

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

Findings and recommendations as a result of our examination are presented below. We have reviewed these findings and recommendations with management to provide an opportunity for their response. Excerpts from the written response received from the director of schools are quoted directly in this report. Other officials offered oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

OFFICE OF ACCOUNTS AND BUDGETS

FINDING 01.01 AN UNAUTHORIZED LOAN OF \$815,000 MADE IN THE PREVIOUS FISCAL YEAR REMAINED OUTSTANDING AT JUNE 30, 2001
(Material Noncompliance Under Government Auditing Standards)

An unauthorized loan of \$815,000 from the General Purpose School Fund to the General Debt Service Fund was made during the previous fiscal year. As of June 30, 2001, this loan remained outstanding.

RECOMMENDATION

The \$815,000 interfund loan should be repaid immediately.

FINDING 01.02 THE GENERAL DEBT SERVICE FUND AND THE INDUSTRIAL/ECONOMIC DEVELOPMENT FUND HAD FUND DEFICITS
(Internal Control – Reportable Condition Under Government Auditing Standards)

The following funds had fund deficits at June 30, 2001:

- A. The General Debt Service Fund had a fund deficit of \$46,131 at June 30, 2001. This fund deficit resulted from inadequate funding for current debt service requirements.

- B. The Industrial/Economic Development Fund (Special Revenue Fund) had a fund deficit of \$434,296 at June 30, 2001, that resulted from building construction contracts of \$490,846 being reserved as encumbrances in the financial statements. This fund deficit should be liquidated when grant proceeds and funds from the city of Loudon are received subsequent to June 30, 2001.

Generally accepted accounting principles require unperformed contracts to be reflected as a reservation (encumbrance) of fund balance. If unperformed portions of the building construction had not been reserved as an encumbrance of the fund balance in the financial statements, the Industrial/Economic Development Fund would have reflected a fund balance of \$62,550. The following statement presents the condition of the Industrial/Economic Development Fund at June 30, 2001, if the unperformed portion of the contracts had not been reflected as a reservation of the fund balance:

Industrial/Economic Development Fund
Fund Equity – Restated
June 30, 2001

Fund Balance

Unreserved:	
Undesignated	<u>\$ 62,550</u>
 Fund Balance, June 30, 2001	
Restated	<u>\$ 62,550</u>

RECOMMENDATION

County officials should take appropriate steps to liquidate the fund deficits in the General Debt Service Fund and the Industrial/Economic Development Fund.

FINDING 01.03 **THE SCHOOL PAYROLL ACCOUNT WAS NOT RECONCILED WITH THE GENERAL LEDGER BALANCE**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The office did not reconcile bank statements for the school payroll account with the general ledger balance. Without monthly reconciliations, errors may not be detected and corrected promptly.

RECOMMENDATION

Bank statements should be reconciled with the general ledger balance on a monthly basis, and any differences should be resolved immediately.

FINDING 01.04 ACCOUNTING FUNCTIONS FOR THE HIGHWAY DEPARTMENT WERE NOT PERFORMED IN ACCORDANCE WITH THE FISCAL CONTROL ACTS OF 1957
(Noncompliance Under Government Auditing Standards)

Loudon County operates under the provisions of the Fiscal Control Acts of 1957, Section 5-13-101, et seq., Tennessee Code Annotated, which provides for the director of the Office of Accounts and Budgets to maintain accounting records for all funds administered by the county executive, highway superintendent, and director of schools. Accounting records for the Highway Department were maintained by personnel of that department under the supervision of the highway superintendent, rather than by the director of accounts and budgets.

RECOMMENDATION

The director of the Office of Accounts and Budgets should maintain the accounting records for the Highway Department in compliance with provisions of the Fiscal Control Acts of 1957.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 01.05 PURCHASES WERE NOT MADE THROUGH THE COUNTY PURCHASING AGENT
(Noncompliance Under Government Auditing Standards)

During the year, the School Department disbursed funds to the various individual schools' activity accounts to fund purchases of computers, textbooks, and other items. This practice does not comply with the County Purchasing Law of 1957, Section 5-14-101, et seq., Tennessee Code Annotated, which requires the county purchasing agent to make all purchases for the various county departments.

RECOMMENDATION

All School Department purchases should be made in compliance with state statute.

MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS

These funds are distributed to each school at the beginning of each school year and are subject to regular audit by a firm hired to perform a school audit. This firm verifies that the funds sent to the schools are spent under proper financial purchasing and expenditure guidelines and that they match funds sent to schools.

We believe strongly that the site-based policy that we have in place allows for a more efficient use of funds. This policy allows for an equal distribution of funds and better management of funds, based on student needs. To centrally purchase all school supplies and materials would seriously affect the efficiency of this process.

REBUTTAL

This method of channeling funds to the individual schools is not provided for in state statutes. As stated in the finding, the County Purchasing Law of 1957 requires the purchasing agent to make all purchases for the various county departments.

OFFICE OF SHERIFF

FINDING 01.06 **THE OFFICE USED CONFIDENTIAL FUNDS TO PAY NON-CONFIDENTIAL EXPENDITURES** (Noncompliance Under Government Auditing Standards)

State statutes allow the sheriff to maintain confidential funds for undercover drug investigations. However, during the year, the Sheriff's Office used confidential funds for nonconfidential expenditures, including equipment, drug seminars, computer software, rent, utilities, and lawn care. By using confidential funds for nonconfidential purchases, the sheriff circumvented the county's purchasing and budgetary controls. Purchasing procedures for all county departments are governed by provisions of Section 5-14-101, et seq., Tennessee Code Annotated. These statutes require all nonconfidential purchases to be made by the purchasing agent and purchase orders to be issued for these purchases.

RECOMMENDATION

The office should use confidential funds only for confidential purposes, and all nonconfidential purchases should be channeled through the purchasing agent.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 01.07 **THE DOCUMENTATION OF BUDGET AMOUNTS APPROVED BY THE COUNTY COMMISSION HAD DEFICIENCIES** (Internal Control – Material Weakness Under Government Auditing Standards)

Amounts in the detailed budget recorded in the minutes of the County Commission meetings did not agree with amounts on the appropriation resolution presented in the minutes. Also, the appropriation resolution printed in the minutes only reflected a total appropriation figure for each fund and did not present appropriations at the major category levels. In addition, the minutes did not always include the detailed budget amendments presented for approval. Therefore, our opinion on the financial statements is qualified because we were unable to determine if all budgets and budget amendments reflected on the financial statements were properly approved by the County Commission.

RECOMMENDATION

The detailed budget should agree with amounts reflected on the appropriation resolution, and the appropriation resolution printed in the minutes should include appropriations at major category levels. Furthermore, the minutes should also include details of all budget amendments approved.

FINDING 01.08 DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK, CLERK AND MASTER, AND SHERIFF
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among the officials and employees in the Offices of Circuit and General Sessions Courts Clerk, Clerk and Master, and Sheriff. Officials and employees responsible for maintaining the accounting records in these offices were also involved in receipting, depositing, and/or disbursing funds. We realize that due to limited resources and personnel, management may not be able to properly segregate duties among employees. However, our professional standards require that we bring this matter to the reader's attention in this report.

FINDING 01.09 RECORDS WERE NOT MAINTAINED FOR GENERAL FIXED ASSETS
(Internal Control – Material Weakness Under Government Auditing Standards)

Loudon County and the discretely presented Loudon County School Department did not inventory, value, and record their general fixed assets (buildings, equipment, etc.), as required by generally accepted accounting principles. The Governmental Accounting Standards Board has adopted Statement 34, which will become effective in Loudon County for the year ending June 30, 2003. Statement 34 places an even greater emphasis on the need to maintain general fixed asset records.

RECOMMENDATION

Loudon County and the discretely presented Loudon County School Department should inventory, value, and record their general fixed assets in accordance with generally accepted accounting principles.