

## 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.

### OFFICES OF DIRECTOR OF FINANCE, COUNTY MAYOR, AND DIRECTOR OF SCHOOLS

#### FINDING 04.01      **SEVERAL FUNDS HAD ACCOUNTING DEFICIENCIES** (Internal Control – Material Weakness Under Government Auditing Standards)

Our audit revealed the following deficiencies:

- A.      The General Fund had a fund deficit of \$147,187 at June 30, 2004. This deficit resulted from an airport improvement construction contract of \$152,033 being reserved as encumbrances in the financial statements. This deficit is expected to be liquidated from grant proceeds from the federal government subsequent to June 30, 2004.

Generally accepted accounting principles require unperformed contracts to be reflected as a reservation (encumbrance) of fund balance. If unperformed portions of the airport improvement construction contract had not been reserved as an encumbrance of the fund balance in the financial statements, the General Fund would have reflected a fund balance of \$4,846. The following statement presents the condition of the General Fund at June 30, 2004, if the unperformed portion of the contract had not been reflected as a reservation of the fund balance:

General Fund  
Fund Equity - Restated  
June 30, 2004

#### Fund Balance

Unreserved:	
Undesignated	\$      4,846
Fund Balance, June 30, 2004	
Restated	<u>          4,846</u>

- B.      The Solid Waste/Sanitation Fund had a deficit fund balance of \$1,629 on June 30, 2004.
- C.      The Education Capital Projects Fund had a fund deficit of \$3,695,515 at June 30, 2004. This fund deficit resulted from the unperformed portions of construction projects of \$3,647,444 being reserved as encumbrances and

\$109,726 being reflected as current liabilities. During the year, Scott County entered into an other loan agreement that will provide \$2,655,741 for future funding of these obligations and commitments. Management has indicated that additional funding for the balance of \$1,039,774 is expected to be received from local revenue and future debt issuance. However, as of the date of this report, the county has only approved additional debt of \$800,000 for this project, and this fund has not received any local revenue.

- D. The Public Utility Fund (Enterprise Fund) had an unrestricted net assets deficit of \$104,526 on June 30, 2004.
- E. The Solid Waste Disposal Fund (Enterprise Fund) reflected a deficit in total net assets of \$499,965 and had an unrestricted net assets deficit of \$566,137 on June 30, 2004. This deficit resulted primarily from a liability of \$460,477 being recorded in the Solid Waste Disposal Fund for closure and postclosure care costs. However, this fund still would have reflected a total net assets deficit of \$39,488 without this liability.
- F. The General Purpose School Fund had a cash overdraft of \$102,040 at June 30, 2004. This overdraft occurred because warrants that exceeded cash on deposit with the county trustee were issued.

#### RECOMMENDATION

County officials should take steps to ensure that the fund deficits, net asset deficits, and the cash overdraft are liquidated. Steps should also be taken during the budgetary process to ensure that adequate funding is provided to prevent the recurrence of deficits and overdrafts.

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#### OFFICES OF COUNTY MAYOR AND DIRECTOR OF FINANCE

FINDING 04.02      **SERIOUS DEFICIENCIES WERE NOTED IN PREPARING AND MONITORING THE GENERAL FUND AND DRUG CONTROL FUND BUDGETS**  
(Internal Control – Material Weakness Under Government Auditing Standards)

Our audit revealed the following deficiencies:

- A. Actual revenues and available funding of the General Fund were less than budget estimates by nearly \$600,000 for the year ended June 30, 2004. Budget estimates for revenues and available funding were not adequately monitored and adjusted during the year. The following table reflects the actual amount, budgeted amount, and variance for certain revenues and available funding:

	Actual	Budgeted	Variance
Local Taxes	\$ 2,009,903	\$ 2,061,307	\$ (51,404)
Federal Government	952,355	1,072,945	(120,590)
Other Governments and Citizen Groups	28,919	84,631	(55,712)
Note Issued	167,923	270,800	(102,877)
Beginning Fund Balance	236,379	533,582	(297,203)

- B. In addition to the budgeting deficiencies noted for revenue and available funds, the county failed to properly budget for the unperformed portion of an airport improvement project. Consequently, expenditures and encumbrances exceeded appropriations approved by the County Commission in the Airport major appropriation category of the General Fund by \$149,917.
- C. Expenditures exceeded appropriations approved by County Commission in the Drug Control Fund by \$8,243. This overexpenditure primarily resulted from \$22,455 being expensed for deputies without any appropriations for that line item.

#### RECOMMENDATION

The revenue estimates used in the 2004-05 budget should be monitored constantly and budget revisions made if necessary. These revisions should include adjusting expenditure appropriations to the level of actual available funding. Expenditures should be held within appropriations approved by the Board of County Commissioners.

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**FINDING 04.03      UNAUTHORIZED INTERFUND LOANS WERE MADE DURING THE YEAR AND REMAIN OUTSTANDING**  
 (Material Noncompliance Under Government Auditing Standards)

In order to provide cash for operations, the offices made interfund loans from the Ambulance Service Fund to the General Fund (\$250,000) and from the General Debt Service Fund to the Public Utility Fund (\$17,700) during the year. These loans were, in effect, revenue anticipation notes and were not approved by the County Commission or by the state director of Local Finance, as required by Section 9-21-408, Tennessee Code Annotated (TCA). In addition, these loans had not been repaid as of the date of this report. Section 9-21-408, TCA, requires all revenue anticipation notes to be repaid by the end of the fiscal year.

## RECOMMENDATION

All interfund loans should be approved by the County Commission and the state director of Local Finance, as required by state statute. Also, interfund loans should be repaid before the end of the fiscal year, as required by state statute.

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FINDING 04.04      **THE COUNTY DID NOT REQUEST GRANT REIMBURSEMENT PROMPTLY**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The county was awarded a federal grant to fund 90 percent of the construction cost of a visitor center. Even though the contractor had billed the county \$192,105 in December 2003 and \$47,475 in March 2004 for a total of \$239,580 on this project, the county did not request funding from the grantor until June 2004 and did not pay the contractor until the grant funds were received in July 2004.

## RECOMMENDATION

Grant funds should be requested promptly to provide cash to pay the county's obligations.

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## OTHER FINDING AND RECOMMENDATION

FINDING 04.05      **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF TRUSTEE, COUNTY CLERK, CLERK AND MASTER, AND REGISTER**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among officials and employees in the Offices of Trustee, County Clerk, Clerk and Master, and Register. Officials and employees responsible for maintaining the 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.