

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, and trustee are quoted directly in this report. The written responses of the director of schools is paraphrased in this report.

HARTSVILLE/TROUSDALE COUNTY GOVERNMENT AND HARTSVILLE/TROUSDALE COUNTY GOVERNMENT 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)

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

RECOMMENDATION

Hartsville/Trousdale County Government and the Hartsville/Trousdale County Government 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 consolidated government’s and the School Department’s financial statements in accordance with generally accepted accounting principles.

MANAGEMENT’S RESPONSE – COUNTY EXECUTIVE

We concur. Hartsville/Trousdale County Government, like most county governments in Tennessee, has traditionally identified and accounted for capital assets for insurance purposes and proprietary reasons only. The government’s infrastructure has never been either identified or valued. As a government we are in the process of beginning to identify, value and establish depreciation schedules for all of Hartsville/Trousdale’s County Government’s capital assets and infrastructure. The County Commission will adopt a capitalization policy during the 2004-2005 fiscal year, including defining terms, inventorying methods, threshold amounts for recording capital assets, determination of useful lives and depreciation methods for various classes of capital assets and infrastructure. Hartsville/Trousdale County Government plans to accomplish these procedures by June 30, 2005; however, due to limited resources and staff, June 30, 2006, may be a more realistic date for full implementation of compliance with provision of Statement 34.

MANAGEMENT’S RESPONSE – DIRECTOR OF SCHOOLS

Trousdale County Board of Education is committed to complying with GASB standards.

OFFICE OF COUNTY EXECUTIVE

FINDING 04.02 **A LIST OF RECEIVABLES AND PAYABLES WAS NOT PREPARED FOR THE EDUCATION CAPITAL PROJECTS FUND**
(Material Noncompliance Under Government Auditing Standards)

A detailed list of receivables and payables was not prepared for the Education Capital Projects Fund. Additional audit procedures were performed to determine receivables and payables, and we provided the county with audit adjustments to properly reflect these amounts in the financial statements of this report.

RECOMMENDATION

Receivables and payables should be determined and recorded on the accounting records.



FINDING 04.03

THE ACTUAL BEGINNING FUND BALANCE OF THE GENERAL FUND EXCEEDED THE ESTIMATED BEGINNING FUND BALANCE BY A MATERIAL AMOUNT

(Material Noncompliance Under Government Auditing Standards)

The actual beginning fund balance in the General Fund was \$1,674,764 at July 1, 2003; however, the estimated fund balance reflected in the county's budget document was \$1,274,375. Therefore, the actual fund balance was \$400,389 more than the estimated fund balance presented to the Hartsville/Trousdale County Government County Commission during the budget approval process.

RECOMMENDATION

The estimate of the beginning fund balance for the General Fund should be made on a more realistic basis to provide county officials with accurate information on which to base funding decisions.

FINDING 04.04

DEFICIENCIES WERE NOTED IN THE ISSUANCE OF PURCHASE ORDERS

(Internal Control – Reportable Condition Under Government Auditing Standards)

The county executive did not issue purchase orders in some applicable instances. Also, purchase orders often did not contain pertinent information regarding the items to be purchased, such as the estimated cost and the description of the items. Purchase orders are necessary to control who has purchasing authority for the county and to document purchasing commitments.

RECOMMENDATION

To strengthen internal controls over the purchasing process, purchase orders should be issued in all applicable instances and with as much of the pertinent information about the intended purchase as possible at the time of issue.

OFFICE OF HIGHWAY SUPERINTENDENT

FINDING 04.05

THE ACTUAL BEGINNING FUND BALANCE OF THE HIGHWAY/PUBLIC WORKS FUND EXCEEDED THE ESTIMATED BEGINNING FUND BALANCE BY A MATERIAL AMOUNT

(Material Noncompliance Under Government Auditing Standards)

The actual beginning fund balance in the Highway Public/Works Fund was \$187,296 at July 1, 2003; however, the estimated fund balance reflected in the county's budget document for that date was only \$96,149. Therefore, the actual fund balance was \$91,147 more than the estimated fund balance presented to the Hartsville/Trousdale County Government County Commission during the budget approval process.

RECOMMENDATION

The estimate of beginning fund balance should be made on a more realistic basis to provide county officials with accurate information on which to base funding decisions.

FINDING 04.06 **THE OFFICE DID NOT USE PURCHASE ORDERS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Office of Highway Superintendent did not issue purchase orders. Purchase orders are necessary to control who has purchasing authority for the county and to document purchasing commitments.

RECOMMENDATION

To strengthen internal controls over the purchasing process, the office should implement a purchase order system.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 04.07 **THE ACTUAL BEGINNING FUND BALANCE OF THE GENERAL PURPOSE SCHOOL FUND EXCEEDED THE ESTIMATED BEGINNING FUND BALANCE**
(Material Noncompliance Under Government Auditing Standards)

The actual beginning fund balance in the General Purpose School Fund was \$2,431,537 at July 1, 2003; however, the estimated fund balance reflected in the county's budget document for that date was only \$1,564,806. Therefore, the actual fund balance was \$866,731 more than the estimated fund balance presented to the Hartsville/Trousdale County Government County Commission during the budget approval process.

RECOMMENDATION

The estimate of beginning fund balance should be made on a more realistic basis to provide county officials with accurate information on which to base funding decisions.

MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS

Budget estimates are made on a conservative basis to ensure that the school system does not obligate funds that are not available. In addition, audited figures reflect adjustments to the estimated fund balance of approximately \$800,000 which our financial records did not show. In the future we will make estimates to the best of our ability.

REBUTTAL

This finding resulted from the School Department's using an estimated beginning fund balance that was never updated during the budgetary process as more accurate figures became available. The beginning fund balance estimate should be continually updated during the budget process to ensure the most accurate figures available are presented to the County Commission.

FINDING 04.08 **THE OFFICE HAD DEFICIENCIES IN THE PURCHASING PROCESS**

(Internal Control – Reportable Condition Under Government Auditing Standards)

Purchase orders were not issued for some purchases. Also, in several instances in which purchase orders were issued, the purchase orders were issued after the purchases were made. Purchase orders are necessary to control who has purchasing authority and to document purchasing commitments. The practice of issuing purchase orders after the purchase has been made defeats the purpose of the purchase order and makes the purchase order an approval of payment rather than an approval of the purchase.

RECOMMENDATION

The office should improve purchasing procedures by issuing purchase orders for all applicable purchases before purchases are made.

OFFICE OF TRUSTEE

FINDING 04.09 **THE TRUSTEE DID NOT REQUIRE ONE DEPOSITORY TO ADEQUATELY COLLATERALIZE FUNDS**

(Noncompliance Under Government Auditing Standards)

The trustee did not require one depository holding county funds to pledge adequate securities to protect funds that exceeded Federal Deposit Insurance Corporation (FDIC) coverage. At June 30, 2004, deposits at this depository exceeded FDIC coverage and collateral securities pledged by \$711,640. Section 5-8-201, Tennessee Code Annotated, provides for county officials to require any bank that is a depository of county funds to deposit in an escrow account in a second bank collateral security equal to 105 percent of such county funds.

RECOMMENDATION

The trustee should require all depositories to pledge adequate securities to protect county funds exceeding FDIC coverage, as required by state statute.

MANAGEMENT'S RESPONSE – TRUSTEE

As of June 30th, 2004, Citizens Bank of Hartsville had \$2,292,391.74 pledged for Hartsville/Trousdale County Government Trustee funds, however, an additional pledge amount of \$1,500,000 was made on July 6th, 2004 which was an adequate amount to protect county funds.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 04.10 **A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Hartsville/Trousdale County Consolidated Government 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

Hartsville/Trousdale County Consolidated Government 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.

FINDING 04.11 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF COUNTY EXECUTIVE, 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 Executive, 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.