

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 quoted directly in this report. Other officials offered oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

TIPTON COUNTY AND TIPTON 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)

Tipton County and the Tipton County School Department did not identify and determine the historical value of their capital assets and the related depreciation amounts of these assets. Therefore, Tipton County and the Tipton 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, Tipton County’s and the Tipton 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 No. 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. Tipton County’s and the Tipton County School Department’s financial statements are presented in compliance with these requirements.

RECOMMENDATION

Tipton County and the Tipton 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 MAYOR

We concur and will take the necessary steps to insure the correction of this finding before the next audit.

OFFICE OF COUNTY MAYOR

FINDING 04.02 **EXPENDITURES EXCEEDED APPROPRIATIONS IN THE GENERAL FUND**

(Noncompliance Under Government Auditing Standards)

Expenditures exceeded appropriations approved by the County Commission in the Juvenile Court (\$29,939) and Jail (\$43,802) major appropriation categories of the General Fund. Section 5-9-401, Tennessee Code Annotated, states that “all funds ... including, but not limited to ... taxes, county aid funds, federal funds and fines, which are to be used in the operation and respective programs of the various departments, commissions, institutions, boards, offices, and agencies of county governments shall be appropriated to such use by the county legislative bodies.”

RECOMMENDATION

Expenditures should be held within appropriations approved by the County Commission.

MANAGEMENT’S RESPONSE – COUNTY MAYOR

We concur, however; we request that the reasons for the overexpenditures be considered

1. The county had a state prisoner in intensive care for over 40 days. The Hospital contacted us after the June Commission meeting and offered to discount the \$253,000 plus bill to \$150,000 if we paid the bill before June 25. After getting the approval of the Finance and Administration Committee this bill was paid saving the county over \$103,000. This expenditure was subsequently presented and approved by the County Commission on July 12, 2004.
2. The county has a contract with Helicon, who operates a “court school” paid for with a state grant. This is an “in and out” grant. They bill the state and Tipton County at the same time however; our bill states that the bill is not due until the money is received from the state. We received an invoice dated June 9, 2004, after the County Commission met on June 12, which was encumbered on June 30. As of August 5, 2004, the revenue has not been received nor has the bill been paid.

OFFICE OF COUNTY MAYOR AND OFFICE OF DIRECTOR OF PUBLIC WORKS

FINDING 04.03 **ANIMAL CONTROL OPERATIONS WERE BUDGETED IMPROPERLY**

(Noncompliance Under Government Auditing Standards)

For the 2003-04 year, animal control operations were budgeted and operated in the Highway/Public Works Fund, a fund that is intended to be used solely to account for highway and public works operations. Animal control operations are part of the general operating activities of the county and therefore should be accounted for in the county's General Fund. We noted that revenues from animal registrations were insufficient to cover the costs of the animal control operation, resulting in Highway/Public Works funds supplementing the cost of animal control in the county. The state attorney general has opined that state statutes authorize a county to levy a tax for county purposes and has defined "county general purposes levy" as a levy for all county purposes except roads, bridges, schools, etc. These expenditures represent the use of highway funds for general county purposes.

RECOMMENDATION

Animal control operations should be budgeted and disbursed from the county's General Fund, and the Highway/Public Works Fund should be used only for highway purposes.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

We acknowledge the finding; however, the Tipton County Commission has, by private act, directed the Director of Public Works to operate the animal control program. It is with that authorization that it is budgeted within his area of control.

REBUTTAL

The county mayor provided us with a resolution approved by the County Commission entitled the "Tipton County Animal Control Act – August 2002" that establishes animal control procedures in Tipton County. In this resolution, the County Commission directed all funds received from animal control activities to be deposited in the county's Highway/Public Works Fund. However, as previously mentioned, the state attorney general has opined that highway funds may not be used for general county purposes such as animal control. The County Commission cannot legally adopt resolutions that circumvent or conflict with state statute. Therefore, management should either account for the animal control operations in the county's General Fund or establish a special revenue fund specifically for this purpose.

OTHER FINDING AND RECOMMENDATION

FINDING 04.04 **A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Tipton 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

Tipton 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 – COUNTY MAYOR

We acknowledge this finding as a recommendation to be considered.