tagged or otherwise clearly marked as county property.

- B. The inventory list did not contain the serial numbers of several assets.

- C. In a few instances, the inventory list had the wrong description or incorrect serial numbers listed for assets. We determined that the items were on hand and furnished the department the information to correct the records.
- D. The Highway Department did not have procedures to ensure that the inventory was verified by personnel independent of maintaining the records.

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

RECOMMENDATION

All assets should be tagged and clearly marked as county property, correct serial numbers and descriptions should be listed for all assets, and the highway superintendent should ensure that personnel independent of maintaining the inventory verify the records.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 04.05 **DEFICIENCIES WERE NOTED IN THE SCHOOL FEDERAL PROJECTS FUND**
(Noncompliance Under Government Auditing Standards)

The following deficiencies were noted in our examination of the School Federal Projects Fund:

- A. The School Department did not prepare and file its quarterly reimbursement requests for Title I; Title II, Part A; Title II, Part D; and Title III, Part A with the state Department of Education in a timely manner. A reimbursement request for each of these projects was filed on July 8, 2004, and included all of the expenditures for the period September 2003 through June 2004.
- B. The claims for reimbursement noted above were not posted on the School Department's records as receivables at June 30, 2004, causing several programs to reflect fund deficits. We have provided management with audit adjustments to properly reflect these receivables in the financial statements of this report.

RECOMMENDATION

Reimbursement requests for federal funds should be filed in a timely manner, and receivables should be reflected properly in the financial statements of the School Federal Projects Fund.

MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS

I concur with the finding.

OFFICE OF COUNTY CLERK

FINDING 04.06 **THE OFFICE DID NOT REPORT AND REMIT JUVENILE FINES IN ACCORDANCE WITH STATE STATUTES (Noncompliance Under Government Auditing Standards)**

At June 30, 2004, the office had not reported and remitted juvenile fines of \$37,425 to the county trustee and various cities within the county. The clerk collected partial payments on juvenile fines and held the collections until the entire fine was paid. We noted fines held for collections dated as far back as July 1998. Sections 9-2-108 through 9-2-114, Tennessee Code Annotated, require all county and city revenues to be reported and paid to the county quarterly.

RECOMMENDATION

The office should remit all collections in compliance with state statutes.

MANAGEMENT'S RESPONSE – COUNTY CLERK

It was my intent to have already implemented a new computer system in the Juvenile Court section of my office and to have begun the process of reducing the amount of juvenile fines and court costs held in the office. However, that system has not been put into place yet, but should be in operation within the next several months.

The juvenile court judge allows many defendants to be put on a payment plan for their juvenile court fines and court costs. Many of these defendants will pay for a period of time and then will skip some payments and must be brought again into juvenile court for their failure to pay costs. Funds are held in this office until the full amount is collected; then disbursements are made to the proper entities and the county trustee. This procedure was put into place several years ago, before my tenure as clerk.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 04.07 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF HIGHWAY SUPERINTENDENT, TRUSTEE, 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 the officials and employees in the Offices of Highway Superintendent, Trustee, 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.

FINDING 04.08

A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED

(Internal Control – Reportable Condition Under Government Auditing Standards)

Putnam County officials had not adopted a system of central accounting, budgeting, and purchasing covering all county departments. Establishing a central system would significantly improve internal controls over the accounting, budgeting, and purchasing processes.

RECOMMENDATION

Putnam 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.

MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS

I do not concur.