



**STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR**

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State Auditor

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Director, Financial and Compliance Audit Division

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MADISON COUNTY, MISSISSIPPI

**Primary Government Financial Statements and Special Reports
For the Year Ended September 30, 2001**

MADISON COUNTY

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MADISON COUNTY

FINANCIAL SECTION

MADISON COUNTY

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

INDEPENDENT AUDITOR'S REPORT ON THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

July 10, 2003

Members of the Board of Supervisors
Madison County, Mississippi

We have audited the accompanying primary government financial statements of Madison County, Mississippi, as of and for the year ended September 30, 2001, as listed in the table of contents. These primary government financial statements are the responsibility of the county's management. Our responsibility is to express an opinion on these primary government financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion

The bank account was not properly reconciled to the cash balance in the general ledger. As a result, the accompanying Combined Statement of Revenues, Expenditures and Changes in Fund Balances includes a material unidentified expenditure adjustment of (\$118,434) and a material unidentified revenue adjustment of \$254,806 in the other financing sources (uses) section of the General Fund. We were unable to satisfy ourselves as to the fair presentation of revenues, expenditures and other financing sources (uses) and the resulting effect on ending cash and investment balances reported.

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate. Such legally separate entities are referred to as component units. In our opinion, except for the effects on the financial statements from the material unidentified other financing source and use and the resulting effects on ending cash and investments described in the preceding paragraph, the primary government financial statements referred to above present fairly, in all material respects, the financial position of the primary government of Madison County, Mississippi, as of September 30, 2001, and the results of its operations and cash flows of its Proprietary Fund Type for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

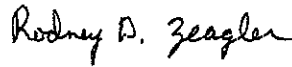
However, the primary government financial statements, because they do not include the financial data of component units of Madison County, Mississippi, do not purport to, and do not present fairly the financial position of Madison County, Mississippi, as of September 30, 2001, and the results of its operations and cash flows of its Proprietary Fund Type for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 10, 2003, on our consideration of Madison County, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit

Our audit was performed for the purpose of forming an opinion on the primary government financial statements of Madison County, Mississippi, taken as a whole. The accompanying Reconciliation of Operating Costs of Solid Waste is presented for purposes of additional analysis and is not a required part of the primary government financial statements. Such information has been subjected to the auditing procedures applied in the audit of the primary government financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the primary government financial statements taken as a whole.



PHIL BRYANT
State Auditor



RODNEY D. ZEAGLER, CPA
Director, Financial and Compliance Audit Division

MADISON COUNTY

PRIMARY GOVERNMENT FINANCIAL STATEMENTS

MADISON COUNTY
 Combined Balance Sheet - All Fund Types and Account Groups
 September 30, 2001

Exhibit A

	Governmental Fund Types				Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals Memorandum Only
	General	Special Revenue	Debt Service	Capital Projects			Internal Service	Agency	
ASSETS									
Cash (Note 3)	\$ 4,198,953	2,489,631	127,155		(97,963)	300,775			7,018,551
Restricted investments with escrow agent (Note 4)		22,040,216							22,040,216
Other receivables	15,237								15,237
Intergovernmental receivables	630,542								630,542
Interfund receivables (Note 5)	32,774	199,311	52,267		103,120	12,010			399,482
Special assessments receivable - deferred			3,405,000						3,405,000
Loans receivable (Note 6)	3,223,857								3,223,857
Lease payments receivable (Note 10)		3,768,541							3,768,541
Fixed assets (Note 7)							32,106,135		32,106,135
Amount available in debt service funds								179,422	179,422
Amount to be provided for retirement of special assessment debt								3,405,000	3,405,000
Amount to be provided for retirement of general long-term debt								56,257,923	56,257,923
Total Assets	\$ 8,101,363	28,497,699	3,584,422	0	5,157	312,785	32,106,135	59,842,345	132,449,906

LIABILITIES AND FUND EQUITY

Liabilities:									
Claims payable	\$ 387,017	280,317		26,774					694,108
Amounts held in custody for others						275,031			275,031
Intergovernmental payables	907,400					37,754			945,154
Interfund payables (Note 5)	340,210	59,272							399,482
Deferred revenue - lease principal payments (Note 10)		2,275,775							2,275,775
Deferred revenue - lease interest payments (Note 10)		1,492,766							1,492,766
Deferred revenue - federal		5,260							5,260
Deferred revenue - special assessments			3,405,000						3,405,000
Compensated absences liability (Note 11)					91,616			577,055	577,055
Claims and judgments liability (Note 9)								577,055	91,616

General obligation bonds payable (Note 11)						40,035,000	40,035,000
Limited obligation bonds payable (Note 11)						2,140,000	2,140,000
Special assessment debt with government commitment (Note 11)						3,405,000	3,405,000
Capital leases payable (Note 11)						2,665,492	2,665,492
Other loans payable (Note 11)						11,019,798	11,019,798
Total Liabilities					0	59,842,345	59,842,345
Fund Equity:							
Investment in general fixed assets					32,106,135		32,106,135
Retained earnings:							
Unreserved				(86,459)			(86,459)
Fund balances:							
Reserved for debt service			179,422				179,422
Reserved per bond agreement			22,040,216				22,040,216
Reserved for loans receivable			2,344,093	(26,774)			3,223,857
Unreserved			24,384,309	(26,774)			5,560,198
Total Fund Equity			3,584,422		32,106,135	0	63,023,369
Total Liabilities and Fund Equity			3,584,422		32,106,135	59,842,345	132,449,906
			\$				

The notes to the financial statements are an integral part of this statement.

MADISON COUNTY
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances -
 All Governmental Fund Types
 For the Year Ended September 30, 2001

Exhibit B

	Governmental Fund Types				Totals Memorandum Only Primary Government
	General	Special Revenue	Debt Service	Capital Projects	
Revenues					
Property taxes	\$ 8,548,132	5,635,705	2,347,502		16,531,339
Licenses, commissions and other revenue	1,359,871	945,804			2,305,675
Fines and forfeitures	383,703				383,703
Intergovernmental revenues	1,539,861	1,064,870	513,193		3,117,924
Charges for services	888,468	807,874			1,696,342
Use of money and property	214,905	363,027	129,007		706,939
Miscellaneous revenues	515,503	120,377	185,481		821,361
Special assessments			401,669		401,669
Total Revenues	<u>13,450,443</u>	<u>8,937,657</u>	<u>3,576,852</u>	<u>0</u>	<u>25,964,952</u>
Expenditures					
Current:					
General government	6,826,231	722,548			7,548,779
Public safety	5,527,542	725,761			6,253,303
Public works		4,469,590			4,469,590
Health & welfare	1,092,328	2,006,575			3,098,903
Culture & recreation	19,427	664,959			684,386
Conservation of natural resources	247,567	233,194			480,761
Economic development & assistance	443,829	479,161			922,990
Capital projects				3,062,199	3,062,199
Debt service:					
Principal retirement	630,018	1,441,400	2,404,548		4,475,966
Interest and fiscal charges	54,363	261,168	1,408,946		1,724,477
Total Expenditures	<u>14,841,305</u>	<u>11,004,356</u>	<u>3,813,494</u>	<u>3,062,199</u>	<u>32,721,354</u>
Excess of Revenues over (under) Expenditures	<u>(1,390,862)</u>	<u>(2,066,699)</u>	<u>(236,642)</u>	<u>(3,062,199)</u>	<u>(6,756,402)</u>
Other Financing Sources (Uses)					
Proceeds of general obligation bonds		23,500,000			23,500,000
Proceeds of other debt	4,245,580	2,000,000		3,035,425	9,281,005
Insurance recoveries	47,766	9,091			56,857
Operating transfers in	350,000	284,369	425,000		1,059,369
Operating transfers out	(709,369)	(350,000)			(1,059,369)
Lease principal payments		322,571			322,571
Unidentified revenue adjustment	254,806				254,806
Unidentified expenditure adjustment	(118,434)				(118,434)
Total Other Financing Sources (Uses)	<u>4,070,349</u>	<u>25,766,031</u>	<u>425,000</u>	<u>3,035,425</u>	<u>33,296,805</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	2,679,487	23,699,332	188,358	(26,774)	26,540,403
Fund Balances					
Beginning of year	<u>3,787,249</u>	<u>684,977</u>	<u>(8,936)</u>	<u>0</u>	<u>4,463,290</u>
End of year	\$ <u>6,466,736</u>	<u>24,384,309</u>	<u>179,422</u>	<u>(26,774)</u>	<u>31,003,693</u>

The notes to the financial statements are an integral part of this statement.

MADISON COUNTY

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MADISON COUNTY

Combined Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget (Non-GAAP Budgetary Basis) and Actual - All Governmental Fund Types
For the Year Ended September 30, 2001

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Property taxes	\$ 8,562,657	8,562,657		5,643,482	5,643,482	
Licenses, commissions and other revenue	1,380,903	1,380,903		948,760	948,760	
Fines and forfeitures	383,703	383,703				
Intergovernmental revenues	6,020,184	6,020,184		1,037,186	1,037,186	
Charges for services	888,472	888,472		807,874	807,874	
Use of money and property	231,319	231,319		228,185	228,185	
Miscellaneous revenues	838,464	838,464		252,621	257,724	5,103
Total Revenues	<u>18,305,702</u>	<u>18,305,702</u>	<u>0</u>	<u>8,918,108</u>	<u>8,923,211</u>	<u>5,103</u>
Expenditures						
General government	6,983,880	7,045,880	(62,000)	706,702	706,702	
Public safety	5,365,196	5,365,196		1,058,290	1,058,290	
Public works	94,531	94,531		5,689,840	5,689,829	11
Health and welfare	7,216,703	7,154,463	62,240	6,575	6,575	
Culture and recreation	20,780	20,780		664,959	664,959	
Education	509,140	509,140				
Conservation of natural resources	251,544	251,544		233,194	233,194	
Economic development and assistance	465,426	465,426		523,728	523,728	
Capital projects						
Debt service	128,082	128,082				
Other costs	171,190	171,190				
Total Expenditures	<u>21,206,472</u>	<u>21,206,232</u>	<u>240</u>	<u>8,883,288</u>	<u>8,883,277</u>	<u>11</u>
Excess of Revenues over (under) Expenditures	(2,900,770)	(2,900,530)	240	34,820	39,934	5,114
Other Financing Sources (Uses)	<u>3,782,205</u>	<u>3,874,558</u>	<u>92,353</u>	<u>23,749,440</u>	<u>23,793,459</u>	<u>44,019</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	881,435	974,028	<u>92,593</u>	23,784,260	23,833,393	<u>49,133</u>
Fund Balances						
Beginning of year	<u>3,389,616</u>	<u>896,677</u>		<u>24,529,837</u>	<u>686,454</u>	
End of year	\$ <u>4,271,051</u>	<u>1,870,705</u>		<u>48,314,097</u>	<u>24,519,847</u>	

The notes to the financial statements are an integral part of this statement.

Debt Service Funds			Capital Projects Funds		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
2,336,846	2,336,846				
489,193	489,193				
454,626	454,626				
587,150	587,150				
<u>3,867,815</u>	<u>3,867,815</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
4,192,780	4,192,780		3,035,425	3,035,425	
<u>4,192,780</u>	<u>4,192,780</u>	<u>0</u>	<u>3,035,425</u>	<u>3,035,425</u>	<u>0</u>
(324,965)	(324,965)	0	(3,035,425)	(3,035,425)	0
<u>47,409</u>	<u>47,409</u>	<u>0</u>	<u>3,035,425</u>	<u>3,035,425</u>	<u>0</u>
(277,556)	(277,556)	<u>0</u>	0	0	<u>0</u>
<u>127,155</u>	<u>404,711</u>		<u>0</u>	<u>0</u>	
<u>(150,401)</u>	<u>127,155</u>		<u>0</u>	<u>0</u>	

MADISON COUNTY

Exhibit D

Statement of Revenues, Expenses and Changes in Retained Earnings -
Proprietary Fund Type - Self-funded Insurance Internal Service Fund
For the Year Ended September 30, 2001

Operating Revenues	
Premiums	\$ <u>1,673,313</u>
Total Operating Revenues	<u>1,673,313</u>
Operating Expenses	
Claims payment	1,345,485
Administrative	79,794
Insurance premiums	<u>360,420</u>
Total Operating Expenses	<u>1,785,699</u>
Operating Income (Loss)	<u>(112,386)</u>
Net Income (Loss) For the Year	<u>(112,386)</u>
Retained Earnings	
Beginning of year	<u>25,927</u>
End of year	\$ <u><u>(86,459)</u></u>

The notes to the financial statements are an integral part of this statement

MADISON COUNTY
Statement of Cash Flows -
Proprietary Fund Type - Self-funded Insurance Internal Service Fund
For the Year Ended September 30, 2001

Exhibit E

Cash Flows From Operating Activities	
Cash received as premiums	\$ 1,670,618
Cash payments for claims	(1,338,507)
Cash payments to administrator for services	(79,794)
Cash payments for insurance premiums	<u>(360,420)</u>
Net Cash Provided (Used) by Operating Activities	<u>(108,103)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(108,103)</u>
Cash and Cash Equivalents at Beginning of Year	<u>10,140</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ (97,963)</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating income (loss)	\$ <u>(112,386)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Change in assets and liabilities:	
(Increase) decrease in interfund receivable	(2,695)
Increase (decrease) in claims and judgments liability	<u>6,978</u>
Total adjustments	<u>4,283</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (108,103)</u></u>

The notes to the financial statements are an integral part of this statement.

MADISON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2001

State law pertaining to county government provides for the independent election of county officials. The following elected and appointed officials are all part of the county legal entity and therefore are reported as part of the primary government financial statements.

- Board of Supervisors
- Chancery Clerk
- Circuit Clerk
- Justice Court Clerk
- Purchase Clerk
- Tax Assessor
- Tax Collector
- Sheriff

B. Basis of Presentation.

The accompanying financial statements of the primary government have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. However, the primary government financial statements, because they do not include the financial data of the county's component units, do not present fairly, in all material respects, the financial position and results of operations and cash flows of its Proprietary Fund Type for the entire reporting entity.

C. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 1994 by the Government Finance Officers Association and the *Mississippi County Financial Accounting Manual* as revised in 1993 by the Office of the State Auditor.

D. Fund Accounting.

The financial activities of the county are recorded in individual funds and account groups used to report financial position and results of operations. Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations. An account group is a financial reporting device designated to provide accountability for certain assets and liabilities that are not recorded in funds because they do not directly affect net expendable available financial resources. The following fund categories, which are further subdivided into separate "fund types", are utilized by the county:

GOVERNMENTAL FUND TYPES

General Fund - This fund is used to account for all activities of the general government for which a separate fund has not been established.

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditures for specified purposes. Special Revenue Funds account for, among others, certain federal grant programs, taxes levied with statutorily defined distributions and other resources restricted as to purpose.

MADISON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2001

Debt Service Funds - These funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived principally from proceeds of general obligation bond issues and federal grants.

PROPRIETARY FUND TYPE

Internal Service Funds - These funds are used to account for those operations that provide services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis.

FIDUCIARY FUND TYPE

Agency Funds - These funds account for various taxes, deposits and other monies collected or held by the county, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

ACCOUNT GROUPS - The General Fixed Assets Account Group is used to account for general fixed assets. The General Long-term Debt Account Group is used to account for general long-term debt and certain other liabilities that are not specific liabilities of Proprietary Funds

E. Basis of Accounting/Measurement Focus

Governmental Fund Types and Agency Funds - All Governmental Funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets

The modified accrual basis of accounting is used by all Governmental Fund Types and Agency Funds. Under this method, revenues are recognized in the accounting period in which they become both available and measurable to finance operations during the year or to liquidate liabilities existing at the end of the year. Available means collected in the current year or soon enough after year end to liquidate liabilities existing at the end of the year. Expenditures are recognized in the accounting period in which the fund liability is incurred. Modifications to the accrual basis of accounting include:

- Licenses, fees, fines and forfeits and other miscellaneous revenues are recognized when received since they normally are only measurable at that time.
- Property taxes are recognized as revenue when received because the remaining delinquent property taxes not collected before the close of the fiscal year are considered immaterial. See Note 1K for further explanation.
- Principal and interest on general long-term debt are recognized when due.
- Obligations for accumulated unpaid employee benefits are recognized when paid

MADISON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2001

Proprietary Fund Type - All Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The accrual basis of accounting is utilized. Under this method, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

F. Cash and Investments.

State law authorizes the county to invest in interest bearing time certificates of deposit for periods of fourteen days to one year with depositories and in obligations of the U.S. Treasury, State of Mississippi, or any county, municipality or school district of this state. Further, the county may invest in certain repurchase agreements.

Cash includes cash on hand, demand deposits, all certificates of deposit and cash equivalents, which are short-term highly liquid investments that are readily convertible to cash (generally three months or less). Investments in governmental securities are stated at fair value.

G. Receivables.

Receivables are reported net of allowances for uncollectible accounts, where applicable.

H. Interfund Receivables/Payables.

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "interfund receivables/payables."

I. Fixed Assets.

Fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in Governmental Funds, and the related assets are reported in the General Fixed Assets Account Group. All purchased fixed assets are stated at cost where historical records are available and at an estimated historical cost where no historical records exist. The extent to which fixed assets costs have been estimated and the methods of estimation are not readily available. Donated fixed assets are recorded at their fair value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on general fixed assets. Public domain (infrastructure) fixed assets consisting of certain improvements other than buildings, such as roads, bridges, sidewalks, drainage systems, lighting systems and similar assets that are immovable and of value only to the county, are not capitalized. Depreciation is not provided on general fixed assets.

J. Fund Equity.

Unreserved fund balance represents the amount available for budgeting future operations. Unreserved retained earnings represents the net assets available for future operations or distribution. Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose.

MADISON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2001

K. Property Tax Revenues.

Numerous statutes exist under which the Board of Supervisors may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the county. Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

The Board of Supervisors, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

Special assessment property tax is levied only on property owners benefitted by the construction of the "South Madison County Parkway" project as authorized by Senate Bill 3036, Laws of 1989 (Chapter 817 Local and Private Bills of 1989). Special assessment taxes become a lien on property in the same manner as real property taxes. Property owners may pay special assessments in full at the beginning of the fiscal year or make periodic payments throughout the year.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue when received. Real property taxes are recognized as revenue when received because most delinquent real property taxes are collected by selling real property for taxes, together with all fees, penalties and damages accruing until date of sale, before the close of the fiscal year. The remaining amount of real property not sold for taxes at the tax sale is considered immaterial; therefore, no end of year delinquent taxes receivable is recorded. The amount of delinquent personal property taxes unpaid at year end is also considered immaterial. Motor vehicle and mobile home taxes do not meet the measurability and collectibility criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

L. Intergovernmental Revenues in Governmental Funds

Intergovernmental revenues, consisting of grants, entitlements and shared revenues, are usually recorded in Governmental Funds when measurable and available. However, the "available" criterion applies for certain federal grants and shared revenues when the expenditure is made because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

MADISON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2001

M. Compensated Absences

The county has adopted a policy of compensation for accumulated unpaid employee personal leave and compensatory leave. No payment is authorized for accrued major medical leave. Accounting principles generally accepted in the United States of America require accrual of accumulated unpaid employee benefits in Governmental Funds to the extent that they are to be paid with current assets and the remainder of the liability to be reported in the General Long-term Debt Account Group, representing the county's commitment to fund such costs from future operations. Due to immateriality, the current portion of the liability was not estimated and reported in the Governmental Funds. Therefore, the county's full liability in the amount of \$577,055 for accumulated unpaid personal leave up to a maximum of 30 days per employee and compensatory time up to a maximum of 60 days for Sheriff's department employees and 30 days for road department employees is reported in the General Long-term Debt Account Group of the accompanying combined balance sheet.

N. Total Column on Primary Government Financial Statements.

The total column on the primary government financial statements is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Stewardship, Compliance and Accountability.

A. Budgetary Information

Statutory requirements dictate how and when the county's budget is to be prepared. Generally, in the month of August, prior to the ensuing fiscal year beginning each October 1, the Board of Supervisors of the county, using historical and anticipated fiscal data and proposed budgets submitted by the Sheriff, the Tax Assessor and the Tax Collector for his or her respective department, prepares an original budget for each of the Governmental Funds for said fiscal year. The completed budget for the fiscal year includes for each fund every source of revenue, each general item of expenditure, and the unencumbered cash and investment balances. When during the fiscal year it appears to the Board of Supervisors that budgetary estimates will not be met, it may make revisions to the budget.

The county's budget is prepared principally on the cash basis of accounting. All appropriations lapse at year end, and there are no encumbrances to budget because state law does not require that funds be available when goods or services are ordered, only when payment is made.

MADISON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2001

B. Budget/GAAP Reconciliation.

The following schedule reconciles the amounts on the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual to the amounts on the Combined Statement of Revenues, Expenditures and Changes in Fund Balances:

Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Budget (Cash Basis)	\$ 974,028	23,833,393	(277,556)	
Increase (Decrease)				
Net adjustment for revenue accruals	(5,003,878)	1,879,604	20,092	
Net adjustment for expenditure accruals	6,709,337	(2,013,665)	445,822	(26,774)
GAAP Basis	\$ <u>2,679,487</u>	<u>23,699,332</u>	<u>188,358</u>	<u>(26,774)</u>

C. Individual Fund Deficit

The following fund had a deficit fund balance at September 30, 2001:

Fund	Deficit Amount
Capital Projects Fund:	
Building project fund	\$ 26,774

The deficit fund balance was caused as the result of an expenditure accrual adjustment.

D. Legal Compliance - Financial Matters

For fiscal year 2001, state law required the county to have its uninsured deposits fully collateralized (105%) by securities based upon market value, and the securities were to be held in the name of the county. Effective October 1, 2001, state law changed making the State Treasurer the pledgee of all collateral securities pledged for public funds and requiring financial institutions to place collateral securities with the State Treasurer. At September 30, 2001, the county had a significant amount of uninsured deposits uncollateralized. This resulted in the county being in noncompliance with the laws on collateralization of uninsured deposits in effect for fiscal year 2001; however, the county experienced no financial loss due to the noncompliance.

MADISON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2001

(3) Deposits

The carrying amount of the county's total deposits with financial institutions at September 30, 2001, was \$7,018,551 and the bank balance was \$7,658,004. The bank balance is categorized below to reflect the level of credit risk assumed by the county at year end

	<u>Bank Balance</u>
Amount federally insured.	\$ 627,923
Amount collateralized with securities held by the pledging financial institution's trust department or agent in the county's name	5,419,538
Amount uncollateralized.	<u>1,610,543</u>
Total Bank Balance	<u>\$ 7,658,004</u>

(4) Restricted Investments

The county's investments at year end are shown below. All of the county's investments are uninsured and unregistered and are held by the counterparty's trust department or by its agent in the counterparty's name as escrow agent for the county. These investments are held in the Madison County, Mississippi, general obligation bonds 2001 construction fund escrow to pay the costs of the project related to this bond issue

	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>
U S. government securities	\$ 59,022	59,022
Investment contract with AIG Matching Funding Corporation for U S government securities	<u>21,981,194</u>	<u>21,981,194</u>
Total	<u>\$ 22,040,216</u>	<u>22,040,216</u>

(5) Interfund Receivables and Payables

The composition of interfund balances at September 30, 2001, consists of the following:

Interfund Receivables/Payables:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Countywide road maintenance	\$ 32,774
Economic development	General Fund	8,659
Library	General Fund	15,348
Mapping and reappraisal	General Fund	12,349
Solid waste	General Fund	13,047
Fire protection	General Fund	1,137

MADISON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2001

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Road maintenance	General Fund	117,621
Bridge and culvert	General Fund	31,150
Parkway interest and sinking	General Fund	10,386
District 3 road I & S	General Fund	1,582
General county I & S	General Fund	36,197
District 1 road I & S	General Fund	159
District 2 road I & S	General Fund	399
District 5 road I & S	General Fund	52
Hospital interest and sinking	General Fund	3,006
Industrial park construction I & S	General Fund	486
HCC maintenance	General Fund	6,582
HCC building	General Fund	5,428
Self-funded insurance	General Fund	76,622
Self-funded insurance	Economic development	1,494
Self-funded insurance	Solid waste	4,106
Self-funded insurance	Enhanced 911	1,120
Self-funded insurance	Road maintenance	14,552
Self-funded insurance	Bridge and culvert	5,226
Total		<u>\$ 399,482</u>

(6) Loans Receivable

Loans receivable at September 30, 2001, consists of the following:

<u>Description</u>	<u>Date of Loan</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance Payable</u>
Madison County Medical Center	Sept. 2000/ Sept. 2001	N/A	N/A	<u>\$ 3,223,857</u>
Total				<u>\$ 3,223,857</u>

(7) Fixed Assets

Changes in the General Fixed Assets Account Group at September 30, 2001, are as follows:

	<u>Balance Oct. 1, 2000</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Balance Sept. 30, 2001</u>
Land	\$ 2,135,316		133,295	(308,351) *	1,693,670
Buildings	17,545,316				17,545,316
Construction in progress		3,062,199			3,062,199
Mobile equipment	2,973,064	652,191	558,193	(1,210) **	3,065,852

MADISON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2001

	Balance <u>Oct. 1, 2000</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	Balance <u>Sept. 30, 2001</u>
Other furniture and equipment	1,590,892	472,109	386,735	5,995 **	1,682,261
Leased property under capital leases	<u>4,723,542</u>	<u>745,580</u>	<u>746,525</u>	<u>334,240 **</u>	<u>5,056,837</u>
Total	<u>\$ 28,968,130</u>	<u>4,932,079</u>	<u>1,824,748</u>	<u>30,674</u>	<u>32,106,135</u>

* As discussed in Note (1)A., Madison County has issued general obligation bonds and incurred other indebtedness to acquire various industrial parks and other real estate which is owned by the Madison County Economic Development Authority (MCEDA). The authority is required by statute to remit to the county 90% of any sales of land acquired using the proceeds of this indebtedness until such indebtedness has been repaid. The county's investment in industrial parks and other real estate owned by MCEDA has previously been recorded at historical cost. During 2001, an adjustment of \$308,351 was made to land to reduce the fixed asset owned by MCEDA to the lesser amount of debt outstanding.

** These adjustments are to correct prior year errors.

(8) Commitments.

As of September 30, 2001, the county had the following commitments with respect to unfinished capital projects:

<u>Description of Commitment</u>	<u>Remaining Financial Commitment</u>	<u>Expected Date of Completion</u>
New jail - Phase I	\$ 2,217,088	10/2002
New jail - Phase II	3,445,000	05/2003
Flora library	822,000	01/2003

(9) Claims and Judgments.

Risk Financing.

The county finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The county pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$350,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2001, to January 1, 2002. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

The county is exposed to risk of loss relating to employee health and accident coverage. Beginning in 1997 and pursuant to Section 25-15-101, Miss. Code Ann. (1972), the county established a risk management fund (included as an Internal Service Fund) to account for and finance its uninsured risk of loss. The Madison County Board of Supervisors has extended coverage to the employees of the Madison County Human Resource Agency and the Madison County Medical Center.

MADISON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2001

Under the plan, amounts payable to the risk management fund are based on actuarial estimates. Each participating public entity, including Madison County, pays the premium on a single coverage policy for its respective employees. Employees desiring additional and/or dependent coverage pay the additional premium through a payroll deduction. Premium payments to the risk management fund are determined on an actuarial basis. The county has a minimum uninsured risk retention for all participating entities, including Madison County, to the extent that actual claims submitted exceed the predetermined premium. The county has implemented the following plans to minimize this potential loss:

The county has purchased coinsurance which functions on specific loss coverage. This coverage is purchased from an outside commercial carrier. For the current fiscal year, the specific coverage begins when an individual participant's claim exceeds \$50,000.

Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). At September 30, 2001, the amount of these liabilities was \$91,616. An analysis of claims activities is presented below:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
1999-2000	\$ 197,070	703,517	815,949	84,638
2000-2001	\$ 84,638	1,345,485	1,338,507	91,616

(10) Capital Leases

As Lessor:

The county leases the following property with varying terms and options as of September 30, 2001:

<u>Classes of Property</u>	<u>Amount</u>
Land and buildings	\$ 4,865,000

The future minimum lease receivables and the present value of the net minimum lease receivables as of September 30, 2001, are as follows:

<u>Year Ended September 30</u>	<u>Amount</u>
2002	\$ 446,576
2003	322,941
2004	321,424
2005	314,245
2006	301,660
Later years	<u>2,061,695</u>
Total Minimum Lease Receivables	3,768,541
Less: Amount representing interest	<u>1,492,766</u>
Present Value of Net Minimum Lease Receivables	<u>\$ 2,275,775</u>

MADISON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2001

As Lessee:

The county is obligated for the following assets acquired through capital leases as of September 30, 2001:

<u>Classes of Property</u>	<u>General Fixed Assets Group</u>
Mobile equipment	\$ 4,707,110
Other furniture and equipment	<u>349,727</u>
Leased Property Under Capital Leases	<u>\$ 5,056,837</u>

The future minimum lease payments together with the present value of the net minimum lease payables as of September 30, 2001, are as follows:

<u>Year Ending September 30</u>	<u>General Long-term Debt Group</u>
2002	\$ 1,626,116
2003	1,144,431
2004	<u>196,028</u>
Total Minimum Lease Payments	2,966,575
Less: Amount representing interest	<u>301,083</u>
Present Value of Net Minimum Lease Payments	<u>\$ 2,665,492</u>

(11) Long-term Debt.

Debt outstanding as of September 30, 2001, consisted of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
General Long-term Debt Account Group:			
A. General Obligation Bonds:			
G.O hospital	\$ 660,000	7	03-2006
District 2	25,000	6.75	04-2002
District 3	25,000	6.75	04-2002
District 3	50,000	7.5 to 7.6	09-2003
District 1	45,000	7.25 to 7.5	04-2004
District 5	30,000	7.5	04-2004
Parkway and refunding, Series 1989	425,000	6.75 to 6.8	06-2003
G.O. refunding bonds, Series 1993A	1,975,000	4.25 to 4.75	06-2005

MADISON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2001

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
G.O. refunding bonds, Series 1993B	5,770,000	4.7 to 6.75	06-2014
G.O. refunding bonds (courthouse), Series 1998	5,965,000	4.4 to 5.5	06-2014
G.O. refunding bonds (detention center), Series 1998	1,565,000	6.2 to 6.7	10-2005
G.O. road and bridge bonds (Nissan)	<u>23,500,000</u>	5 to 5.75	06-2026
Total General Obligation Bonds	<u>\$ 40,035,000</u>		
B. Limited Obligation Bonds:			
Industrial development, Series 1991	\$ 1,450,000	8.7 to 9.5	03-2016
Industrial development, Series 1992	310,000	5.7 to 6.3	05-2007
Certificates of participation, 1991 issue	<u>380,000</u>	6.5 to 6.75	10-2006
Total Limited Obligation Bonds	<u>\$ 2,140,000</u>		
C. Special Assessment Bonds:			
Parkway special assessment refunding bonds, Series 1998	<u>\$ 3,405,000</u>	0 4 35 to 5.7	04-2012
D. Capital Leases:			
Fire truck	\$ 19,825	5.4	04-2002
IBM computer upgrade	6,512	6.14	05-2002
IBM computer upgrade	133,035	6.06	06-2003
1999 fire truck	89,193	4.34	05-2004
27 Sheriff vehicles	38,050	4.23	06-2002
5 pieces of road equipment	71,182	4.21	06-2002
14 pieces of road equipment	117,800	5.19	02-2003
19 pieces of road equipment	542,813	5.19	04-2003
11 pieces of road equipment	358,100	5.17	04-2003
6 pieces of road equipment	241,804	5.29	05-2003
2 2001 Freightliners	50,632	5.17	05-2003
9 pieces of road equipment	166,548	5.19	05-2003
2000 PF161 Blaw Knox paver w/truck hitch	111,434	5.54	07-2003
2000 Ford Crown Victoria	16,199	5.39	08-2003
3 2000 Chevrolet 4-door Impalas	39,394	6.09	08-2003
3 2001 Ford Crown Victorias	49,194	5.89	01-2004
3 2001 Chevrolet Camaros	56,231	4.86	04-2004
5 2001 Chevrolet Impalas	89,164	4.86	05-2004
2 Chevrolet Impalas	35,983	4.86	05-2004
22 Ford Crown Victorias	394,014	4.86	05-2004
2 Chevrolet Impalas	<u>38,385</u>	4.86	07-2004
Total Capital Leases	<u>\$ 2,665,492</u>		

MADISON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2001

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
E Other Loans:			
Ray Thompson building	\$ 45,565	7	12-2002
Industrial development	416,953	7.22	12-2002
Capital improvement loan	119,672	4	09-2013
Industrial development	479,189	0	09-2007
Capital improvement loan	352,444	4.86	12-2019
Industrial development	950,000	7.65	12-2018
Flora Industrial Park	143,185	6.50	05-2005
Medical Center loan	2,000,000	7.75	02-2003
New jail promissory note	3,012,790	Variable	01-2031
Working capital loan	<u>3,500,000</u>	2.24 Avg.	09-2002
Total Other Loans	<u>\$ 11,019,798</u>		

* Special assessment debt of \$4,680,000 was issued on April 1, 1992, to construct a boulevard under the provisions of Senate Bill 3036, Laws of 1989. Refunding bonds of \$4,030,000 were issued on March 1, 1998, to pay off the original issue early. The bonds are secured by the full faith and credit of Madison County. A "Special Assessment Tax" was levied against all of the benefited property owners. The county will levy annually this special assessment tax upon all taxable property in the benefited area of the south Madison County Parkway adequate and sufficient to provide for the payment of the principal and interest on the bonds as the same falls due over a period of 14 years. The original bonds are considered defeased at September 30, 2001. The principal balance outstanding on the refunding issue at September 30, 2001, is \$3,405,000.

Annual debt service requirements to maturity for the following debt reported in the General Long-term Debt Account Group are as follows:

Year Ending September 30	General Obligation Bonds	Limited Obligation Bonds	Special Assessment	Other Loans	Total
2002	\$ 2,943,339	371,806	389,940	3,982,745	7,687,830
2003	3,380,342	362,534	397,186	2,643,272	6,783,334
2004	3,024,763	357,734	395,366	268,323	4,046,186
2005	3,085,818	352,165	398,443	342,615	4,179,041
2006	2,121,493	345,845	400,645	240,698	3,108,681
Later years	<u>37,323,503</u>	<u>1,625,340</u>	<u>2,391,584</u>	<u>1,648,725</u>	<u>42,989,152</u>
Total	51,879,258	3,415,424	4,373,164	9,126,378	68,794,224
Less: Amount representing interest	<u>11,844,258</u>	<u>1,275,424</u>	<u>968,164</u>	<u>1,119,370</u>	<u>15,207,216</u>
Total at Present Value	<u>\$ 40,035,000</u>	<u>2,140,000</u>	<u>3,405,000</u>	<u>8,007,008</u>	<u>53,587,008</u>

The annual debt service requirements for the \$3,012,790 new jail promissory note can not be determined because this loan has a variable rate of interest.

MADISON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2001

Legal Debt Margin - The amount of debt, excluding specific exempted debt, that can be incurred by the county is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the county, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2001, the amount of outstanding debt was equal to 9.09% of the latest property assessments.

Prior Year Defeasance of Debt - In prior years, the county defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the county's financial statements. On September 30, 2001, \$9,785,000 of bonds outstanding were considered defeased.

The following changes occurred in liabilities reported at year end:

	Balance Oct. 1, 2000	Additions	Reductions	Adjustments	Balance Sept. 30, 2001
General Long-term Debt					
Account Group:					
Compensated absences	\$ 472,110	104,945			577,055
General obligation bonds	18,360,000	23,500,000	1,825,000		40,035,000
Limited obligation bonds	2,435,000		295,000		2,140,000
Special assessment bonds	3,630,000		225,000		3,405,000
Capital leases	3,324,054	745,580	1,673,284	269,142 *	2,665,492
Other loans	2,942,055	8,535,425	457,682		11,019,798
Total	\$ <u>31,163,219</u>	<u>32,885,950</u>	<u>4,475,966</u>	<u>269,142</u>	<u>59,842,345</u>

* This adjustment is to correct prior year errors.

(12) Contingencies.

Federal Grants - The county has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the county. No provision for any liability that may result has been recognized in the county's financial statements.

Litigation - The county is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the county with respect to the various proceedings. However, the county's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the county.

Hospital Revenue Bond Contingencies - The county issues revenue bonds to provide funds for constructing and improving capital facilities of the Madison County Medical Center. Revenue bonds are reported as a liability of the hospital because such debt is payable primarily from the hospital's pledged revenues. However, the county remains contingently liable for the retirement of these bonds because the full faith, credit and taxing power of the county is secondarily pledged in case of default by the hospital. The principal amount of hospital revenue bonds outstanding at September 30, 2001, is \$9,900,000.

MADISON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2001

(13) Trust Agreement Related to Lease of Property from Madison County Public Improvement Corporation.

Madison County executed trust agreements and other legal documents by and between the county, Madison County Public Improvement Corporation (the Corporation) and financial institutions (the Trustees).

The trust agreements authorized the corporation to issue certificates of participation (a form of debt financing classified as limited obligation bonds) to be used to provide financing for the construction of various public facilities which are being leased to the county. The leases represent capital leases under which ownership of the projects will transfer to the county upon complete retirement of the certificates of participation. The county is obligated to make lease payments to the trustees in an amount equal to the debt service requirements for the certificates of participation. The amount of debt outstanding at September 30, 2001, was \$380,000 (See Note 11). The lease rental payments by the county will be used by the trustees to pay the principal and interest payments due on the certificates of participation.

In connection with the 1994 project, the county acquired certain property which has been subleased to the City of Madison (the City). Under the terms of the agreement, the City is required to make lease payments to the county for 20 years. The lease payments have been calculated to amortize the \$600,000 purchase price over 20 years at an average annual interest rate of 5.84%. The City has a right to purchase the leased property upon the expiration of the lease term, or upon such earlier date as may be agreed upon, at a price not to exceed the unpaid principal balance at that time. The amount due at September 30, 2001, was \$475,000. This amount has been recorded as lease payments receivable and a corresponding amount is shown as deferred revenue-leasing transactions at September 30, 2001.

The trust accounts created by these agreements constitute an inseparable part of the county. Therefore, the assets, liabilities, equity, revenues, expenditures and other financing sources/uses of the trust accounts created by these trust agreements are included as part of the county's financial statements, thereby eliminating the effects of the lease agreements for financial reporting purposes.

(14) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

Holmes Community College operates in a district composed of the Counties of Attala, Carroll, Choctaw, Grenada, Holmes, Madison, Montgomery, Webster and Yazoo. The Madison County Board of Supervisors appoints two of the 22 members of the college board of trustees. The county appropriated \$548,142 for maintenance and support of the college in fiscal year 2001.

Region 8 Mental Health - Mental Retardation Commission operates in a district composed of the Counties of Copiah, Madison, Rankin and Simpson. The Madison County Board of Supervisors appoints one of the four members of the board of commissioners. The county appropriated \$109,800 for maintenance and support of the center in fiscal year 2001.

Central Mississippi Planning and Development District operates in a district composed of the Counties of Copiah, Hinds, Madison, Rankin, Simpson, Warren and Yazoo. The Madison County Board of Supervisors appoints three of the 33 members of the board of directors. The county appropriated \$9,376 for maintenance and support of the district in fiscal year 2001.

The Madison County Human Resource Agency was organized under Section 17-15-1, Miss. Code Ann. (1972), to administer programs conducted by community action agencies, limited purpose agencies and related programs authorized by law. The Madison County Board of Supervisors appoints three of the 15 board members. The county appropriated \$262,000 for maintenance and support of the agency in fiscal year 2001.

MADISON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2001

(15) Defined Benefit Pension Plan

Plan Description. Madison County, Mississippi, contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444-PERS

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the county is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The county's contributions (employer share only) to PERS for the years ending September 30, 2001, 2000 and 1999 were \$696,344, \$629,006 and \$570,002, respectively, equal to the required contributions for each year

(16) Subsequent Events

Subsequent to September 30, 2001, Madison County issued the following debt obligations:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Issue Amount</u>	<u>Type of Financing</u>	<u>Source of Financing</u>
10/30/01 to				
6/27/03	Variable	\$ 6,839,552	Limited obligation notes	Available revenue
7/26/02	3.89	257,543	Lease purchase	Tax levy
5/16/03	3.91	337,000	Lease purchase	Tax levy
5/23/03	3.06	301,160	Lease purchase	Tax levy
6/13/03	3.11	74,280	Lease purchase	Tax levy

On June 1, 2002, Madison County issued \$12,000,000 in Mississippi Development Bank taxable special obligation bonds with a variable interest rate. These bonds were issued in part to refund the balance due on the \$660,000 general obligation bonds and the \$9,900,000 hospital revenue bonds. These bonds are to be repaid by a tax levy of up to five mills on all taxable property within the county.

On September 1, 2002, Madison County borrowed \$5,500,000 with a variable interest rate for a working capital loan. This loan is to be repaid from any available revenue. Part of the proceeds of this loan were used to pay off the \$3,500,000 working capital loan outstanding at September 30, 2001

MADISON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2001

On March 21, 2003, Madison County entered into an agreement with Nissan North America, Inc., whereby Nissan agreed to make annual payments to the county in lieu of all ad valorem taxes levied by the city and the county on behalf of the school district and the county in an amount equal to one-third (1/3) of the annual ad valorem tax levy for the motor vehicle manufacturing facility, including ad valorem taxes for school district purposes. The amounts paid under this agreement shall be apportioned between the county and the school district in the respective amounts which shall be equal to each entity's pro rata share based upon the proportion that the millage imposed for that entity bears to the total millage imposed for all county and school district purposes. The millage used for apportionment under this subsection shall be the millage in effect for the immediately preceding ad valorem tax levies. In order to assist the county with servicing certain scheduled bonded indebtedness, Nissan has agreed to make early remittance of a portion of the first payment due. The balance of the first payment shall remain due and payable on the normal payment due date. It is the county's intent to use these payments to help service the debt on the \$23,500,000 general obligation bonds.

Subsequent to September 30, 2001, the Madison County Medical Center continued to experience financial difficulties. As a result of these financial difficulties, Madison County loaned the Madison County Medical Center an additional \$2,064,259. The Madison County Medical Center was leased effective January 1, 2003, to Madison HMA, Inc., for a forty-year term. The lease agreement specifies that the county will receive \$9,000,000 as prepaid rent for the leased assets for the entire lease term and as payment in full for the purchased assets. The county will assume responsibility for the payment of any accrued interest payable, any debt, capitalized leases, Medicare or Medicaid settlements arising out of costs reports related to periods prior to the date of the lease, any liabilities or obligations existing or subsequently arising under any employee benefit plans, except as set forth on the closing balance sheet and included as current liabilities. In December 2002, the county received \$8,356,646 from HMA. This amount consisted of the prepaid rent for the entire lease term net of amounts due to HMA.

On March 28, 2003, Madison County entered into an agreement to loan IMS Autrans, LLC, \$630,000 from a Community Development Block Grant received from the Mississippi Development Authority for 60 months with an interest rate of 2%. The county is required to remit all payments received from IMS Autrans, LLC, to the Mississippi Development Authority.

As a result of an investigation by the Investigative Division of the Office of the State Auditor into certain financial activities of the county, \$397,254.90 was collected from the bonding company of the former Chancery Clerk. This money was remitted to the county by the Office of the State Auditor in January 2003.

MADISON COUNTY

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MADISON COUNTY

SUPPLEMENTAL INFORMATION

MADISON COUNTY

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MADISON COUNTY
 Reconciliation of Operating Costs of Solid Waste
 For the Year Ended September 30, 2001

Operating Expenditures, Cash Basis:

Salaries	\$ 163,231
Expendable Commodities:	
Gasoline and petroleum products	37,103
Repair parts	2,608
Clothing and food	5,610
Maintenance	110,968
Insurance on equipment	5,000
Landfill charges	169,358
Rental of land for waste site	<u>900</u>
Solid Waste Cash Basis Operating Expenditures	494,778
Full Cost Expenses:	
Indirect administrative costs	11,283
Other accrued expenses	<u>31,827</u>
Solid Waste Full Cost Operating Expenses	<u>\$ 537,888</u>

MADISON COUNTY

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MADISON COUNTY

SPECIAL REPORTS

MADISON COUNTY

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF THE
PRIMARY GOVERNMENT FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

July 10, 2003

Members of the Board of Supervisors
Madison County, Mississippi

We have audited the primary government financial statements of Madison County, Mississippi, as of and for the year ended September 30, 2001, and have issued our report thereon dated July 10, 2003. The auditor's report on the primary government financial statements is modified to reflect that the primary government financial statements do not include the financial data of the county's component units, and the report is qualified because, due to the county's failure to properly reconcile the bank account to the cash balance in the general ledger, we were unable to satisfy ourselves as to the fair presentation of revenues, expenditures and other financing sources (uses) and the resulting effect on ending cash and investment balances. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States

Compliance

As part of obtaining reasonable assurance about whether Madison County, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain instances of noncompliance that we have reported to the management of Madison County, Mississippi, in the Independent Auditor's Report on Compliance with State Laws and Regulations and the Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules dated July 10, 2003, included within this document.

Internal Control Over Financial Reporting

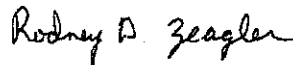
In planning and performing our audit, we considered Madison County, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the primary government financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Madison County, Mississippi's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 01-01 through 01-08.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the primary government financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 01-01, 01-02 and 01-05 to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than this specified party



PHIL BRYANT
State Auditor



RODNEY D. ZEAGLER, CPA
Director, Financial and Compliance Audit Division



State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

INDEPENDENT AUDITOR'S REPORT ON CENTRAL PURCHASING SYSTEM, INVENTORY CONTROL SYSTEM AND PURCHASE CLERK SCHEDULES (REQUIRED BY SECTION 31-7-115, MISS. CODE ANN (1972))

July 10, 2003

Members of the Board of Supervisors
Madison County, Mississippi

We have made a study and evaluation of the central purchasing system and inventory control system of Madison County, Mississippi, as of and for the year ended September 30, 2001. Our study and evaluation included tests of compliance of the Purchase Clerk and Inventory Control Clerk records and such other auditing procedures as we considered necessary in the circumstances.

The Board of Supervisors of Madison County, Mississippi, is responsible for establishing and maintaining a central purchasing system and inventory control system in accordance with Sections 31-7-101 through 31-7-127, Miss. Code Ann (1972). In addition, the Board of Supervisors is responsible for purchasing in accordance with the bid requirements of Section 31-7-13, Miss. Code Ann. (1972). The Board of Supervisors of Madison County, Mississippi, has established centralized purchasing for all funds of the county and has established an inventory control system. The objective of the central purchasing system is to provide reasonable, but not absolute, assurance that purchases are executed in accordance with state law.

Because of inherent limitations in any central purchasing system and inventory control system, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

The results of our audit procedures disclosed an instance of noncompliance with the aforementioned code sections. This instance of noncompliance was considered in forming our opinion on compliance. Our finding and recommendation and your response are disclosed below:

Inventory Control Clerk

Finding

Section 31-7-113, Miss. Code Ann. (1972), requires the Office of the State Auditor to prescribe the inventory forms and procedures necessary for the efficient maintenance of the inventory system. As reported in the last four years' audit reports, the annual inventory forms were not reconciled to the fixed assets detail records.

Recommendation

The Inventory Control Clerk should adequately document the annual inventory and reconcile it to the fixed assets records.

Inventory Control Clerk's Response

A new Inventory Control Clerk was appointed September, 2002. Accurate fixed assets detail records are being maintained. The annual inventory is now adequately documented and is reconciled to the fixed assets records.

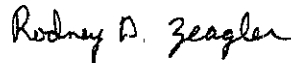
In our opinion, except for the noncompliance referred to in the preceding paragraph, Madison County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements

The accompanying schedules of (1) purchases not made from the lowest bidder, (2) emergency purchases and (3) purchases made noncompetitively from a sole source are presented in accordance with Section 31-7-115, Miss. Code Ann. (1972). The information contained on these schedules has been subjected to procedures performed in connection with our aforementioned study and evaluation of the purchasing system and, in our opinion, is fairly presented when considered in relation to that study and evaluation.

This report is intended for use in evaluating the central purchasing system and inventory control system of Madison County, Mississippi, and is not intended to be and should not be relied upon for any other purpose.



PHIL BRYANT
State Auditor



RODNEY D. ZEAGLER, CPA
Director, Financial and Compliance Audit Division

MADISON COUNTY
Schedule of Purchases Not Made From the Lowest Bidder
For the Year Ended September 30, 2001

Schedule 1

Our test results did not identify any purchases from other than the lowest bidder

MADISON COUNTY
Schedule of Emergency Purchases
For the Year Ended September 30, 2001

Schedule 2

Our test results did not identify any emergency purchases

MADISON COUNTY

Schedule of Purchases Made Noncompetitively From a Sole Source
For the Year Ended September 30, 2001

Schedule 3

Our test results did not identify any purchases made noncompetitively from a sole source

MADISON COUNTY

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

July 10, 2003

Members of the Board of Supervisors
Madison County, Mississippi

We have audited the primary government financial statements of Madison County, Mississippi, as of and for the year ended September 30, 2001, and have issued our report thereon dated July 10, 2003. The auditor's report on the primary government financial statements is modified to reflect that the primary government financial statements do not include the financial data of the county's component units, and the report is qualified because, due to the county's failure to properly reconcile the bank account to the cash balance in the general ledger, we were unable to satisfy ourselves as to the fair presentation of revenues, expenditures and other financing sources (uses) and the resulting effect on ending cash and investment balances. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the procedures prescribed by the State Auditor, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion.

The results of our procedures and our audit of the primary government financial statements disclosed certain immaterial instances of noncompliance with state laws and regulations. Our findings and recommendations and your responses are disclosed below:

Board of Supervisors

1. Finding

Section 19-3-27, Miss. Code Ann. (1972), requires the Clerk of the Board of Supervisors to keep and preserve a complete and correct record of all board proceedings. This code section also requires that the minutes of each day's proceedings shall either (a) be read and signed by the president or the vice president, if the president is absent or disabled so as to prevent his signing of the minutes; or (b) be adopted and approved by the Board of Supervisors as the first order of business on the first day of the next monthly meeting of the board. The Board of Supervisors has a responsibility to ensure that the minutes are a complete and correct record of all board proceedings prior to signing or adopting the minutes. As reported in last year's audit report, the board minutes did not include the claim numbers approved each month as required by Section 19-13-31, Miss. Code Ann. (1972).

Recommendation

When approving the minutes, the Board of Supervisors should ensure that all actions of the Board of Supervisors are recorded with sufficient detail to ensure that complete and correct records are kept of board proceedings

Board of Supervisors' Response

Mississippi law requires the Chancery Clerk, as clerk of the board, to keep and preserve complete and correct minutes. After previous audit comments were received concerning Section 19-13-31, in November 2001, the Board of Supervisors began including a list of all claims paid, both within the minutes and in the attachments thereto. The claims are listed by numbers and amounts. The Board Attorney assists with the preparation of the minutes and complete and correct records are kept of all board proceedings. The minutes of the prior month's meetings are approved on the first Monday of each month and each page is signed by the President of the board.

Chancery Clerk.

2 Finding

Section 9-1-45, Miss Code Ann. (1972), requires the Chancery Clerk to file a true and accurate annual report. The Chancery Clerk did not properly compute the amount earned in excess of the salary cap, resulting in an underpayment to the county in the amount of \$4,929.16.

Recommendation

The Chancery Clerk should settle the amount in excess of the salary cap to the General Fund. The Chancery Clerk should also properly compute amounts in excess of the salary cap when preparing the annual report and should settle the amounts due to the county by April 15th each year

Chancery Clerk's Response

I have reviewed the audit report for the partial year 2001 that I was Chancery Clerk of Madison County and I concur with the additional charges and have enclosed a check in the amount of \$4,929.16 for the balance owed.

Auditor's Note

The Chancery Clerk paid \$4,929.16 to the General Fund on June 26, 2003, as evidenced by receipt number 13224.

Former Chancery Clerk.

Due to the death of the Former Chancery Clerk, these findings are for informational purposes only.

3. Finding

Section 19-13-29, Miss Code Ann. (1972), specifies the manner in which the Chancery Clerk shall file claims against the county. This section also requires the Chancery Clerk to safely preserve these claims. As reported in the last two years' audit reports, some claim files were not adequately organized or preserved.

Recommendation

All claims against the county should be filed and preserved in an orderly manner as required

4 Finding

Section 19-13-25, Miss. Code Ann. (1972), requires the Chancery Clerk to submit claims with adequate supporting documentation to the Board of Supervisors. As reported in last year's audit report, the Chancery Clerk filed claims without attached invoices.

Recommendation

Supporting documentation should be attached to all claims filed with the board.

5. Finding

Section 19-13-27, Miss. Code Ann. (1972), requires the Chancery Clerk to "enter monthly all demands, claims and accounts" on the claims docket. As reported in last year's audit report, the Chancery Clerk did not enter all claims on the claims docket.

Recommendation

All claims should be entered on the claims docket.

6. Finding

Section 19-3-27, Miss. Code Ann. (1972), requires the board minutes to be a complete and correct record of all proceedings of the Board of Supervisors. As reported in last year's audit report, the Chancery Clerk made loans to the Madison County Medical Center without specific approval being recorded in the board minutes.

Recommendation

The Chancery Clerk has no authority to loan funds to the Madison County Medical Center without specific approval of the Board of Supervisors documented in the board minutes.

7. Finding

Section 9-1-43, Miss. Code Ann. (1972), requires the Chancery Clerk to maintain a fee journal to account for the receipts and expenses related to the operation of the office. The Chancery Clerk did not maintain a fee journal for the 2001 calendar year.

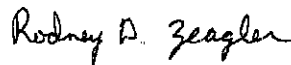
Recommendation

A fee journal should be prepared and maintained as required.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than this specified party.



PHIL BRYANT
State Auditor



RODNEY D. ZEAGLER, CPA
Director, Financial and Compliance Audit Division

MADISON COUNTY

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MADISON COUNTY

SCHEDULE OF FINDINGS

MADISON COUNTY

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MADISON COUNTY

Schedule of Findings
For the Year Ended September 30, 2001

Section 1: Summary of Auditor's Results

Financial Statements:

1	Type of auditor's report issued on the primary government financial statements:	Qualified
2.	Material noncompliance relating to the primary government financial statements?	No
3	Internal control over financial reporting:	
a.	Material weaknesses identified?	Yes
b.	Reportable conditions identified that are not considered to be material weaknesses?	Yes

Section 2: Financial Statement Findings

Former Chancery Clerk.

Due to the death of the Former Chancery Clerk, Findings 01-1 through 01-4 are for informational purposes only

01-1 Finding

During our audit, we noted the following weaknesses:

- a. As reported in the last five years' audit reports, there was a lack of segregation of duties in regard to disbursements. The Chancery Clerk recorded transactions while also participating in duties such as the handling of disbursements, preparation of manual checks and preparation of bank reconciliations
- b. As reported in the last three years' audit reports, expenditures were posted for which invoices were not available.
- c. As reported in the prior year's audit report, there was a lack of oversight in regard to general journal entries. No documentation was maintained to support general journal entries. There was no review or authorization of general journal entries by management.

Recommendation

Procedures should be established and maintained to ensure:

- a. Adequate segregation of duties concerning custody of assets and recording of transactions
- b. The availability of invoices to support recorded expenditures
- c. Adequate supporting documentation and management approval of general journal entries.

MADISON COUNTY

Schedule of Findings
For the Year Ended September 30, 2001

01-2. Finding

As reported in last year's audit report, cash control procedures were inadequate for maintaining an accurate balance of cash. The financial statements contained material unidentified other financing sources and uses. Material adjustments were made to reconcile bank balances to book balances, and no documentation was available to substantiate these adjustments. Therefore, the Independent Auditor's Report is qualified because we were unable to satisfy ourselves as to the fair presentation of revenues, expenditures and other financing sources (uses) and the resulting effect on ending cash balances reported in the primary government financial statements.

Recommendation

Adequate control procedures should be established to maintain properly balanced general ledgers and cash in bank reports documenting the day to day accounting activities of Madison County. Bank accounts should be reconciled on a monthly basis and any necessary adjustments should be adequately supported and explained.

01-3. Finding

SAO Circular No. 13, prescribed by the Office of the State Auditor, prescribes systems for accounting for self-funded insurance plans. This circular requires that requests from the plan administrator for funds to pay approved insurance claims should be supported by a list of claims to be paid from the requested amount. It also requires that request for claim payments and administrative fees should be entered on the claims docket, in total, for the Board of Supervisors' approval. The Chancery Clerk paid the plan administrator without a detailed list of claims and administrative fees being provided and without entering them on the claims docket for the Board of Supervisors' approval.

Recommendation

Requests from the plan administrator for insurance claims that are not supported by a list of claims and that have not been entered on the claims docket and approved by the Board of Supervisors should not be paid.

01-4. Finding

The *Mississippi County Financial Accounting Manual* states that funds should be centralized in the county's accounting records to make certain that money will be expended for appropriate purposes. Several funds were not accounted for in the county's centralized accounting records.

Recommendation

All funds of the county should be included in the county's centralized accounting records

EDP Department

01-5. Finding

During our review of the accounting software system at Madison County, we noted a lack of control over data. Users could edit payroll master file data, payroll history, 1099 file data, as well as W-2 file data. Users could edit or delete cash disbursements records in the claims system. Users can edit data in the purchase order system.

MADISON COUNTY

Schedule of Findings For the Year Ended September 30, 2001

The Control Objectives for Information and Related Technology (CobiT) guidelines, as well as industry best practices, require adequate control over the county's accounting system and data. Without these controls in place, data security could be compromised.

Recommendation

We recommend that Madison County strengthen controls over the accounting system. There should be no option to edit or delete critical permanent records. Only selected supervisors staff should be able to edit critical data records. Security level and menu options should be assigned to ensure this.

EDP Department's Response

Delta Computers provides Madison County with accounting and appraisal software packages that are widely utilized across the state. Madison County is no different from any county currently using these packages. The fact the accounting and payroll staff have the same menu is an issue that Delta Computers will have to address, again not only in this county but in all that are currently using Delta's package. It is our understanding that the State Auditor's office has previously made Delta Computers aware of these concerns, but has not required these changes and Delta will only make changes that are required by the State Audit Department.

01-6. Finding

As reported in last year's audit report, Madison County Department of Data Processing does not have written policies and procedures for the following:

- Security over the data processing facility.
- Usage policies and procedures.
- Recovery from abnormal termination.

The Control Objectives for Information and Related Technology (CobiT) guidelines, as well as industry best practices, require adequate written policies and procedures for security, usage and recovery procedures.

Recommendation

We recommend that Madison County establish written policies and procedures for its Department of Data Processing operations that provides for security over the data processing facility and for recovery when processing is abnormally terminated. Also, the county should enforce the written policies and procedures for access security and establish written policies and procedures for usage of computer and computer information.

EDP Department's Response

Madison County agrees with the state that some weaknesses exist as they relate to written policies and procedures for its Department of Data Processing operations. The county has taken corrective actions and is currently working on a policy to address these issues. The county does not agree with all the guidelines set out by the Control Objectives for Information and Related Technology (CobiT) as it relates to above findings. With this in mind, the county will maintain a log of all abnormal terminations for management review and audit inspection.

MADISON COUNTY

Schedule of Findings
For the Year Ended September 30, 2001

01-7. Finding

As reported in last year's audit report, Madison County does not have procedures in place to maintain a complete listing of all computer software installed on computers owned by Madison County; therefore, the county cannot verify software licenses. The Federal Copyright Infringement Law prohibits the installation and use of any copyrighted software without a license. Without a complete listing of all software on county-owned computers, the county cannot protect itself against possible copyright infringement charges.

Recommendation

We recommend that Madison County implement procedures to maintain a current listing of software installed on all computers. The Department of Data Processing management should periodically check the county-owned personal computers for unauthorized software. The county should maintain documentation of these test results for future audits. The county should implement bannering on all county-owned personal computers. The message should clearly address appropriate use policies and prohibit installation or use of illegal software.

EDP Department's Response

Madison County is implementing procedures to maintain a current listing of software installed on all personal computers. The list that is created will be checked by the Data Processing management for unauthorized software usage. The county will maintain this documentation for future audits. As the county personal computers are not a Novell type network, implementing a banner to provide informational messages on personal computers is not feasible.

01-8. Finding

As reported in last year's audit report, Madison County has not installed virus detection software on all personal computers. The county does not maintain a log of virus-related problems that will document the problem and the solution. Without a virus detection software and log of virus attacks, software damages from viruses may occur.

Recommendation

We recommend that Madison County install an anti-virus software that will cover all their computers as soon as possible. The county should maintain a log of virus attacks for management's review and audit purposes. Madison County should review and consider adoption of procedures prescribed by Information Technology Services (state computer center) in their Enterprise Security Policy.

EDP Department's Response

Madison County has acquired an anti-virus software package for small businesses. This software is currently being installed on all county personal computers. The county also plans to implement a logging system for recording all instances of virus attacks for management review and audit purposes.