

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. The written responses of the director of schools, superintendent of highways, and the county clerk 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.

WAYNE COUNTY AND WAYNE 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)

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

RECOMMENDATION

Wayne County and the Wayne 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.

OFFICE OF COUNTY MAYOR

FINDING 04.02 **THE OFFICE DID NOT ISSUE PURCHASE ORDERS FOR SOME APPLICABLE PURCHASES**

(Internal Control – Reportable Condition Under Government Auditing Standards)

The office did not issue purchase orders for some applicable purchases. Purchase orders are necessary to control who has purchasing authority and to document purchasing commitments.

RECOMMENDATION

To strengthen internal controls over the purchasing process and to document purchasing commitments, the office should issue purchase orders for all applicable purchases.

FINDING 04.03 **THE OFFICE HAS NOT IMPLEMENTED ADEQUATE CONTROLS TO PROTECT ITS INFORMATION RESOURCES AGAINST UNAUTHORIZED ACCESS, MODIFICATION, DESTRUCTION, OR DISCLOSURE**

(Internal Control – Reportable Condition Under Government Auditing Standards)

The Office of County Mayor has not implemented adequate controls to protect its information resources against unauthorized access. The failure to provide such controls increases the risk that individuals could inappropriately access and manipulate the county's sensitive information.

This finding does not identify specific vulnerabilities that could allow someone to exploit the office's information system or misuse county funds. Disclosing those vulnerabilities could present a potential security risk by providing the readers with information that might be confidential pursuant to Section 10-7-504(i), Tennessee Code Annotated. We provided the official with detailed information regarding the specific vulnerabilities we identified, as well as our recommendation for improvement.

RECOMMENDATION

The Office of County Mayor should ensure that adequate controls over information systems and the resources associated with those systems are implemented. The office should take steps to establish or improve any compensating controls until these conditions are remedied.

OFFICE OF SUPERINTENDENT OF HIGHWAYS

FINDING 04.04 **THE OFFICE HAD ACCOUNTING AND BUDGET DEFICIENCIES**

(Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit disclosed the following deficiencies in accounting and budget operations:

- A. Several expenditures were coded to expenditure accounts that did not reflect the true nature of the expenditure. For example, a \$35,000 payment to the General Debt Service Fund was coded to Other Road Supplies, and a salary supplement of \$13,783 for the bookkeeper was coded to Foremen. Audit adjustments have been provided to the county to properly classify these expenditures in the financial statements of this report.
- B. A proposed budget amendment was improperly posted to the general ledger as a general journal entry instead of a budget journal entry. This proposed budget amendment had not been submitted to the County Commission for approval and therefore has not been recognized in the financial statements of this report.
- C. The County Commission approved a budget amendment that incorrectly increased a liability account. This amendment has not been recognized in the financial statements of this report.

RECOMMENDATION

Expenditures should be coded to the account that most appropriately reflects the true nature of the transaction. Budget amendments should be submitted to the County Commission for consideration and approval before being posted to the financial records. Also, care should be exercised in preparing and recording budget amendments that affect revenue and expenditure accounts.

MANAGEMENT'S RESPONSE – SUPERINTENDENT OF HIGHWAYS

The superintendent of highways offered the following responses:

- A. In the future, extra attention will be used when posting expenditures to the appropriate accounts.
- B. The bookkeeper was aware of this posting error shortly after it had been posted. After talking with the auditor, we feel there will be no more posting errors between journal entries and budget amendments.
- C. This budget amendment has been reversed and is now posted correctly.

FINDING 04.05 **A COMPLETE COUNTY ROAD LIST WAS NOT PREPARED**
(Noncompliance Under Government Auditing Standards)

The superintendent of highways submitted the required list of county roads to the County Commission; however, this list did not include the required summary of changes from the prior year. Section 54-10-103, Tennessee Code Annotated, requires the highway superintendent to submit a list of county roads to the County Commission for its approval at the January session each year. This list must include a summary of changes from the prior year.

RECOMMENDATION

The superintendent of highways should submit to the County Commission a list of county roads that includes a summary of changes, as required by state statute.

MANAGEMENT'S RESPONSE – SUPERINTENDENT OF HIGHWAYS

The Wayne County Highway Department was found at fault for this finding during an audit of the fiscal year 2002-2003. We had previously submitted that we were unaware that a summary was to be submitted with the county road list. When this finding for the 2002-2003 audit was brought to our attention it was after the official county road list for 2003-2004 had been submitted. The Wayne County Highway Department will submit an adoption and deletion summary with the official county road list from this point forward.

FINDING 04.06 **THE HIGHWAY DEPARTMENT DID NOT MAINTAIN A SYSTEM TO ACCOUNT FOR THE USE OF ROAD MATERIALS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Highway Department had a system to determine the use of materials, such as bridge lumber, culvert tiles, and rock, for state-aid road projects. However, the department did not have a system to account for materials used on other types of road projects. The failure to maintain a system to document the use of road materials results in a loss of control over the assets and increases the risk of inventory loss.

RECOMMENDATION

The Highway Department should develop and implement a system to account for materials used on all types of road projects.

MANAGEMENT'S RESPONSE – SUPERINTENDENT OF HIGHWAYS

The Wayne County Highway Department documents on each invoice what road and project each material is used for. The highway department will begin keeping a log record of each road and all material used for the up-keep of that road.

FINDING 04.07

A ROAD ON THE COUNTY ROAD LIST WAS OBSTRUCTED
(Noncompliance Under Government Auditing Standards)

Although Jackson Road was on the county's official road list for several years, the Highway Department did not maintain the road. A property owner placed "no trespassing" signs at the entrance of this road, which appeared to be blocked approximately 100 yards from the entrance. Another property owner notified the superintendent of highways on April 26, 2004, that he was denied access to this public road. In interviews with the superintendent of highways and county mayor, they acknowledged a disagreement between the property owners about whether Jackson Road is a public road, yet county officials did not appear to have attempted to resolve the problem.

Section 54-10-110, Tennessee Code Annotated (TCA), prohibits any obstructions on public roads and provides that commissioners must bring suit against any persons obstructing the road within 30 days of their notification. In addition, Section 54-7-201, TCA, authorizes the superintendent of highways to remove any obstruction from public roads and rights-of-way.

RECOMMENDATION

Wayne County officials should remove all obstructions from and maintain all public roads on the county's official road list, as required by state statutes.

MANAGEMENT'S RESPONSE – SUPERINTENDENT OF HIGHWAYS

In light of the severe and on-going controversy between the two land owners involved and the fact that no land owner can be land locked by another land owner, I feel it is in the best interest of all involved that both parties settle this dispute and determine where the road should actually be reconstructed across the opposing parties property. Although the county uniform highway law gives the road superintendent the discretion as to whether or not to work a road I have never indicated to either party involved that I would not work the road. In fact I have informed both parties that I would work and maintain this road once the land owners have come to a mutual agreement on where the road should be reconstructed.

REBUTTAL

The location, length, width, etc., should already be noted on the county's road list. Wayne County officials should maintain all roads on the county's official road list.

OFFICE OF DIRECTOR OF SCHOOLS

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

(Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit disclosed the following deficiencies in purchasing procedures:

- A. Purchase orders were not issued for some applicable purchases. Purchase orders are necessary to control who has purchasing authority for the office and to document purchasing commitments.
- B. In several instances, purchase orders were issued after purchases were made. This practice defeats the purpose of issuing a purchase order and makes the purchase order an approval for payment, rather than an approval of the purchase.
- C. In some instances, invoices were not on file to support disbursements. However, our audit procedures determined that these purchases were legitimate purchases of the department.

RECOMMENDATION

To strengthen internal controls over the purchasing process and to document purchasing commitments, the office should issue purchase orders for all applicable purchases. In addition, the office should ensure that purchase orders are approved before purchases are made and should maintain adequate documentation to support disbursements.

MANAGEMENT’S RESPONSE – DIRECTOR OF SCHOOLS

The system will make efforts to correct.

FINDING 04.09 **THE OFFICE HAD ACCOUNTING DEFICIENCIES**

(Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit disclosed the following accounting deficiencies:

- A. Payroll deduction accounts were not reconciled monthly. Accounting personnel did not reconcile payroll deductions with vendor billings and remittances.
- B. The School Department sold gasoline to the Wayne County Senior Citizens Center and billed the center monthly. However, the center failed to pay one

month's billing for \$1,013, and accounting personnel did not discover this error until we brought this matter to their attention.

- C. Accounting personnel did not monitor requests for grant reimbursements. As a result, three grant reimbursements (\$7,869) were incorrectly recorded as revenue in the county's General Fund rather than in the School Department's General Purpose School Fund. Also, two grant reimbursements (\$9,000) that should have been recorded in the county's General Fund were incorrectly recorded as revenue in the School Department's General Purpose School Fund. Accounting personnel did not detect either of these errors. These transactions have been recorded properly in the financial statements of this report.

RECOMMENDATION

The office should reconcile payroll deduction accounts monthly, reconcile gasoline sold with reimbursements, and monitor grant reimbursement requests with receipts to ensure proper accounting.

MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS

The director of schools made the following responses:

- A. The system will make efforts to correct.
- B., C. The system will develop a procedure to closely monitor reimbursement requests to verify receipt.

OFFICE OF COUNTY CLERK

FINDING 04.10 **OFFICE TRANSACTIONS WERE NOT ACCOUNTED FOR PROPERLY FROM JULY 2003 THROUGH FEBRUARY 2004**
(A. Internal Control – Reportable Condition Under Government Auditing Standards; B. and C. Noncompliance Under Government Auditing Standards)

Our previous audit reported that on November 3, 2003, the Tennessee Department of Safety notified the county clerk and other county officials that the county clerk was delinquent in submitting the daily title and registration remittance reports from August 7, 2003, to November 3, 2003. Our examination revealed that financial transactions had not been posted properly through February 2004. On February 24, 2004, the county clerk hired a consultant to organize his office and bring records up to a current status. Our audit revealed the following deficiencies:

- A. Financial records were not posted currently; therefore, bank statements could not be reconciled with the office cash journal. The financial position of the

office could not be determined for the months ended July 2003 through February 2004.

- B. Remittances to the Department of Safety were not made on a current basis. Section 55-6-105(a)(5), Tennessee Code Annotated (TCA), states that the clerk must forward all applications with the appropriate fee to the state within five working days, with an additional five days allowed for any clerk who issues titles under contract with the state. As of March 12, 2004, all delinquent reports had been filed with the Tennessee Department of Safety.

- C. County reports (for example, wheel tax, business tax, wholesale beer tax, litigation tax, etc.) had not been prepared, and remittances had not been made to the county from July 2003 through February 2004. Section 67-4-213, TCA, provides that revenues collected for state and county officials be paid to the receiving agency within 15 days after the last day of each calendar month. Bank statements for October, November, December, January, and February reflected balances of \$425,172, \$401,900, \$483,320, \$426,017, and \$438,453, respectively. Most of this money in the bank account was due to Wayne County since the county clerk had not deposited local funds with the county trustee. The county clerk's consultant was not able to reconstruct all daily reports; however, by using receipts books and vehicle registration reports, the consultant estimated the amount of general revenues collected. On February 29, 2004, the county clerk remitted \$311,793 to the county for all unreported general revenues, fees, and commissions.

RECOMMENDATION

Transactions should be posted to the accounting records on a current basis, and bank statements should be reconciled with the cash journal monthly. In addition, state and county revenue reports should be prepared currently, and applicable funds should be remitted promptly.

MANAGEMENT'S RESPONSE – COUNTY CLERK

All of these findings have been corrected. All transactions are being posted on a daily basis. All monies are as well being posted and are being turned over to the county trustee at the beginning of each month.

FINDING 04.11 **THE OFFICE DID NOT DEPOSIT COLLECTIONS WITHIN THREE DAYS**
(Noncompliance Under Government Auditing Standards)

During the period July 2003 through February 2004, collections were not deposited to the office bank account within three days, as required by Section 5-8-207, Tennessee Code Annotated. This statute requires county officials to deposit all public funds within three days of collection. The clerk accumulated significant amounts of cash on hand,

representing several days of business transactions. By not depositing collections in a timely manner, the clerk exposed the office to additional security risks from theft, robbery, or fraud.

RECOMMENDATION

The county clerk should deposit funds within three days of collection, as required by state statute.

MANAGEMENT'S RESPONSE – COUNTY CLERK

Deposits are now being made daily in most cases, no longer than two days.

OFFICE OF SHERIFF

FINDING 04.12 **INTERNAL CONTROLS OVER RECEIVING AND STORING EVIDENCE AND SEIZED PROPERTY WERE NOT ADEQUATE (Internal Control – Reportable Condition Under Government Auditing Standards)**

We noted the following deficiencies in internal controls over receiving and storing evidence and seized property:

- A. The office did not maintain a perpetual log for evidence and seized property.
- B. Evidence and seized property were stored in two locations, and several people had access to those areas.
- C. The office did not maintain records of confiscated property reported to and awarded by the Department of Safety.

RECOMMENDATION

The office should do the following:

- A. A perpetual log should be maintained for all evidence and seized property. At a minimum, the log should include the following: date received, defendant, case number, description, location, signature areas for signing in and out, and disposition.
- B. If possible, evidence and seized property should be stored at a single secure location under the control of one person. This person should maintain the log, control access to the evidence and seized property, and ensure that evidence and seized property are identified properly and filed in an organized manner.

- C. Department of Safety confiscated property reports and awards should be maintained for all confiscated property.
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OTHER FINDINGS AND RECOMMENDATIONS

FINDING 04.13 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF 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 the officials and employees in the Offices of Director of Schools, Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff. Employees responsible for maintaining the accounting records in these offices were also involved in receipting, depositing, and/or disbursing funds.

RECOMMENDATION

To strengthen internal controls, officials of these offices should segregate duties adequately among employees.

FINDING 04.14 **A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Wayne 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

Wayne County officials should consider adopting either the County Financial Management System of 1981 or a private act that would provide for a system of central accounting, budgeting, and purchasing covering all county departments.