

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

FINANCE DEPARTMENT – PRIMARY GOVERNMENT AND 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)**

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

RECOMMENDATION

White County and the White 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 the governments’ 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 – DIRECTOR OF SCHOOLS (DIRECT QUOTE)

White County Finance Department hired a part-time employee to compile records to identify and determine the historical cost of capital assets of all departments which includes White County Schools.

FINDING 04.02 DEFICIENCIES WERE NOTED IN THE ACCOUNTING RECORDS ADMINISTERED BY THE FINANCE DEPARTMENT
(Material Noncompliance Under Government Auditing Standards)

Our examination disclosed the following deficiencies in the maintenance of the funds administered by the Finance Department:

- A. Encumbrances totaling \$602,922 were not reflected in the accounting records of the General Purpose School Fund at June 30, 2004. The failure to properly record encumbrances resulted in an overstatement of available fund balance at year-end.
- B. Payables were not properly determined and recorded on the accounting records of the Solid Waste Disposal Fund, as required by generally accepted accounting principles. Our audit procedures noted unrecorded payables totaling \$831,418 at June 30, 2004.
- C. During the year, officials recorded depreciation expense of \$307,646 to recognize the accumulated depreciation of fixed assets in the Solid Waste Disposal Fund. However, our review of the county's fixed asset records and audit calculations revealed that the depreciation expense for the year should have been \$231,032, a difference of \$76,614.

We presented audit adjustments to management for their approval and posting to properly present these amounts in the financial statements of this report.

RECOMMENDATION

County officials should properly determine and record expenditures, encumbrances, and liabilities on the accounting records, as required by generally accepted accounting principles.

FINDING 04.03 ACTUAL BEGINNING FUND BALANCES EXCEEDED ESTIMATED BEGINNING FUND BALANCES BY MATERIAL AMOUNTS
(Material Noncompliance Under Government Auditing Standards)

The actual beginning fund balances in the Highway/Public Works Fund and the General Purpose School Fund were \$386,394 and \$13,397,715, respectively, at July 1, 2003;

however, the estimated fund balances reflected in the county's budget document for that date were only \$227,928 for the Highway/Public Works Fund and \$12,180,938 for the General Purpose School Fund. Therefore, the actual fund balances were \$158,466 (Highway/Public Works Fund) and \$1,216,777 (General Purpose School Fund) more than the estimated fund balances presented to the County Commission for these funds during the budget approval process.

RECOMMENDATION

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

OFFICE OF COUNTY CLERK

FINDING 04.04 **THE OFFICE OF COUNTY CLERK HAD NOT IMPLEMENTED ADEQUATE CONTROLS TO PROTECT ITS INFORMATION RESOURCES AGAINST UNAUTHORIZED ACCESS, MODIFICATION, DESTRUCTION, OR DISCLOSURE**
(Internal Control – Reportable Condition Under Government Auditing Standards)

We observed that the Office of County Clerk had not implemented adequate controls to protect its information resources against unauthorized access, modification, destruction, or disclosure. The failure to provide such controls increases the risk that individuals could inappropriately access and manipulate the county's computer system, software applications, and 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 recommendations for improvement.

RECOMMENDATION

The Office of County Clerk 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.

MANAGEMENT'S RESPONSE – COUNTY CLERK (PARAPHRASE)

I contacted our software vendor regarding this matter last year and have recently sent another request to resolve this issue.

OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK

**FINDING 04.05 ACCOUNTING RECORDS WERE NOT MAINTAINED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND STATE STATUTES
(Material Noncompliance Under Government Auditing Standards)**

The clerk did not maintain accounting records for Circuit and General Sessions Courts in accordance with generally accepted accounting principles and state statutes. Our audit noted the following deficiencies in the clerk's records:

A. BANK STATEMENTS WERE NOT RECONCILED WITH ACCOUNTING RECORDS

Bank transactions of the Circuit and General Sessions Courts were not reconciled properly with general ledger cash accounts during the year. In past years, under contractual agreements with White County, we performed monthly reconciliations of the bank statements of each court. We last reconciled bank statements through January 31, 2003. We provided the clerk with these monthly reconciliations, including outstanding check lists, for future use.

During the year, personnel of the clerk's office attempted to prepare monthly reconciliations of the bank transactions of each court; however, these reconciliations reflected unexplained differences between bank balances and general ledger cash accounts at the end of each month. We reviewed the reconciliations, the general ledger cash account, and bank statements for the year, and we noted the following deficiencies:

1. At June 30, 2004, the cash balance reflected on the clerk's bank reconciliation exceeded the amount shown on the clerk's annual financial report in Circuit Court (\$571) and in General Sessions Court (\$12,127). Officials were unable to explain these differences.
2. A review of the bank statements noted cash overdrafts in the bank account of General Sessions Court for August 2003 (\$11,473) and September 2003 (\$17,968).
3. The outstanding check list for General Sessions Court that the clerk provided at year-end was unusable. It included checks that had been paid and were no longer outstanding and did not list any checks dated after June 22, 2004. We reviewed the bank statement for July 2004 and noted 55 checks totaling \$6,358 that had been issued by the office prior to June 30, 2004, but were not included on the clerk's list of outstanding checks.

Because of a change in the independence standards, we can no longer perform bank reconciliations and bookkeeping duties for county officials. We have repeatedly informed the clerk that these procedures were his responsibility and stressed the importance of properly reconciling the bank statements. During the prior exit

conference and subsequent conversations, the clerk and the bookkeeper were informed that if the current office personnel could not properly maintain the accounting records and perform the necessary reconciliations the clerk should consider the use of an outside source.

Because our independence standards do not allow us to perform bank reconciliations and perform bookkeeping duties for county officials, the cash balances reflected in the financial statements of the Circuit and General Sessions Courts in this report are not correct.

B. ANNUAL FINANCIAL REPORTS WERE NOT PROPERLY FILED FOR CIRCUIT AND GENERAL SESSIONS COURTS

The clerk prepared annual financial reports for Circuit and General Sessions Courts at June 30, 2004, but did not file these reports with the county clerk and the county mayor, as required by state statute. Section 5-8-505, Tennessee Code Annotated, states, "All appointive or elective county public officials, official county boards, committees and commissions ... having in their charge and custody public funds or moneys are required to file with the county mayor and with the county clerk ... an annual financial report ..."

C. THE EXECUTION DOCKET TRIAL BALANCES DID NOT RECONCILE WITH CASH JOURNAL ACCOUNTS

As of June 30, 2004, the clerk prepared execution docket trial balances for Circuit and General Sessions Courts, as required by Section 18-2-103, Tennessee Code Annotated (TCA). However, these trial balances did not reconcile with the general ledger by significant amounts. Therefore, we were unable to determine if the clerk had complied with provisions of the Unclaimed Property Act, Section 66-29-110, TCA, as it relates to the execution docket balances. This statute provides that any funds held by the courts for one year and unclaimed by the owner are considered abandoned. Section 66-29-113, TCA, further requires these funds to be reported and paid to the state Treasurer's Office.

RECOMMENDATION

We recommend the following actions:

- A. Bank transactions should be reconciled with general ledger cash accounts monthly. When errors are discovered, they should be corrected immediately. Also, correct outstanding check lists should be maintained monthly.
- B. The clerk should file an annual financial report with the appropriate officials, as required by state statute.
- C. The execution docket trial balances for Circuit and General Sessions Courts should be reconciled with general ledger accounts. Any funds held by the courts for more than one year and unclaimed by the owner are considered

abandoned and should be reported and paid to the state Treasurer's Office in compliance with state statutes.

OFFICE OF SHERIFF

FINDING 04.06 DEFICIENCIES WERE NOTED IN THE ADMINISTRATION OF CONFIDENTIAL DRUG FUNDS
(Noncompliance Under Government Auditing Standards)

The Sheriff's Office had the following deficiencies in maintaining confidential drug funds:

- A. The office did not maintain all forms and reports required by the Office of the Comptroller of the Treasury. These forms and reports are necessary to document the administration of confidential drug funds and to account for cash transactions related to undercover investigative operations.

- B. The bank account maintained for confidential drug funds was not reflected on the office cash journal.

- C. Three of eight receipts for payment to informants did not have a second officer's signature. A second officer is required to witness all receipts for payments to informants.

RECOMMENDATION

The office should maintain confidential drug forms and reports, as required by the Office of the Comptroller of the Treasury. Also, confidential drug funds should be reflected on the office cash journal. All disbursements should have proper supporting documentation, and a second officer should witness by signature all receipts for payments to informants.

FINDING 04.07 COMMISSARY ACCOUNT TRANSACTIONS WERE NOT MAINTAINED ON THE OFFICE CASH JOURNAL
(Noncompliance Under Government Auditing Standards)

The office maintained accounting records for commissary funds but did not reflect commissary transactions on the office cash journal. The cash journal is the official cash control record and should reflect all financial activity of the office.

RECOMMENDATION

All accounting transactions of the office should be reflected on the cash journal.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 04.08 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF FINANCE DIRECTOR, 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 employees in the Offices of Finance Director, Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff. The 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.

FINDING 04.09 **ASSETS WERE NOT IDENTIFIED AS COUNTY PROPERTY IN THE OFFICES OF FINANCE DIRECTOR AND DIRECTOR OF SCHOOLS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

County officials maintained inventory records of assets owned by the general government and the School Department. However, in some instances assets were not clearly labeled as county property. Also, these assets were not verified by personnel independent of maintaining the inventory records. Generally accepted accounting principles require accountability for all assets of the county, such as equipment, furniture, and fixtures. The failure to properly label assets may result in a loss of control over the assets.

RECOMMENDATION

All assets should be labeled as property of the county and should be periodically verified by personnel who are independent of maintaining the inventory records.

MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS (DIRECT QUOTE)

Assets were identified as county property and are identified and located in the Superintendent of Schools Office. The records are available to the Finance Department upon request.

REBUTTAL

During our review, we noted several assets of the School Department that were not properly labeled as county property.