

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS AND FEDERAL AWARDS

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. The written responses of the county mayor and director of schools have been included in this report. Other officials offered oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

FAYETTE COUNTY AND FAYETTE COUNTY SCHOOL DEPARTMENT

FINDING 03.01 **GOVERNMENT-WIDE FINANCIAL STATEMENTS WERE NOT PRESENTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**
(Material Noncompliance Under Government Auditing Standards)

Fayette County and the Fayette County School Department did not identify and determine the historical value of their capital assets and infrastructure, and the related depreciation amounts of these assets. Therefore, the county and the School Department were unable to provide the information necessary to prepare government-wide financial statements for all of their activities, as required by Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. GASB is the standard-setting body for accounting principles that state and local governments are required to follow. As a result of this omission, Fayette County and the Fayette County School Department’s financial statements are not presented in accordance with generally accepted accounting principles; thus, we have issued adverse opinions on the county’s and the School Department’s financial statements.

The Office of the Comptroller of the Treasury, State of Tennessee, requires counties that do not implement GASB Statement 34 to issue a financial report in compliance with Financial Reporting Standards for County Governments, Component Units of County Governments, and Special School Districts That Do Not Implement Governmental Accounting Standards Board Statement 34, standards established by the Comptroller of the Treasury. Fayette County and the Fayette County School Department’s financial statements are presented in compliance with these requirements.

RECOMMENDATION

Fayette County and the Fayette County School Department should present government-wide financial statements in conformity with generally accepted accounting principles, and should compile and maintain records that properly account for their capital assets. These records should document the historical cost of the county’s and the School Department’s capital assets, and the related depreciation amounts of these assets. This information is necessary to present the county’s and the School Department’s financial statements in accordance with generally accepted accounting principles.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

Fayette County has not yet fully complied with the requirements of GASB 34. However, implementation of GASB 34 is underway, and we are working with state auditors to comply as quickly as possible in an acceptable manner under the present budget constraints.

MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS

We concur with the recommendation and are working to make these corrections.

OFFICE OF COUNTY MAYOR

FINDING 03.02 **PURCHASE ORDERS WERE NOT ALWAYS ISSUED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The office did not issue purchase orders in some applicable instances. Purchase orders are necessary to control who has purchasing authority for the county and to document purchasing commitments.

RECOMMENDATION

The office should improve purchasing procedures by issuing purchase orders for all applicable purchases.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

I concur. Steps will be taken to correct the finding.

FINDING 03.03 **EXPENDITURES EXCEEDED APPROPRIATIONS IN THE GENERAL FUND**
(Material Noncompliance Under Government Auditing Standards)

Expenditures exceeded appropriations approved by the County Commission in the Airport major category in the General Fund by \$1,667,014. This overexpenditure primarily resulted from recognizing an encumbrance for an uncompleted construction project of \$1,268,041 as of June 30, 2003. Also, expenditures exceeded appropriations approved by the County Commission in the Other Charges (\$2,693), Employee Benefits (\$47,509), and Miscellaneous (\$2,619) major categories in the General Fund. In addition, as a result of these four major appropriation categories being overspent, the total expenditures of the General Fund exceeded the total appropriations by \$1,009,933. Section 5-9-401, Tennessee Code Annotated, states that "all funds ... including, but not limited to ... taxes, county aid

funds, federal funds, and fines, which are to be used in the operation and respective programs of the various departments, commissions, institutions, boards, offices, and agencies of county governments shall be appropriated to such use by the county legislative bodies.”

RECOMMENDATION

Appropriations for construction projects should be budgeted in the year the contracts are approved. Also, expenditures should be held within appropriations approved by the County Commission.

MANAGEMENT’S RESPONSE – COUNTY MAYOR

I concur. Steps will be taken to correct the finding.

OFFICE OF PUBLIC WORKS SUPERINTENDENT

FINDING 03.04 **THE PUBLIC WORKS DEPARTMENT DID NOT ACCOUNT FOR THE USE OF ROAD MATERIALS ON SOME PROJECTS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Public Works Department had a system to determine the use of road materials, such as rock and asphalt, for state-aid road projects. However, the department did not have a system to account for materials used on other types of road projects. The failure to maintain a system to document the use of road materials results in a loss of control over the assets and increases the risk of inventory loss.

RECOMMENDATION

The department should develop and implement a system to account for materials used on all types of road projects.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 03.05 **IRREGULARITIES WERE NOTED IN THE DISBURSEMENT OF TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTER’S GRANT PROGRAM FUNDS**
(Internal Control – Material Weakness Under OMB Circular A-133 and Government Auditing Standards)

Fayette County applied for and was awarded a grant of \$394,651 from the U. S. Department of Education that passed through the Tennessee Department of Education and

was for the purpose of providing funding for remedial reading and math and other enrichment programs for Fayette County students. The director of schools contracted with Stacie Smith to be project administrator for the Twenty-first Century Community Learning Center's grant program funds. From our examination of school board minutes, we could not determine that the school board had approved this contract. After Ms. Smith was hired to be project administrator, she subcontracted with Educational Consultants to provide certain services in connection with the Twenty-first Century Community Learning Center's grant. We noted the following irregularities while examining transactions resulting from this program:

A. PURCHASE OF SOFTWARE

The Fayette County school system paid \$88,340.50 to Educational Consultants for software that was copyrighted by Renaissance Learning, Inc., and Scientific Learning. The software was to include math, science, Spanish, Fast Forward reading, and Kaplan's and Barron's ACT/SAT/PSAT software. The software comes with a network license.

School personnel did not have any inventory records of the software purchased from Educational Consultants, Inc. Generally accepted accounting principles require accountability for all county-owned assets. The failure to maintain inventory records results in a loss of control over the assets. We went to various schools in Fayette County to inventory software purchased from Educational Consultants. School personnel told us that the only software they had received from Ms. Smith was a Star reading and math program by Renaissance Learning, Inc., and a Fast Forward Program by Scientific Learning. This software was not original software and had been copied onto a compact disk (CD-R) and loaded on the school's computers. We could not find any copyrighted software from Renaissance Learning, Inc., or Scientific Learning. Also, we could not determine if the software had been networked between computers. The only software programs we observed at the various schools were the two software programs noted above. Therefore, we concluded that the Fayette County school system did not receive the software purchased from Educational Consultants. When we checked the Renaissance Learning, Inc., Website, we discovered that anyone could purchase the Star reading and math software for 40 students at a cost of \$499.00 or a network license for 200 students at a cost of \$1,499.00. We also discovered on the Scientific Learning Website that anyone could purchase five packs of Fast Forward software for \$2,499.00, and the network license could be purchased for ten students at a cost of \$800.00. Since we did not observe any software that was networked between computers or any software that was supposedly purchased from Educational Consultants, we could not determine if Fayette County received anything of value for the \$88,340.50 the school system paid Educational Consultants.

B. TRAINING

Stacie Smith, project administrator, arranged for Educational Consultants to be paid \$11,100 to train school personnel in four of the county's schools to use

software purchased from Educational Consultants. However, we determined from interviews with school personnel at the four schools where the training was conducted that Ms. Smith and her administrative assistant, Chanta Williams, were the only individuals who provided any training in the use of Star reading and math and the Fast Forward programs. School personnel informed us that Ms. Smith and Ms. Williams spent approximately one to two hours instructing the staff at each school. Since Ms. Smith subcontracted with Educational Consultants to provide training, we question why Ms. Smith and her administrative assistant provided training instead of employees with Educational Consultants. Also, it appears that a charge of \$11,100 to provide one to two hours of training to each of the four schools is excessive.

C. LACK OF ADEQUATE DOCUMENTATION

Ms. Smith submitted invoices for payment directly to the director of schools without any oversight from other Central Office staff. When we questioned the director of schools about the legitimacy of invoices paid to Educational Consultants, he stated that he contacted Ms. Smith, who assured him that the invoices were legitimate. However, in numerous instances, the invoices Ms. Smith submitted for payment were not documented properly. Because the invoices were not itemized, other supporting documentation was not on file, and no inventory of the software purchased from Educational Consultants was on file, we were unable to determine through extended audit procedures that all disbursements made from the Twenty-first Century Community Learning Center's grant funds were expended in accordance with grant guidelines or that the goods had been received or services rendered.

D. QUESTIONED COSTS

OMB Circular A-133 states that the auditee should have internal controls in place to provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and provisions of contracts and grant agreements that could have a material effect on each of its federal programs. Because of the severity of irregularities in the administration and internal controls of this grant, we have reflected the entire amount of the grant (\$394,651) as questioned costs in this report.

We discussed these irregularities with the district attorney general, who requested that the Tennessee Bureau of Investigation (TBI) conduct an investigation. On November 24, 2003, Ms. Smith was indicted by the Fayette County Grand Jury for theft of property valued at \$60,000 or more and for forgery.

RECOMMENDATION

We recommend the following:

- A. School personnel should maintain inventory records for all school-owned assets. The director of schools should establish internal controls to ensure that newly acquired assets are accounted for properly by personnel independent of the record-keeping process. To strengthen internal controls over the purchasing process, the director of schools should implement procedures to ensure the school system receives the actual goods it has purchased.
- B. The director of schools should ensure that school personnel receive the required training in the use of the software that the school system purchased.
- C. To strengthen internal controls over the purchasing process, the director of schools should ensure documentation is on hand to support that all goods purchased have been received and/or services rendered before invoices are paid.
- D. Controls should be established to determine that all disbursements of grant funds are expended in accordance with grant guidelines and for the benefit of the Fayette County school system.

MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS

The director stated the following:

A. PURCHASE OF SOFTWARE

We concur. We did not check computers at the individual school sites to see if the software programs were originals or copies. In the future, we will verify by inventory that we received the actual software.

B. TRAINING

We concur. We did not check with school sites to verify who did the training, only that the training was conducted. In the future, the project administrator will verify that all training is done by the contracted company and that fees are consistent with grant guidelines.

C. LACK OF ADEQUATE DOCUMENTATION

We concur. Itemized documentation for invoices and payroll will be verified before payments are made. Invoices were submitted to the Business Office to be checked for any irregularities; none were brought to my attention. In the future, I will ask for verification on all requests.

D. QUESTIONED COSTS

We concur. As of December 24, 2003, the federal projects director will manage the operations of the Twenty-first Century Community Learning grant. Also, as of this date, Ms. Smith will no longer work with the grant or any other program with the Fayette County school system.

REBUTTAL

We rebut the following:

C. LACK OF ADEQUATE DOCUMENTATION

Office personnel informed us that originally they received invoices from Ms. Smith and gave the invoices to the director of schools for payment approval. However, employees stated that during the audit period Ms. Smith began carrying the invoices to the director of schools first for his approval.

OFFICE OF TRUSTEE

FINDING 03.06 **THE TRUSTEE DID NOT REQUIRE TWO DEPOSITORIES TO ADEQUATELY COLLATERALIZE FUNDS**
(Noncompliance Under Government Auditing Standards)

The trustee did not require two depositories to pledge adequate securities to protect county funds exceeding Federal Deposit Insurance Corporation (FDIC) coverage. At June 30, 2003, deposits at the two depositories exceeded FDIC coverage by \$219,248. Section 58-201, Tennessee Code Annotated, provides for county officials to require any bank that is a depository of county funds to deposit in an escrow account in a second bank collateral security equal to 105 percent of the funds exceeding FDIC coverage. As of the date of this report, the trustee had required the two depositories to pledge adequate securities to protect the county's funds.

RECOMMENDATION

The trustee should require depositories to pledge adequate securities to protect county funds exceeding FDIC coverage, as required by state statute.

OTHER FINDING AND RECOMMENDATION

FINDING 03.07

A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED

(Internal Control – Reportable Condition Under Government Auditing Standards)

Fayette County officials had not adopted a central system of accounting, budgeting, and purchasing. Establishing a central system would significantly improve internal controls over the accounting, budgeting, and purchasing processes.

RECOMMENDATION

Fayette County officials should consider adopting the County Financial Management System of 1981 or a private act, which would provide for a system of central accounting, budgeting, and purchasing covering all county departments.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

This matter is under study by the Mayor's Office and will involve the Board of Education, Public Works Department, and Fayette County Commission.