

## **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. Officials offered oral responses to the findings and recommendations; however, these oral responses have not been included in this report.

### **OFFICE OF DIRECTOR OF ACCOUNTS AND BUDGETS AND PROBATION OFFICE**

**FINDING 03.01**      **THE OFFICES HAD INTERNAL CONTROL WEAKNESSES IN HANDLING PROBATION COLLECTIONS**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Our audit revealed the following deficiencies in accounting for collections of probation fees:

- A. Receipts were not issued for all collections, as required by Section 9-2-103, Tennessee Code Annotated (TCA). For the year examined, collections remitted to the Central Accounting Office exceeded the receipts the Probation Office issued.
- B. Receipts the Probation Office issued were not prenumbered, as required by Section 9-2-104, TCA.
- C. Lists of collections the Probation Office remitted to the Central Accounting Office were not retained.
- D. Deposit tickets the Central Accounting Office prepared were not always itemized to indicate which collections were checks, money orders, or cash.
- E. Because of these deficiencies, we could not determine if all collections had been deposited within three days, as required by Section 5-8-207, TCA.

### **RECOMMENDATION**

Prenumbered receipts should be issued for all collections, and all collections should be deposited within three days, as required by state statutes. Collections remitted to the Accounting Office should be reconciled with receipts issued by the Probation Office. Control lists of collections should be retained, and deposit tickets should be itemized by check, money order, and cash.

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## **OFFICE OF DIRECTOR OF ACCOUNTS AND BUDGETS**

### **FINDING 03.02      **THE OFFICE DID NOT IMPLEMENT APPLICATION CONTROLS AVAILABLE WITH THE GENERAL LEDGER SOFTWARE****

(Internal Control – Reportable Condition Under Government Auditing Standards)

The office did not implement controls within the general ledger software application that require users to close previous accounting periods. If accounting periods are not closed, employees could inappropriately post transactions to previous accounting periods.

### **RECOMMENDATION**

Management should implement software controls that require users to close an accounting period within 60 days following its completion.

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## **OFFICE OF DIRECTOR OF ACCOUNTS AND BUDGETS AND OFFICE OF DIRECTOR OF SCHOOLS**

### **FINDING 03.03      **DEFICIENCIES WERE NOTED IN THE ADMINISTRATION OF THE SCHOOL FEDERAL PROJECTS FUND****

(A. Internal Control – Reportable Condition Under Government Auditing Standards; B. Material Noncompliance Under Government Auditing Standards)

The following deficiencies were noted in the administration of the School Federal Projects Fund:

- A. At June 30, 2003, the School Federal Projects Fund had a fund deficit of \$308,792. This deficit primarily resulted from the School Department's not requesting reimbursement of grant expenditures in a timely manner. The School Federal Projects Fund had receivables totaling \$312,517 at June 30, 2003, which were not received within 60 days of year-end. Consequently, those revenues have been deferred on the financial statements, resulting in the fund deficit. Also, deferring revenues was a contributing factor in revenues falling below the School Federal Projects Fund's budget estimates by \$846,076.
- B. To provide cash flows for the operations of the School Federal Projects Fund, the office made interfund loans totaling \$600,000 from the General Purpose School Fund to the School Federal Projects Fund. These loans were, in effect, revenue anticipation notes but were not approved by the County Commission, and the state director of Local Finance, as required by Sections 9-21-408 and

9-21-801, Tennessee Code Annotated (TCA). As of June 30, 2003, the entire \$600,000 of the loans had been repaid.

### RECOMMENDATION

County personnel should ensure that timely requests are filed for reimbursements of expenditures under federal grants. Also, interfund loans should be approved by the County Commission and the state director of Local Finance, as required by state statutes.

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### **OFFICE OF DIRECTOR OF SCHOOLS**

#### FINDING 03.04

#### **THE SCHOOL DEPARTMENT HAD DEFICIENCIES IN DOCUMENTATION RELATED TO A LONG-TERM LEASE AGREEMENT**

(Internal Control – Reportable Condition Under Government Auditing Standards)

During the year, the School Department entered into a long-term lease agreement for a Head Start Program and day care building. Under the lease agreement, the School Department made an initial lease payment of \$450,000 and exercised an option to make an additional up-front payment of approximately \$200,000. The School Department will also begin making monthly payments of \$10,395 (with one percent annual increases) once the building is completed. The initial term of the lease is for 20 years with options for two additional five-year renewal periods. The School Department currently has no written ownership rights to the building at the end of the lease. We noted the following deficiencies surrounding this lease agreement:

- A. The School Department did not adequately document the economic benefit obtained from entering into a long-term lease agreement for a Head Start Program and day care building as opposed to constructing a building. An analysis submitted to the School Department by the lessor comparing the cost of the lease with the estimated cost of construction did not accurately reflect the county's true financing rate. This analysis indicated that the total lease payments for a 20-year period were approximately the same as the estimated construction costs of the building financed at a 9.75 percent interest rate over a 20-year period. However, the county's actual cost of financing should be much lower than the 9.75 percent rate used in the analysis. In recent years, the county has issued capital outlay notes at interest rates as low as 3.6 percent and fixed rate bonds at interest rates from 3.0 to 5.0 percent. Therefore, the county's actual cost to construct and finance the building should be significantly lower than the amount indicated by this analysis.
- B. The final disposition and ownership of the building are questionable. Management has stated to us that the lessor has made verbal commitments that the building will be titled to the School Department at the end of the

lease term. However, the written lease agreement does not address any passing of ownership of the building. The School Department has begun efforts to formalize the county's right to obtain ownership of the property through an amendment to the lease agreement; however, as of the date of this report, the proposed amendment has not been finalized.

#### RECOMMENDATION

Decisions regarding the election to enter into long-term lease agreements as opposed to construction should be documented to explain how the lease is more economically feasible. Furthermore, the School Department should clarify any commitment to ownership rights to the building.