

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 of 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 DIRECTOR OF ACCOUNTS AND BUDGETS

FINDING 03.01 **BANK ACCOUNTS WERE NOT MAINTAINED PROPERLY**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The office had the following deficiencies in the maintenance of bank accounts:

- A. 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. This account had a cash overdraft of \$4,206 as of June 30, 2003.

- B. The bank account maintained for the purpose of paying claims through the Employee Dental Insurance Fund was not reconciled on a monthly basis.

RECOMMENDATION

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

OFFICES OF DIRECTOR OF ACCOUNTS AND BUDGETS AND HIGHWAY SUPERINTENDENT

FINDING 03.02 **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.

OFFICES OF DIRECTOR OF ACCOUNTS AND BUDGETS, COUNTY EXECUTIVE, AND DIRECTOR OF SCHOOLS

FINDING 03.03 **EXPENDITURES EXCEEDED APPROPRIATIONS IN THE SOLID WASTE AND DRUG CONTROL FUNDS AND IN SEVERAL FUNDS AT THE MAJOR CATEGORY LEVEL (Noncompliance Under Government Auditing Standards)**

Expenditures and encumbrances exceeded appropriations approved by the County Commission for the Solid Waste Fund (\$13,498) and the Drug Control Fund (\$4,098). Also, expenditures and encumbrances exceeded appropriations by significant amounts at the major category level in other funds as follows:

- A. Expenditures exceeded appropriations in the Local Health Center (\$74,000) and Public Utility Projects (\$104,000) major appropriation categories of the General Capital Projects Fund.
- B. In the General Purpose School Fund, expenditures exceeded appropriations at the major category levels of Maintenance of Plant by approximately \$516,000 and Food Service by approximately \$195,000.

The primary cause for the overexpenditure in the Maintenance of Plant category was that management failed to properly budget expenditures of \$512,500 for mold treatment and removal. The disbursement for these expenditures was posted directly to fund balance on the records because this was the source of funding stated by the Board of Education. However, these expenditures were never appropriated by the County Commission. The financial statements in this report have been adjusted to properly reflect the transactions as an expenditure rather than a direct charge against fund balance.

The overexpenditures in the Food Service category occurred because expenditures of the federal Commodities Letter of Credit program were not appropriated in the budget and pass-through payments due to individual schools for the remittance of federal USDA lunch funds exceeded the amounts budgeted.

Section 5-9-401, Tennessee Code Annotated, requires all uses of funds to be appropriated by the County Commission.

RECOMMENDATION

Management should ensure that expenditures are held within appropriations approved by the County Commission and that all expenditures are reflected accurately on the records.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 03.04 **PURCHASES WERE NOT MADE THROUGH THE COUNTY PURCHASING AGENT**

(Noncompliance Under Government Auditing Standards)

During the year, the School Department disbursed funds to individual schools' activity accounts and allowed the individual schools to make purchases of equipment 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 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 schools are spent under proper financial purchasing and expenditure guidelines, and match with funds that have been sent to schools.

We feel strongly that the site-based policy, which 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. We feel that 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 violates state statutes. As stated in the finding, the County Purchasing Law of 1957 requires the purchasing agent to make all purchases for county departments.

OTHER FINDING AND RECOMMENDATION

FINDING 03.05

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.