

**Franklin County Library
Winchester, Tennessee**

Audit Report

June 30, 2008

Franklin County Library
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Franklin County Library
Introductory Section
June 30, 2008

Roster of Board Members and Management Officials

Board Members

Julie Schaefer, Chairman
Winchester, TN

T. C. Simmons III, Vice Chairman
Winchester, TN

Suzanne McDowell, Treasurer
Winchester, TN

Pam Brown
Winchester, TN

Edward Crenshaw
Winchester, TN

Michael D. Hall
Estill Springs, TN

Pat Kirby
Sewanee, TN

Management Official

Diane Krauth
Winchester, TN

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Certified Public Accountants,
Tennessee Society of CPAs,
Association of Government Accountants

Independent Auditors' Report

To the Board of Directors
Franklin County Library
Winchester, Tennessee

We have audited the accompanying financial statements of the governmental activities, and each major fund of the Franklin County Library, (a part of the primary government of Franklin County, Tennessee,) as of and for the year ended June 30, 2008, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Franklin County Library. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Library does not utilize daily receipt totals and as such receipts are not being reconciled and pre-numbered receipt books are not being used. As a result, a timely and effective way to test revenues is not determinable.

As discussed in Note 2, the financial statements present only the Franklin County Library and do not purport to, and do not, present fairly the financial position of Franklin County, Tennessee, as of June 30, 2008, and the changes in its financial position for the year then ended in conformity with accounting principals generally accepted in the United States of America.

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had the Library's daily receipt revenues been audited, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Franklin County Library as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Franklin County Library has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2008, on our consideration of Franklin County Library's internal control over financial reporting and on our tests of its compliance with certain provisions of the laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.



Bean, Rhoton & Kelley, PLLC

December 16, 2008

Franklin County Library
(A Part of the Primary Government of Franklin County, Tennessee)
Combining Governmental Funds Balance Sheet
June 30, 2008

	<u>Franklin County Library</u>	<u>Friends of Franklin Co. Library</u>	<u>Total</u>
<u>ASSETS</u>			
Cash	\$ 31,311.98	\$ 19,706.45	\$ 51,018.43
Certificate of deposit	<u>3,553.74</u>	<u>0.00</u>	<u>3,553.74</u>
Total assets	<u>\$ 34,865.72</u>	<u>\$ 19,706.45</u>	<u>\$ 54,572.17</u>
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities:			
Accounts payable	\$ <u>6,163.16</u>	\$ <u>0.00</u>	\$ <u>6,163.16</u>
Total liabilities	<u>6,163.16</u>	<u>0.00</u>	<u>6,163.16</u>
Fund balances:			
Unreserved	<u>28,702.56</u>	<u>19,706.45</u>	<u>48,409.01</u>
Total fund balances	<u>28,702.56</u>	<u>19,706.45</u>	<u>48,409.01</u>
Total liabilities and fund balances	<u>\$ 34,865.72</u>	<u>\$ 19,706.45</u>	<u>\$ 54,572.17</u>

Notes to financial statements are an integral part of the financial statements.

Franklin County Library
(A Part of the Primary Government of Franklin County, Tennessee)
Combining Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balance
For the year ended June 30, 2008

	<u>Franklin County Library</u>	<u>Friends of Franklin Co. Library</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>			
Contributions from County	\$ 42,168.00	\$ 0.00	\$ 42,168.00
Contributions from Winchester	27,500.00	0.00	27,500.00
Other city contributions	600.00	0.00	600.00
Memorials and gifts	3,351.90	73.00	3,424.90
Fines, fees and miscellaneous	19,902.65	10,469.45	30,372.10
Interest	43.74	4.67	48.41
Total revenues	<u>93,566.29</u>	<u>10,547.12</u>	<u>104,113.41</u>
<u>EXPENDITURES</u>			
Salaries, wages and benefits	28,874.80	0.00	28,874.80
Books and periodicals (See Note 2)	24,167.15	0.00	24,167.15
Utilities	19,932.42	0.00	19,932.42
Supplies	3,714.94	2,152.51	5,867.45
Maintenance and repairs	9,846.82	0.00	9,846.82
Equipment rental and service	5,568.87	0.00	5,568.87
Technology grants	4,882.47	0.00	4,882.47
Miscellaneous expenses	2,878.34	353.16	3,231.50
Professional services	4,500.00	0.00	4,500.00
Total expenditures	<u>104,365.81</u>	<u>2,505.67</u>	<u>106,871.48</u>
Deficit of revenues over expenditures	<u>(10,799.52)</u>	<u>8,041.45</u>	<u>(2,758.07)</u>
Net change in fund balance	<u>(10,799.52)</u>	<u>8,041.45</u>	<u>(2,758.07)</u>
Fund balance - beginning of year	<u>39,502.08</u>	<u>11,665.00</u>	<u>51,167.08</u>
Fund balance - end of year	<u>\$ 28,702.56</u>	<u>\$ 19,706.45</u>	<u>\$ 48,409.01</u>

Notes to financial statements are an integral part of the financial statements.

Franklin County Library
Notes to Financial Statements
June 30, 2008

(1) REPORTING ENTITY

The Franklin County Library is responsible for providing free library service to residents of Franklin County. The Library is a part of the primary government of Franklin County, Tennessee. This board does not have separate legal standing from the primary government of Franklin County, Tennessee. The Board of Directors of the Library consists of seven members with three year terms, each approved by the Franklin County Board of Commissioners. The Library's activities are dependent upon the County's continuing funding.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

Due to the absence of reconciling items between government-wide financial statements and fund financial statements, the Library has presented only fund financial statements.

Fund Financial Statements

The Library accounts for its financial activities in a governmental fund. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance.

Operations of the Library are separated as follows:

General Fund – The General Fund is the general operating fund of the Library. It is used to account for all financial resources except those required to be accounted for in another fund.

Friends of the Library Fund – The Friends of the Library Fund is used for projects not typically funded through the normal course of operations.

Unrestricted funds have only general external restrictions which limit the manner they may be used in operating the Library.

Restricted funds are limited in their use by outside parties. General and capital project funds restricted by outside parties for particular operating purposes or for capital project acquisitions are deemed to be earned and reported as revenues of the general fund or as additions to capital project funds, respectively, when they are received by the Library.

B. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting related to the timing of the measurement made, regardless of the measurement focus applied.

Franklin County Library
Notes to Financial Statements
June 30, 2008
(Continued)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

B. Measurement Focus/Basis of Accounting - continued

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for recognition of all governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

The revenues susceptible to accrual are interest income and grant revenues. All other governmental fund revenues are recognized when received.

C. Investments

The Library's policy related to deposits and investments requires the financial institution to collateralize deposits over \$250,000.00 by pledging securities individually or the financial institution being a member of the State of Tennessee Bank Collateral Pool during the time period of the deposit.

The Library's deposits at year-end were entirely covered by federal depository insurance or by collateral held by the Library's custodial banks in the Library's name. The carrying amount of total cash deposits at June 30, 2008, is \$54,572.17.

D. Capital Assets and Depreciation

Capital assets are reported in the financial statements of the general fund as expenses/expenditures. All qualifying capitalizable assets are included in the financial statements of Franklin County, Tennessee (the primary government), and therefore not capitalized on the financial statements of the Library.

Franklin County Library
Notes to Financial Statements
June 30, 2008
(Continued)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

E. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the fund.

F. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

G. Contributed Facilities

All real property and capital improvements currently in use are assets of Franklin County, Tennessee. Because the rental value of these facilities is not readily determinable, no revenue or related expense has been recorded for this donation.

H. Franklin County Library Funds

The financial statements present only the Franklin County Library as of June 30, 2008. These financial statements are in no way intended to represent the government wide financial position of Franklin County, Tennessee for the year then ended in conformity with accounting principles generally accepted in the United States of America.

(3) COMMITMENTS AND CONTINGENCIES

During the year ended June 30, 2008, the Library received \$42,168.00 from the City of Winchester and \$27,500.00 from Franklin County, Tennessee. A significant reduction in the level of this support, if this were to occur, may have an effect on the Library's programs and activities.

(4) EXPOSURE

The Library is under the County's coverage for the risks of losses to which it is exposed. These risks include general liability and property and casualty. Settlement claims have not exceeded coverage in the past three years, and there are currently no lawsuits.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Franklin County Library
Winchester, Tennessee

We have audited the financial statements of the governmental activities, and each major fund of the Franklin County Library, (a part of the primary government of Franklin County, Tennessee), as of and for the year ended June 30, 2008, which collectively comprise the Franklin County Library's basic financial statements and have issued our report thereon dated December 16, 2008. Our report was modified due to a lack of utilizing receipts. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Franklin County Library's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Library's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Library's financial statements that is more than inconsequential will not be prevented or detected by the Library's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

Prior Year's Significant Deficiencies:

1. Significant Deficiency:
There was a lack of documentation for some expenditures and reimbursements. – This problem still exists.

Recommendation:

We suggest invoices, receiving reports (signed), and other documents should be obtained for all purchases, including reimbursements. They should be attached together and filed in such a way that they can be easily found for future reference and audit. Each invoice should be stamped paid when each check is written along with the date and amount of the payment. Statements should be reconciled to invoices when multiple payments are made. The date on the check should also be traced back to the same date on the general ledger and posted in the correct disbursement account.

Board's Comment:

We will address this problem and improve our documentation systems.

2. Significant Deficiency:

In our review of the overall accounting controls of the Library's accounting system, we found several areas where proper segregation of duties might be obtained. The Library's inability to properly segregate the control of funds from record-keeping duties is a significant weakness in controls. It is understood that due to the lack of available personnel this situation does and will continue to exist. The Board should realize the additional responsibilities imposed. – This problem still exists.

Recommendation:

Because of the number of office staff working for the Library, we do not believe a complete segregation of duties is possible that would eliminate all weaknesses in the Library's accounting system. However, a thorough study of the internal control aspect of the accounting system should be considered by the Library. Certain additional procedures and segregation of proper duties could increase the control over the assets.

Board's Comment:

Because of the size and nature of the Library's operation, there is no practical way to remedy this situation. We will work on these issues to mitigate the risks.

3. Significant Deficiency:

In our test of disbursements, we found that purchase orders were not used. – This problem still exists.

Recommendation:

A purchase order should be used for a purchase over the minimum amount as designated by the Board. Purchase orders should be filled out and approved before the purchase of any goods. Invoices, purchase orders, and other documents should be obtained for all purchases over the designated amount set by the Board.

Board's Comment:

This problem will be corrected.

4. Significant Deficiency:

During our review, we found checks were not being properly voided. – This problem still exists.

Recommendation:

All voided checks should have the signature lines removed and the voided check should be marked "Void" and stapled to the check stub.

Board's Comment:

This problem will be corrected.

5. Significant Deficiency:

In our test of disbursements, we found instances where items were paid from copies of invoices as well as statements instead of the original invoices. – This problem still exists.

Recommendation:

Disbursements should always be paid from the original invoice. No disbursements should be handed out until the original invoice has been obtained. Statements should be used to verify invoice amounts. Invoices should be paid in a timely manner so not to incur any late fees.

Board's Comment:

This problem will be corrected.

6. Significant Deficiency:

Daily receipt totals are not being reconciled and pre-numbered receipt books are not being utilized by employees. – This problem still exists but was corrected by year end.

Recommendation:

The Internal Control and Compliance Manual For Tennessee Municipalities states that pre-numbered receipts be issued for each revenue source as required by Section 9-2-103, Tennessee Code Annotated. Receipts should be in duplicate form so that one copy is retained for auditors during the auditing process. Receipts should be filled out completely with name, date, description of fee or service, amount and signed by individual receiving money. All unused or voided receipts should be accounted for. Anytime custody of money changes from one employee to another (such as from the library director to the library bookkeeper) the money should be counted by both employees, a receipt should be issued by the recipient of the funds and both employees should sign the document indicating concurrence with the amount transferred. Each daily report should be dated, and the date should be recorded on the corresponding deposit slip. The total on the daily collection report should agree with the total of the corresponding deposit slip. If totals do not agree, a cash over or cash short amount should be included to balance totals. The daily report should be signed.

Board's Comment:

We will address this problem.

Current Year's Significant Deficiency:

1. Significant Deficiency:

During our review of disbursements, we found checks made payable to "cash".

Recommendation:

Proper internal accounting controls dictate that no checks be written to cash but instead to the individual receiving such monies. This individual then becomes accountable for these monies.

Board's Comment:

We will address this problem.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Library's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe significant deficiency number 6 described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards* which are listed below.

Prior Year's Audit Findings:

1. Finding:

In our review of receipts and bank deposits, we found monies being held longer than three days before a deposit was made to the bank. – This problem still exists.

Recommendation:

Section 5-8-207, *Tennessee Code Annotated* requires county officials to deposit funds within three days after collection. In order to safeguard public monies, we recommend that all money collected be deposited promptly.

Board's Comment:

We will correct this problem.

2. Finding:

During the course of the audit, it was noted that employees who handle money were not bonded. – This problem no longer exists.

3. Finding:

During the course of the audit, it was noted that sales tax was being paid on some invoices. – This problem still exists.

Recommendation:

Vendors should be notified of the Board's exempt status relative to sales and use tax.

Board's Comment:

We will correct this problem.

4. Finding:

In our review of disbursements, it was noted that checking accounts only require one signature to write checks or withdraw funds. – This problem still exists.

Recommendation:

The use of dual signatures for check writing is recommended in the *Internal Control and Compliance Manual for Tennessee Municipalities*. Dual signatures ensure a review of disbursements and additional examination of invoices about to be paid. All certificates of deposit and investments should require at least dual signatures to withdraw funds. Also, the list of acceptable signatures should be updated frequently to monitor access to those funds.

Board's Comment:

We will correct this problem.

Current Year's Audit Findings:

1. Finding:

It was noted that all 1099's were not being issued.

Recommendation:

The Library should closely monitor the use of contract labor and issue corresponding 1099's for annual services performed by each individual or business which is paid in excess of \$600 that is not employed by the Library.

Board's Comment:

We will correct this problem.

The Franklin County Library's response to the findings identified in our audit is described above. We did not audit the Franklin County Library's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors and management, the County Commissioners, and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.



Bean, Rhoton & Kelley, PLLC
December 16, 2008