

## PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

Findings and recommendations, as a result of our audit, are presented below. We reviewed these findings and recommendations with management to provide an opportunity for their response. Written responses for all findings are paraphrased and presented following each finding and recommendation. Management's corrective action plans, whether related to the financial statements or federal awards, are presented separately in the Management's Corrective Action Plan in the Single Audit Section of this report. Findings relating specifically to the audit of federal awards, if any, are separately presented under Part III, Findings and Questioned Costs for Federal Awards.

### OFFICE OF COUNTY MAYOR

*FINDING 2025-001*

#### **GENERAL LEDGER PAYROLL DEDUCTION ACCOUNTS WERE NOT RECONCILED WITH PAYROLL REPORTS AND PAYMENTS**

(Internal Control – Significant Deficiency Under *Government Auditing Standards*)

General ledger payroll deduction accounts were not reconciled with payroll reports and payments in the General and Solid Waste Disposal funds. Sound business practices dictate that these reconciliations be performed monthly. The failure to regularly reconcile payroll deduction accounts allows errors to remain undiscovered and uncorrected. This deficiency exists due to a lack of management oversight, management's failure to correct the finding noted in the prior-year audit report, and management's failure to implement their corrective action plan.

#### **RECOMMENDATION**

General ledger payroll liability accounts should be reconciled monthly with payroll reports and payments, and any errors should be corrected promptly.

#### **MANAGEMENT'S RESPONSE – COUNTY MAYOR**

I concur. The budget director will continue to work on getting withholding accounts reconciled.

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*FINDING 2025-002*

#### **THE COUNTY WAS ASSESSED INTEREST AND PENALTIES TOTALING \$16,400 BY THE INTERNAL REVENUE SERVICE**

(Noncompliance Under *Government Auditing Standards*)

Haywood County maintains a payroll clearing account with the bank to deposit employee payroll taxes due to the Internal Revenue Service (IRS) and is required to notify the IRS when withdrawals can be made. The payroll tax deposits for the period January 1 to March 31, 2025, were deposited to the account; however, the amounts deposited were \$89,338 less than the amount owed to the IRS, which resulted in the assessment of interest and penalties totaling \$16,400. This deficiency resulted from a lack of management oversight.

#### **RECOMMENDATION**

Federal payroll taxes deposited to the bank account should be reported to the IRS accurately and in a timely manner to avoid interest and penalty assessments.

#### **MANAGEMENT'S RESPONSE – COUNTY MAYOR**

I concur with this finding.

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FINDING 2025-003

**AN INTERFUND LOAN WAS NOT ISSUED IN COMPLIANCE WITH STATE STATUTES**

(Noncompliance Under Government Auditing Standards)

During August 2024, the General Fund transferred \$122,000 to the Solid Waste Disposal Fund to provide cash flow for operations. This transfer was in effect an interfund loan that was not approved by the state Comptroller's Office as required by Section 9-21-408, *Tennessee Code Annotated (TCA)*, and it was not approved by the county commission until November 18, 2024. Furthermore, the county did not file a Report on Debt Obligation until May 30, 2025. Section 9-21-134, *TCA*, requires that within 45 days following the issuance of debt, a county must provide to the state Comptroller's Office certain information, such as a description of the purchase for which the debt was issued, a description of the debt obligation, and an itemized description of the cost of issuance. The loan was repaid on April 25, 2025. This deficiency was the result of a lack of management oversight and the failure to follow state statutes.

**RECOMMENDATION**

Interfund loans should be properly issued in accordance with state statute.

**MANAGEMENT'S RESPONSE – COUNTY MAYOR**

I concur with this finding.

FINDING 2025-004

**THE OFFICE HAD PURCHASING DEFICIENCIES**

(A. and B. - Internal Control – Significant Deficiency Under *Government Auditing Standards*; C. – Noncompliance Under *Government Auditing Standards*)

As part of our audit procedures for determining whether the purchasing process was operating as designed, we selected a sample of 42 disbursements totaling \$682,664 from a population of 4,029 vendor checks totaling \$13,133,498. Our examination revealed the following deficiencies, which are the result of a lack of management oversight, a lack of understanding of internal controls and sound business practices, and the failure to follow state statutes.

- A. In eight of 14 applicable instances, purchase orders were not issued properly. Purchase orders are necessary to control who has purchasing authority for the county and to document purchasing commitments. The failure to properly issue purchase orders increases the risks of unauthorized purchases.
- B. In four of 42 applicable instances, invoices were paid without documentation that goods had been received and/or services rendered. This practice weakens controls over the purchasing process and increases the risk of paying for something that was never received.
- C. Competitive bids were not solicited for the purchase of a used dump truck totaling \$105,250. Purchasing procedures for the county are governed by the County Purchasing Law of 1983, Sections 5-14-201 through 5-14-206, *Tennessee Code Annotated (TCA)*. This act provides for all purchases exceeding \$25,000 to be made based on competitive bids solicited through public advertisement. Section 12-3-1202, *TCA*, authorizes the purchase of secondhand articles or equipment as long as the purchasing government documents the general range of value of the purchased item through a listing in a nationally recognized publication or through an appraisal by a licensed appraiser, and the price is not more than five percent higher than the highest value of the documented range. Auditors were provided with a letter documenting the estimated retail value of the dump truck from the vendor; however, the letter was not from a licensed appraiser, nor did it qualify as a listing in a nationally recognized publication. The failure to solicit competitive bids could result in the county paying more than the most competitive price.

## RECOMMENDATION

Purchase orders should be issued for all applicable purchases before purchases are made. The office should maintain documentation that goods have been received or services have been rendered. All purchases should be made in compliance with the applicable state statutes.

## MANAGEMENT'S RESPONSE – COUNTY MAYOR

I concur with this finding.

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## OFFICE OF CHIEF ADMINISTRATIVE HIGHWAY OFFICER

*FINDING 2025-005*

### **COMPETITIVE BIDS WERE NOT SOLICITED FOR THE PURCHASE OF A TRUCK**

(Noncompliance Under *Government Auditing Standards*)

Competitive bids were not solicited for a truck totaling \$48,300. Purchasing procedures for the highway department are governed by provisions of Chapter 24, Private Acts of 1991, as amended and Section 54-7-113, *Tennessee Code Annotated*, which require all purchases exceeding \$25,000 to be made on the basis of publicly advertised competitive bids. The failure to solicit competitive bids could result in the highway department paying more than the most competitive price. This deficiency is the result of a lack of management oversight and a failure to follow state statutes. Also, this deficiency is the result of management's failure to correct the finding noted in the prior-year audit report and the failure to implement their corrective action plan.

## RECOMMENDATION

All purchases should be made in compliance with the applicable state statutes.

## MANAGEMENT'S RESPONSE – CHIEF ADMINISTRATIVE HIGHWAY OFFICER

I concur with this finding.

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## OFFICES OF CIRCUIT, GENERAL SESSIONS, AND JUVENILE COURTS CLERK AND CLERK AND MASTER

*FINDING 2025-006*

### **THE OFFICES HAD DEFICIENCIES IN COMPUTER SYSTEM BACKUP PROCEDURES**

(Noncompliance Under *Government Auditing Standards*)

System backups were not regularly stored off-site. Section 10-7-121, *Tennessee Code Annotated*, provides that records required to be retained by any government official may be maintained on a computer or removable storage media as long as certain standards are met. One of these standards requires that all data generated and stored within the computer system be copied daily to storage media, and media more than one week old be stored at an off-site location. This deficiency is the result of management's failure to implement adequate disaster recovery planning procedures. In the event of a disaster, all backup data could be destroyed, resulting in costly delays in generating and recording information accounted for through the automated process. Proper system backup procedures were implemented in June 2025.

## RECOMMENDATION

Management should continue to ensure backups are rotated to a secure off-site location on a weekly basis.

**MANAGEMENT’S RESPONSE – CIRCUIT, GENERAL SESSIONS, AND JUVENILE COURTS CLERK**

We concur with this finding. A backup rotation was implemented in June 2025 to correct the finding.

**MANAGEMENT’S RESPONSE –CLERK AND MASTER**

We concur with this finding. A backup rotation was implemented in June 2025 to correct the finding.