

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

Findings and recommendations as a result of our examination are presented below. We reviewed these findings and recommendations with management to provide an opportunity for their response. Management did not offer written responses to the findings and recommendations. Officials did offer oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 02.01 THE GENERAL PURPOSE SCHOOL FUND HAD A CASH OVERDRAFT OF \$683,309 AT JUNE 30, 2002
(Internal Control – Material Weakness Under Government Auditing Standards)

The General Purpose School Fund had a cash overdraft of \$683,309 at June 30, 2002. During the period under examination, a revenue anticipation note in the amount of \$6,500,000 was borrowed from the General Fund, and the proceeds were deposited with the General Purpose School Fund. State statutes require revenue anticipation notes to be retired by June 30 of the fiscal year they are issued. On June 28, 2002, the General Purpose School Fund issued a warrant to retire the revenue anticipation note. However, the General Purpose School Fund did not have sufficient funds on deposit with the county trustee to retire the revenue anticipation note, resulting in the cash overdraft of \$683,309. It should be noted that the cash overdraft increased to \$1,395,202 on July 10, 2002, and was only liquidated when the General Purpose School Fund issued a new revenue anticipation note of \$6,000,000 for the 2002-03 fiscal year. The cash overdraft and overall poor cash position of the General Purpose School Fund can be attributed to poor budgetary practices, which are detailed in finding 02.02.

RECOMMENDATION

Warrants that exceed available cash on deposit with the county trustee should not be issued. Steps should be taken to improve the cash position of the General Purpose School Fund.

FINDING 02.02 SERIOUS DEFICIENCIES WERE NOTED IN PREPARING AND MONITORING THE GENERAL PURPOSE SCHOOL FUND BUDGET
(Internal Control – Material Weakness Under Government Auditing Standards)

Actual revenues of the General Purpose School Fund were less than budget estimates by over \$2,000,000 for the year ended June 30, 2002. Budget estimates for revenues were not monitored and adjusted during the year when it became apparent that certain revenues would not be received at the levels estimated. The actual amounts received for the following revenues were far below the budgeted amount:

<u>Revenue Source</u>	<u>Variance (Unfavorable)</u>
A. Current Property Tax	(\$569,277)
B. Local Option Sales Tax	(\$388,957)
C. Investment Income	(\$453,397)
D. Career Ladder Program	(\$618,622)

We have reviewed the revenue estimates for these items in the recently approved budget for the 2002-03 fiscal year. It appears that the budget discrepancies regarding investment income and the career ladder program have been corrected in the current budget. However, property tax collections for the General Purpose School Fund are estimated at a higher collection rate on the tax levy than in other county funds. Property tax collections for the General Purpose School Fund were also estimated at a higher collection rate than other county funds for the year examined, resulting in the above-noted unfavorable revenue variance for property tax collections of \$569,277. In addition, the local option sales tax estimate still includes growth that appears to be above recent collection history.

RECOMMENDATION

The revenue estimates used in the current year's budget should be reviewed and revised if necessary. These revisions should include adjusting expenditure appropriations to the level of actual available funding. The School Department should also develop a plan to closely monitor budgeted amounts and make adjustments as soon as significant variances become apparent.

OFFICE OF REGISTER

FINDING 02.03 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICE OF REGISTER**
 (Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among the official and employees in the Office of Register. The official and employees responsible for maintaining the accounting records were also involved in receipting, depositing, and/or disbursing funds. We realize that due to limited resources and personnel, management may not be able to properly segregate duties among employees. However, our professional standards require that we bring this matter to the reader's attention in this report.