

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. Management did not offer written responses to the findings. Officials offered oral responses; however, we did not include these oral responses in this report.

OFFICE OF REGISTER

FINDING 04.01 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICE OF REGISTER**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among the official and employees in the Office of Register. The official 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.

OTHER FINDING AND RECOMMENDATION

FINDING 04.02 **THE COUNTY DID NOT MEET THE REQUIRED FIVE-YEAR AVERAGE FOR LOCAL REVENUES IN THE HIGHWAY/PUBLIC WORKS FUND**
(Material Noncompliance Under Government Auditing Standards)

Sullivan County did not meet the required five-year average for local revenues allocated to the Highway/Public Works Fund. Section 67-3-901, Tennessee Code Annotated (TCA), requires that counties appropriate and allocate "... funds for road purposes from local revenue sources in an amount not less than the average of the five (5) preceding fiscal years ..." in order to be eligible to receive the gas tax increases imposed by the legislature in 1985.

Revenues of the Highway/Public Works Fund from the 2003-04 year are summarized in the following table:

	2003-04 Year
Local Revenues	\$ 3,646,964
State, Federal, and Other Revenues	<u>2,772,104</u>
Total Revenues	<u><u>\$ 6,419,068</u></u>
Average of Local Revenues for Five Preceding Years	\$ 4,266,730
Excess (Deficiency) of Local Revenues Compared to Average of Five Preceding Years	\$ (619,766)

To replace dramatically declining interest revenues, the County Commission, in its 2003-04 year budget, lowered its estimate of interest earnings and included estimated new revenues from a proposed local wheel tax (\$1,037,000). However, the wheel tax was never enacted. Although the County Commission adopted the budget during June 2003, debate concerning approving the wheel tax continued until November 2003. At that time, the wheel tax resolution was withdrawn by its sponsor. Therefore, these budgeted wheel tax revenues, which were necessary to meet the five-year average of local funds for the 2003-04 year, did not materialize.

For the 2004-05 year budget, the County Commission adopted a budget that included a five-percent increase in the tax rate that was allocated to the Highway/Public Works Fund. The property tax allocated to the fund should provide a sufficient level of funding of local revenues to meet the five-year average requirement.

RECOMMENDATION

Sullivan County should monitor revenue of the Highway/Public Works Fund to ensure compliance with local revenue requirements of Section 67-3-901, TCA.