



KNOX COUNTY, TENNESSEE

**Schedules of Expenditures of Federal and State Awards
and Reports as Required by the Single Audit Act Amendments of 1996
and Office of Management and Budget Circular A-133**

For the Fiscal Year Ended June 30, 2012

KNOX COUNTY, TENNESSEE

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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

Honorable Mayor and County Commissioners of
Knox County, Tennessee
Knoxville, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Knox County, Tennessee (the County), as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements and have issued our report thereon dated December 14, 2012. 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

Management of the County is responsible for establishing and maintaining effective internal control financial reporting. In planning and performing our audit, we considered the County'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 County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies referenced as 2011-1 and 2012-1 in the accompanying schedule of findings and questioned costs to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies referenced as 2012-2 and 2012-3 in the accompanying schedule of findings and questioned costs to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Management's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit management's responses and, accordingly, we express no opinion on them.

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

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
December 14, 2012

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE
A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and County Commissioners of
Knox County, Tennessee
Knoxville, Tennessee

Compliance

We have audited Knox County, Tennessee's (the County) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended June 30, 2012. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, Knox County, Tennessee complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedules of Expenditures of Federal and State Awards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of and for the year ended June 30, 2012, and have issued our report thereon dated December 14, 2012, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the County's financial statements. The accompanying Schedules of Expenditures of Federal and State Awards are presented for purposes of additional analysis as required by OMB Circular A-133 and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

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

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
December 14, 2012

KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT)
KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Federal Expenditures
Knox County, Tennessee (Primary Government):			
U.S. Department of Agriculture:			
Passed through Tennessee Department of Health:			
Special Supplemental Nutrition for Women, Infants and Children Program:			
Women, Infants, and Children (WIC)	10.557	GG-11-33738-00	\$ 361,394
Women, Infants, and Children (WIC)	10.557	GG-12-37189-00	1,142,279
Women, Infants, and Children (WIC)	10.557	GG-12-37667-00	<u>51,697</u>
Total U.S. Department of Agriculture			<u>1,555,370</u>
U.S. Department of Housing and Urban Development Direct Programs:			
CDBG - Entitlement Grants Cluster:			
Community Development Block Grant	14.218	B-12-UC-47-0001	1,478,041
ARRA-Community Development Block Grant	14.253	B-09-UY-47-0001	<u>174,072</u>
Total CDBG - Entitlement Grants Cluster			1,652,113
HOME Investment Partnerships Programs	14.239	M-12-UC-47-0204	<u>88,304</u>
Total U.S. Department of Housing and Urban Development			<u>1,740,417</u>
U.S. Department of Justice Direct Programs:			
Edward Byrne Memorial Justice Assistance Grant Program:			
Edward Byrne Memorial Formula Grant Program-Drug Court	16.579	EDISON 4155	389,827
Edward Byrne Memorial Justice Assistance Grant	16.738	2011-DJ-BX-3451	106,243
Edward Byrne Memorial Justice Assistance Grant	16.738	2009-DJ-BX-1324	<u>67,666</u>
Total Edward Byrne Memorial Justice Assistance Grant Program			<u>563,736</u>
ARRA-Edward Byrne Memorial Justice Assistance Recovery Program:			
ARRA-Edward Byrne Memorial Justice Assistance Recovery Grant	16.804	2009-SB-B9-2035	<u>41,326</u>
Total ARRA-Edward Byrne Memorial Justice Assistance Recovery Program			<u>41,326</u>
Total Edward Byrne Memorial Justice Assistance Grants			<u>605,062</u>

KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT)
KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Federal Expenditures
Knox County, Tennessee (Primary Government) (Continued):			
U.S. Department of Justice Direct Programs (Continued):			
Public Safety Partnership and Community Policing Grant Program:			
Federal Bureau of Investigation - Mortgage Fraud	16.302	N/A	\$ 1,667
Federal Bureau of Investigation - Mortgage Fraud	16.302	N/A	4,033
Bureau of Justice Assistance Project Safe Neighborhoods Program	16.609	2010-GP-BX-0026	5,000
Joint Terrorism Task Force FY 11-12	16.614		2,963
Joint Terrorism Task Force FY 12-13	16.614		14,763
Organized Crime Drug Enforcement Task Forces	16.710	SE-TNE-191H	1,475
Organized Crime Drug Enforcement Task Forces	16.710	SE-TNE-191H	8,713
Safe Streets - FBI Overtime Reimbursement	16.710	281D-KX-61230	4,484
Safe Streets - FBI Overtime Reimbursement	16.710	281D-KX-61230	<u>11,301</u>
Total Public Safety Partnership and Community Policing Grant Program			<u>54,399</u>
National Institute of Justice Cold Case Grant	16.741	2009-DN-BX-K166	26,986
Coverdell Forensic Science Improvement	16.742	2010-CD-BX-0084	70,192
Bureau of Justice Assistance Adjudication Pilot Hire Program	16.751	2009-D2-BX-0027	<u>2,056</u>
Total U.S. Department of Justice Direct Programs			<u>758,695</u>
Passed Through the Tennessee Department of Children's Services:			
Juvenile Court Accountability Incentive Grant	16.523	EDISON 29026	27,900
Juvenile Court Accountability Incentive Grant	16.523	EDISON 22702	<u>11,537</u>
Total Passed Through the Tennessee Department of Children's Services			<u>39,437</u>
Total U.S. Department of Justice			
			<u>798,132</u>
Department of Transportation National Highway Traffic Safety Administration:			
Passed Through Tennessee Department of Transportation:			
Alcohol Countermeasures Highway Safety Project	20.607	Z-12-GHS161	<u>20,100</u>
Total Department of Transportation Federal Highway Administration			<u>20,100</u>
National Endowment for the Arts:			
Eighth Annual Children's Festival of Reading Grant	45.024	11-5200-7149	<u>10,000</u>
Total National Endowment for the Arts			<u>10,000</u>

KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT)
KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Federal Expenditures
Knox County, Tennessee (Primary Government) (Continued):			
National Endowment for the Humanities:			
"We the People" Initiative Grant - Public Library Lincoln Exhibit	45.164	LL-50057-09	\$ <u>1,607</u>
Total National Endowment for the Humanities			<u>1,607</u>
Institute of Museum and Library Studies:			
Passed Through Tennessee Secretary of State:			
Library Services	45.310	GG-12-37520	5,806
Tennessee State Archives Library Technology Assistance Grant	45.310	EDISON 28694	<u>1,382</u>
Total Institute of Museum and Library Studies			<u>7,188</u>
Total National Foundation on the Arts and the Humanities			<u>18,795</u>
Environmental Protection Agency Direct Programs:			
Air Pollution Control Program Support:			
Air Pollution Control Section 105	66.001	A-00408310-3	338,779
Air Pollution Section 103 Clean Air Monitoring	66.001	PM-96497608	<u>105,980</u>
Total Environmental Protection Agency			<u>444,759</u>
U.S. Department of Energy Direct Programs:			
U.S. Department of Energy:			
ARRA - Energy Efficiency and Conservation Block Grant	81.128	DE-EE0002315	<u>35,072</u>
Total Department of Energy Direct Programs			<u>35,072</u>
U.S. Department of Education:			
Passed Through Tennessee Department of State:			
ARRA - Project Diabetes	84.397	GG-12-36928-00	<u>245,195</u>
Total Department of Education			<u>245,195</u>
U.S. Election Assistance Commission:			
Passed Through Tennessee Department of State:			
Help America Vote Act Requirements Payments	90.401	30510-00112-54	<u>1,000</u>
Total U.S. Election Assistance Commission			<u>1,000</u>

KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT)
KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Federal Expenditures
Knox County, Tennessee (Primary Government) (Continued):			
U.S. Department of Health and Human Services:			
Passed Through Tennessee Department of Health:			
Tuberculosis Nursing Program:			
Tuberculosis Nursing	93.116	GG-12-36641-00	\$ <u>104,273</u>
Total Tuberculosis Nursing Program			<u>104,273</u>
Immunization Grants Program:			
Immunization	93.268	GG-12-38491-00	113,637
Immunization	93.268	GG-11-34918-00	<u>106,402</u>
Total Immunization Grants Program			<u>220,039</u>
Centers for Disease Control and Prevention Program:			
Emergency Preparedness Pandemic	93.283	GG-12-37197	439,933
Emergency Preparedness Pandemic	93.283	11-33993	37,695
Tobacco Prevention	93.283	GG-12-38466	4,421
Tobacco Prevention	93.283	GG-11-35271	28,735
Tobacco Advertising	93.723	GG-12-35522	<u>60,000</u>
Total Centers for Disease Control and Prevention Program			<u>570,784</u>
HIV Care Formula Grant Program:			
HIV Centers of Excellence	93.917	GG-12-38487-00	83,043
HIV Centers of Excellence	93.917	GG-11-35263-00	<u>252,070</u>
Total HIV Care Formula Grant Program			<u>335,113</u>
HIV Prevention Activities Program:			
HIV Prevention	93.940	GG-12-37670-00	66,890
HIV Prevention	93.940	GG-11-35266-00	<u>62,679</u>
Total HIV Prevention Activities Program			<u>129,569</u>
Infertility Youth Screening Projects:			
Infertility Youth Screening Project	93.977	GG-12-37668	33,331
Infertility Youth Screening Project	93.977	GG-11-34723-00	<u>31,430</u>
Total Infertility Youth Screening Projects			<u>64,761</u>

KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT)
KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Federal Expenditures
Knox County, Tennessee (Primary Government) (Continued):			
U.S. Department of Health and Human Services (Continued):			
Passed Through Tennessee Department of Health:			
Preventive Health Services-Sexually Transmitted Disease Control Grants:			
Sexually Transmitted Disease	93.977	GG-12-37670-00	\$ 74,879
Sexually Transmitted Disease	93.977	GG-11-35266-00	<u>66,947</u>
Total Preventive Health Services-Sexually Transmitted Disease Control Grants			<u>141,826</u>
Maternal and Child Health Services Grants:			
Children's Special Services	93.994	GG-12-36616-00	98,000
Family Planning Services	93.994	GU-12-35270-00	<u>306,300</u>
Total Maternal and Child Health Services Grants			<u>404,300</u>
Injury Prevention and Control Projects:			
Rape Prevention	93.136	GG-12-37187-00	17,755
Rape Prevention	93.136	GG-11-34017-00	<u>10,817</u>
Total Injury Prevention and Control Projects			<u>28,572</u>
PSST Project - Teen Pregnancy	93.297	5TP1AH000008-02-00	446,225
Family Planning Services	93.217	GU-12-35270-00	340,600
Breast and Cervical Cancer	93.919	GG-12-35514-00	55,000
Preventative Health and Health Services Block Grant			
Health Promotion	93.991	GG-12-35486-00	<u>61,500</u>
Total Preventative Health and Health Services Block Grant			<u>61,500</u>
Total Passed Through Tennessee Department of Health			
			<u>2,902,562</u>
Passed Through Tennessee Department of Human Services:			
Medical Reserve Corps Small Grant Program			
Local Medical Reserve Corps	93.008	6 MRCSG061001-03	7,416
Local Medical Reserve Corps	93.008	6 MRCSG061001-03	<u>2,874</u>
Total Medical Reserve Corps Small Grant Programs			<u>10,290</u>

KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT)
KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Federal Expenditures
Knox County, Tennessee (Primary Government) (Continued):			
Child Support Enforcement:			
Child Support Enforcement IV-D	93.563	GG-11-32034	\$ 191,560
Child Support Enforcement IV-D	93.563	GG-11-32079-00	<u>251,552</u>
Total Child Support Enforcement			<u>443,112</u>
Total U. S. Department of Health and Human Services			<u>3,355,964</u>
U.S. Federal Emergency Management Agency:			
Passed Through Tennessee Emergency Management Agency:			
FEMA Disaster Recovery Grant - Public Assistance	97.036	FEMA 1974 DR TN	64,377
FEMA Disaster Recovery Grant - Public Assistance	97.036	FEMA 4005 DR TN	64,436
TEMA Stormwater Management	97.039	HMGP-1821-003	<u>62,101</u>
Total Passed Through Tennessee Emergency Management Agency			<u>190,914</u>
Total U. S. Federal Emergency Management Agency			<u>190,914</u>
U.S. Department of Homeland Security:			
Passed Through Tennessee Department of Military:			
Homeland Security Grant Program:			
Homeland Security 2009	97.067	GG-18000	683,476
Homeland Security 2010	97.067	GG-11-34400	217,042
Homeland Security 2011	97.067	EMW-2011-SS-0069	<u>14,874</u>
Total Homeland Security Grant Program			<u>915,392</u>
Total U.S. Department of Homeland Security			<u>915,392</u>
Total Passed Through Tennessee Emergency Management Agency			<u>1,106,306</u>
Office of National Drug Control Policy:			
Passed Through Laurel County, Kentucky:			
High Intensity Drug Trafficking Areas	95.001	G-09-AP0001A	27,407
High Intensity Drug Trafficking Areas	95.001	I8PAPP501Z	<u>23,364</u>
Total Office of National Drug Control Policy			<u>50,771</u>
Total Federal Financial Assistance-Knox County Primary Government			<u>9,371,881</u>

KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT)
KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Federal Expenditures
Knox County Board of Education (Component Unit):			
U.S. Department of Agriculture:			
Passed Through Tennessee Department of Agriculture:			
Child Nutrition Cluster:			
USDA School Breakfast Program	10.553	2012	\$ 4,009,499
USDA School Lunch Program	10.555	2012	<u>11,916,658</u>
Total Child Nutrition Cluster			<u>15,926,157</u>
Total U.S. Department of Agriculture			<u>15,926,157</u>
U.S. Department of Labor:			
Passed Through Tennessee Department of Labor and Workforce Development:			
Adult Education Program:			
Adult Education Dislocated Worker	17.260	Z-09-219703-00	3,660
CTE Benchmark	17.267	MOU	<u>1,000</u>
Total Passed Through Tennessee Department of Labor and Workforce Development			<u>4,660</u>
Total U.S. Department of Labor			<u>4,660</u>
U.S. Department of Education:			
Passed Through National Institute of Excellence Teaching:			
NIET Teacher Incentive Fund	84.374A	FY 2012	1,783,530
NIET Teacher Incentive Fund (Support)	84.374A	FY 2012	<u>391,575</u>
Total Passed Through National Institute of Excellence Teaching			<u>2,175,105</u>
Passed Through Tennessee Arts Commission:			
Arts 360 Grant	84.351D	GG-1133286	<u>146,212</u>
Total passed through Tennessee Arts Commission			<u>146,212</u>
Passed through Tennessee Department of Labor and Workforce Development			
Adult Education Program:			
Adult Basic Education FY 12	84.002	PO13210	177,050
Adult Basic Education	84.002	DG1131220	216,857
English Literacy and Civics FY 12	84.002	DG1234580	39,935
English Literacy and Civics	84.002	DG1131219	<u>26,671</u>
Total passed through Tennessee Department of Labor and Workforce Development			<u>460,513</u>

The accompanying notes are an integral part of this schedule.

KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT)
KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Federal Expenditures
Knox County Board of Education (Component Unit) (Continued):			
U.S. Department of Education (Continued):			
Passed through Tennessee Department of Education:			
Title I Program:			
Title I	84.010A	FY 2012	\$ <u>12,642,209</u>
Total Title I Part A Program:			<u>12,642,209</u>
Special Education (IDEA) Cluster:			
Individuals with Disabilities Education Act Part B	84.027A	2010.21	487,366
Individuals with Disabilities Education Act Part B	84.027A	2012.01	9,667,790
Individuals with Disabilities Education Act Part B	84.027A	2011.21	3,364,114
IDEA Training Inclusion Technology	84.027A	2011	9,125
Special Education AYP	84.027A	FY 2011	<u>100,000</u>
Total Individuals with Disabilities Education Act Part B			<u>13,628,395</u>
ARRA-Individuals with Disabilities Education Act Part B	84.391A	2010	<u>1,241,841</u>
Preschool Program:			
Preschool	84.173A	2011.21	13,673
Preschool	84.173A	2011.01	<u>308,625</u>
Total Preschool Program			<u>322,298</u>
ARRA-Preschool	84.392A	2010	<u>119,670</u>
Total Special Education (IDEA) Cluster			<u>15,312,204</u>
Career and Technical Education Program:			
Carl Perkins	84.048A	2011-2012	812,723
Perkins IV	84.048A	2011-2012	<u>84,158</u>
Total Career and Technical Education Program			<u>896,881</u>
Education Technology Programs:			
Title II Part D	84.318X	FY 2011	41,362
ARRA - Title II Part D	84.386	2010	<u>108,372</u>
Total Education Technology Programs			<u>149,734</u>

KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT)
KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Federal Expenditures
Knox County Board of Education (Component Unit) (Continued):			
U.S. Department of Education (Continued):			
Education for Homeless Children and Youth Programs:			
Homeless Education	84.196A	001-12-1-007	\$ <u>62,000</u>
Total Education for Homeless Children and Youth Programs			<u>62,000</u>
English Language Acquisition Grants Program:			
Title III	84.365A	FY 2021	237,711
Title III - Immigrant	84.365A	2011	<u>4,366</u>
Total English Language Acquisition Grants Program			<u>242,077</u>
21st Century	84.287C	2011	<u>360,078</u>
Title I - Education Jobs Fund (ARRA)	84.410	FY 2011	<u>7,493,533</u>
Title I - School Improvement - High School Design	84.389	2009	<u>38,083</u>
State Teacher Incentive Fund	84.374	2011	<u>355,238</u>
School Improvement Grant	84.388A	2011	<u>1,366,425</u>
Race-to-the-Top Incentive Grants:			
Focus Schools	84.395A	2011	32,460
Stem Academy Battelle	84.395	280740	1,148,580
Stem Karst Hub	84.395	319362	51,205
RTT Renewal Schools	84.395	FY 2012	1,010,754
Title I Part B - Reading First	84.395	FY 2012	3,369,876
Title I Part B - Reading First	84.395	2011	<u>375,817</u>
Total - Race-to-the-Top Incentive Grants			<u>5,988,692</u>
Improving Teacher Quality Title II - Part A	84.367A	FY 2012	<u>2,285,089</u>
School Climate Grant	84.184	FY 2011-2012	<u>9,927</u>
Total Passed through Tennessee Department of Education			<u>47,202,170</u>

KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT)
KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Federal Expenditures
Knox County Board of Education (Component Unit) (Continued):			
U.S. Department of Education (Continued):			
Passed through Tennessee Department of Human Services:			
Case Manager	84.126	GG-08-22112-04	\$ 13,963
Total Passed through Tennessee Department of Human Services			<u>13,963</u>
Total U.S. Department of Education			<u>49,997,963</u>
U.S. Department of Health and Human Services:			
School Based Health Center	93.501	C12CS21929-01-00 MOU	<u>172,735</u>
Total passed through U.S. Department of Health and Human Services			<u>172,735</u>
Total Federal Financial Assistance--Knox County Board of Education Component Unit			<u>66,101,515</u>
Total Federal Financial Assistance			<u>\$ 75,473,396</u>

**KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT) AND
KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)**

SCHEDULE OF EXPENDITURES OF STATE AWARDS

For the Year Ended June 30, 2012

Program Title	Identifying Number	State Expenditures
Knox County, Tennessee (Primary Government):		
Tennessee Department of Corrections:		
Community Corrections (CAPP)	GG-11-32083-01	\$ <u>656,455</u>
Total Tennessee Department of Corrections		<u>656,455</u>
Tennessee Commission on Children and Youth:		
Children Services - Youth Officer	GG-10-29763-00	<u>9,000</u>
Total Tennessee Commission on Children and Youth		<u>9,000</u>
Tennessee Secretary of State:		
General Library Services	GG-12-37520	<u>45,500</u>
Total Tennessee Department of State		<u>45,500</u>
Tennessee Environment and Conservation:		
Waste Tire	Z-08-213020-02	360,645
Used Oil	GG-12-38009	<u>14,636</u>
Total Tennessee Environment and Conservation		<u>375,281</u>
Tennessee Department of Health:		
Tuberculosis Nursing	GG-12-36641-00	281,924
Immunization	GG-11-34918-00	49,293
Immunization	GG-12-38491-00	43,040
Sexual Transmitted Disease	GG-12-37670-00	7,888
Sexual Transmitted Disease	GG-11-35266-00	16,750
Family Planning	GU-12-35270-00	40,400
Oral Health	GG-12-35512	219,000
Adolescent Pregnancy	GG-10-29670-02	44,797

**KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT) AND
KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)**

SCHEDULE OF EXPENDITURES OF STATE AWARDS

For the Year Ended June 30, 2012

Program Title	Identifying Number	State Expenditures
Knox County, Tennessee (Primary Government) (Continued):		
Tennessee Department of Health (Continued):		
EPSDT Tenndercare	GG-12-36270	\$ 287,672
Children's Special Services	GG-12-36616-00	74,600
TennCare EPSDT Child in DCS	NONE	99,272
Adult Emergency Dental Services	GG-12-36920	159,600
Help Us Grow Successfully	GG-12-35511-00	<u>223,219</u>
Total Tennessee Department of Health		<u>1,547,455</u>
Tennessee Department of Agriculture - Forestry Division:		
TAEP FY2012 Tree Planting Project	Edison 0000005873	<u>2,660</u>
Total Tennessee Department of Agriculture - Forestry Division		<u>2,660</u>
Tennessee Department of Transportation:		
Litter Grant	Edison 25565	<u>135,734</u>
Total Tennessee Department of Transportation		<u>135,734</u>
Tennessee Department of Military:		
FEMA Disaster Recovery - April 2011 Storm	FEMA 1974 DR TN	10,730
FEMA Disaster Recovery - June 2011 Storm	FEMA 4005 DR TN	10,740
TEMA Stormwater Management	HMGP-1821-003	<u>10,349</u>
Total Tennessee Department of Military		<u>31,819</u>
Total State Financial Assistance - Knox County Primary Government		<u>\$ 2,803,904</u>

**KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT) AND
KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)**

SCHEDULE OF EXPENDITURES OF STATE AWARDS

For the Year Ended June 30, 2012

Program Title	Identifying Number	State Expenditures
Knox County Board of Education (Component Unit):		
Tennessee Department of Labor and Workforce Development:		
Adult Education	DG1131220 PO7334	\$ 43,382
Adult Education FY 2012	PO13210	35,419
EL Civics	DG1131219 PO7026	5,335
EL Civics FY 12	DG1234580 PO13044	<u>7,989</u>
Total Tennessee Department of Labor and Workforce Development		<u>92,125</u>
Total State Financial Assistance - Knox County Board of Education (Component Unit)		<u>92,125</u>
Total State Financial Assistance		<u>\$ 2,896,029</u>

KNOX COUNTY, TENNESSEE

NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Year Ended June 30, 2012

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Knox County, Tennessee, and its discretely presented component unit, Knox County Board of Education, (the County), and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States and Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the Comprehensive Annual Financial Report.

Federal awards include all grants, contracts, and similar agreements entered into directly between the County and agencies and departments of the federal government, and all subawards to the County by nonfederal organizations pursuant to federal grants, contracts, and similar agreements.

In compliance with Tennessee state law, the accompanying schedule of expenditures of state awards is also included in this report. This schedule presents all state funded financial awards, as defined by the State Comptroller's Office, and is prepared and presented in a manner consistent with the schedule of expenditures of federal awards.

NOTE 2 - LOANS OUTSTANDING

The County had the following loan funding balances outstanding at June 30, 2012. All of the loan additions are represented by program expenditures, but only a portion comes from the federal grant with the remainder from program income:

<u>Cluster / Program Title</u>	<u>CFDA Number</u>	<u>FY 2012 Loan Funding</u>	<u>Outstanding Balance</u>
Community Development Block Grant	14.218	\$ 34,896	\$ 1,245,336
HOME Investment Partnerships Programs	14.239	-	1,546,567

NOTE 3 - SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the County provided federal awards to subrecipients as follows:

	<u>CFDA Number</u>	<u>Amounts Provided to Subrecipients</u>
Community Development Block Grant	14.218	\$ 1,028,232
HOME Investment Partnerships Programs	14.239	51,032
ARRA Energy Efficiency and Conservation Block Grant	81.128	26,000
Total Subrecipient Awards		<u>\$ 1,105,264</u>

NOTE 4 - NON-CASH ASSISTANCE

The County is the recipient of certain federal awards that do not result in cash receipts or disbursements, including distribution of U.S. Department of Agriculture (USDA) Food Commodities, which are valued based on a USDA price list obtained from the Tennessee Department of Agriculture.

NOTE 5 – INDIRECT COSTS

A number of the County's federal and state funded programs allow indirect costs to be charged and include them as a line item in the grant budget. However, if the grant budget does not specifically provide for indirect costs to be charged, none of the indirect costs are reported as costs to the grantor nor are the costs included or presented in the schedules of expenditures of federal and state awards.

KNOX COUNTY, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2012

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? X yes none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Type of auditors' report issued on compliance for major federal programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 yes X no

Major federal programs for Knox County, Tennessee for the fiscal year ended June 30, 2012 are:

<u>Program Name</u>	<u>CFDA#</u>
Title I Part A Program Cluster	
Title I – Part A	84.010A
Title I – Part A (ARRA)	84.389
Special Education (IDEA) Cluster	
Special Education – IDEA Part B	84.027A
Special Education - Preschool	84.173A
Special Education – IDEA Part B (ARRA)	84.391A
Special Education – Preschool (ARRA)	84.392A
Career and Technical Education	84.048A
Race to the Top (ARRA)	84.395
Education Jobs Fund (ARRA)	84.410
Teacher Incentive Fund	84.374A
Homeland Security Grant Program	97.067
Air Pollution Control Program	66.001
Edward Byrne Drug Court	16.579

Dollar threshold used to distinguish between Type A & Type B programs: \$ 2,264,202

Auditee qualified as low-risk auditee? yes X no

KNOX COUNTY, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended June 30, 2012

Section II - Financial Statement Findings

Prior Year Audit Finding:

2011-1 GENERAL GOVERNMENT, Financial Reporting at the Trustee's Office:

The Trustee's Office (Trustee) has oversight responsibility related to the processing of approximately \$800 million in transactions annually, and it closely coordinates these efforts with the Finance Department. These transactions are reported on various schedules presented in the County's CAFR. Further, it is responsible for reconciling approximately 30 bank accounts monthly. During FY 2011, we observed the following:

- a. The Trustee's Office was unable to produce the schedules required for the CAFR timely. The final schedules which appropriately balanced were not submitted to the Finance Department until approximately four months after year-end.
- b. The draft schedules produced by the Trustee's Office at various iterations through the closing process did not balance.
- c. The system generated reports documenting the preparation of the monthly bank statement reconciliations indicates that bank reconciliations were not prepared timely throughout FY 2011.

We recommend that the Trustee's Office, in close coordination with the Finance Department, develop detailed procedures documenting the production of the schedules to be provided for CAFR preparation. These procedures should be very specific, including documenting the format and content of the various system generated reports needed to support these schedules. These procedures should further document the system generated information necessary to perform the monthly bank reconciliations within 30 days of year end.

Finally, given that this finding has been recurring in nature as it relates to the Combined Schedule of Assets and Liabilities, Combined Schedule of Cash Receipts, Disbursements and Balances, and Combined Analysis of Fee and Commission Accounts schedules which are provided for CAFR reporting purposes (CAFR schedules), we recommended that the Audit Committee:

- Review and approve the newly developed policies and procedures over the Trustees Office closing process: and
- Require that the Trustees Office provide the Audit Committee with the CAFR schedules at least quarterly during the fiscal year and provide verification that the monthly bank reconciliations have been completed timely to ensure that the newly established policies and procedures are operating effectively.

Management Prior Year Response

- The Trustee's Office agrees that the final balanced CAFR schedules required for the CAFR were not submitted to the Finance Department until approximately four months after year-end. The schedules were, however, submitted within a timeframe that allowed for timely issuance of the Knox County financial statements taken as a whole. While there were agreed upon deadlines for the submission of these schedules between KPMG and the Finance Department, we would point out that the statutory and GFOA deadlines for publication and submission of the County's CAFR without requesting an extension are six months after fiscal year end or December 31st for Knox County.

KNOX COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended June 30, 2012

Section II - Financial Statement Findings (Continued)

Prior Year Audit Finding (Continued):

2011-1 GENERAL GOVERNMENT, Financial Reporting at the Trustee's Office (Continued):

FY 2011 was a transition year with the implementation of new financial accounting software by Knox County. During this transition, finalizing all reconciliations and schedules took more time and a lot more effort than anyone anticipated, and given this the Trustee's Office chose to err on the side of accuracy versus internal deadlines. Finally, both the Finance Department and this office were posting necessary changes to multiple accounts until at least the end of October so earlier submission of finalized schedules was not possible.

- The Trustee's Office agrees that several of the draft schedules produced by this office were out of balance but these issues were noted and further investigated. This involved a line by line review of several thousands of lines of transactions posted external to this office. As mentioned previously, this was a transition year due to the new financial system implementation and as a result of this implementation this office did not have access to the County fund side of the system until the end of September 2011 and thus investigation of this sort was almost impossible until that access was finally put in place. The majority of eliminations and reclassifications to bring the CAFR schedules into balance related to items posted outside this office that needed to be investigated as described.
- The Trustee's Office agrees that not all bank accounts were reconciled in a timely fashion during fiscal year 2011. While this was not an issue in the previous fiscal year, as mentioned previously the transition to the County's new financial system made the bank reconciliation process substantially more difficult and required significantly more time. During this transition period resulting from implementation, we have had to completely redesign the bank reconciliation process and further implement additional posting process changes for both this office and the County Finance Department. Again, however, the reconciliations were completed within a timeframe that allowed for timely issuance of the Knox County financial statements taken as a whole.

With regard to the recommendations the Trustee's Office will work closely with the Finance Department as indicated to develop appropriate documentation related to the closing process. We will also work diligently to enhance interoffice communications with the Finance Department.

This office has already drafted CAFR schedules for the quarter ended September 30, 2011 and will present those schedules and the CAFR schedules for the quarter ending December 31, 2011 to the Audit Committee at its January 2012 meeting. Bank reconciliations for the month ended two months prior to the Audit Committee meeting date will be offered for inspection if the Committee so requests, as the immediate preceding month's bank reconciliations will still be in process.

Additionally, the Trustee's Office has already assigned an additional staff member to help with monthly reconciliations and is in the process of hiring an additional accountant to allow for a 'Cash Manager' who can oversee and troubleshoot the bank reconciliations and reconciliation process. We are also now working directly with the software vendor support for the County's financial accounting system to identify both system settings and process modifications necessary to eliminate the remaining issues with the bank reconciliations. We anticipate further posting process changes and enhancements that will impact both the Finance Department and this office, but should ultimately reduce the extensive amount of additional time now required in the bank reconciliation process.

Current Year Status - During FY 2012 items (a) and (b) were improved. Item (c) was not corrected. See additional comments in the current year finding 2012-1.

KNOX COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended June 30, 2012

Section II - Financial Statement Findings (Continued)

Current Year Audit Findings:

2012-1 Bank and Investment Account Reconciliations – Trustee’s Office

Criteria or Specific Requirement - The Knox County Trustee is the treasurer of Knox County and as required by the County Charter (section 4.05) is responsible for receiving, depositing, disbursing and investing all County funds. Good internal controls require that all bank and investment accounts be reconciled to the accounting records of the Trustee’s Office and the general ledger fund accounting records in the Finance Department within a timely manner. The Trustee’s Office and Finance Department utilize several internal transfer accounts within the Trustee’s accounting records during the year-end closing process, which complicates the reconciliation process. However, effective internal controls would suggest that bank and investment reconciliations be reviewed and approved within 30 days of the prior month.

Condition - During the audit it was noted that the Trustee’s monthly bank reconciliations were not completed, reviewed or approved in a timely manner. The bank reconciliations for June 2012 were not completed until September 18, 2012. Also during FY 2012 several other months’ reconciliations were not completely reconciled for several months. There was a current year audit adjustment resulting in a decrease of \$868,005 in the Trustee’s and general fund’s cash balance for June 30, 2012 resulting from an uncorrected error in a prior year. In addition, there was another overstatement of \$522,766 in the Trustee’s and general fund’s cash balance at June 30, 2012 resulting from an uncorrected error in a prior year which the County will correct in fiscal year 2013.

Cause and Effect - The Trustee’s monthly bank and accounting records were not reconciled within a timely manner. Failure to timely reconcile the bank and investment accounts to accounting records could result in undetected discrepancies, material errors or limit the County’s ability to dispute possible contested items or transactions with various financial institutions.

Recommendations - We recommend the following:

- a. Monthly bank and investment reconciliations be completed, reviewed and approved by the Trustee’s Office within 30 days of the prior month.
- b. Copies of the monthly bank and investment reconciliations should be provided to the County Finance Department as part of the monthly accounting closing process and ongoing financial reporting.
- c. The Trustee’s Office should evaluate the practicability and need of maintaining over 30 different bank accounts. This review could result in the combining or closing of several bank accounts which could help simplify and streamline the reconciliation process.
- d. The Trustee’s Office, in conjunction with the County Finance Department, should review their monthly and year-end closing processes in order to limit or eliminate the number of reconciling items. In addition, reconciling items should be addressed each month and adjusting entries recorded as appropriate.

The Trustee’s Office, in conjunction with the County Finance Department, should review the possibility of utilizing electronic fund transfers (EFT’s) to pay accounts payable disbursements which could significantly reduce outstanding checks and streamline the bank reconciliation process.

- e. The Trustee’s Office should report to the audit committee the status of this finding until it has been corrected.

KNOX COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended June 30, 2012

Section II - Financial Statement Findings (Continued)

Current Year Audit Findings (Continued):

2012-1 Bank and Investment Account Reconciliations – Trustee’s Office (Continued)

Management’s Planned Corrective Actions -

We agree with the audit comment. The Trustee’s Office did not have all bank account reconciliations fully completed within 30 days of the prior month. Since the implementation of the County’s current financial system this office has expended great effort to bring the bank reconciliation process into compliance with good, effective internal controls so that all bank reconciliations can be completed within 30 days of the prior month.

Although not completed within 30 days due to issues outside the control of this office, all June 30, 2012 bank reconciliations were completed by mid-September prior to submission of draft financial statements for audit review. This is the result of a tremendous effort that has included obtaining additional access to inquiry screens for revenue items posted outside of this office, working with County Finance staff to modify their revenue posting procedures to eliminate posting of transactions outside of the period being reconciled, as well as identifying all unposted transactions and uncorrected errors originating outside this office. We have also hired additional staff and reallocated current staffing resources to help us timely reconcile all bank accounts.

All bank reconciliations are currently begun as soon as bank statements become available. In conjunction with County Finance, County-wide posting procedures for banking transactions are being modified so that all bank transactions for one banking day are posted no later than the end of the subsequent business day. Additionally, County Finance will reiterate with County departments and other offices the importance of submitting deposit documentation to Finance within two days of deposit. The revised posting processes and enforcement of documentation submission timelines should alleviate the remaining issues the Trustee’s Office has been unable to address that prevent this office from having “completed” reconciliations within 30 days of the end of the prior month.

Additionally, all monthly bank reconciliations will be completed no later than the end of the following month, and those completed bank reconciliations will be provided to County Finance as part of the monthly accounting closing process and ongoing financial reporting.

We believe that the revised County-wide posting procedures for banking transactions mentioned above will significantly reduce if not eliminate all reconciling items.

We are also in the process of reviewing all current bank accounts for possible elimination or combination in order to simplify and streamline the reconciliation process.

The Trustee’s Office has worked with County Finance to implement electronic funds transfers (EFT’s) to pay certain accounts payable disbursements on a trial basis. We will continue to work with County Finance to expand the EFT program to help reduce outstanding checks and further streamline the reconciliation process.

The two prior period errors originated with the implementation of the previous County financial system. These items have been fully resolved and should not recur in the future. All accounts will be monitored to ensure that no further problems arise.

The Trustee’s Office will report to the Audit Committee on the status of this finding until it has been fully corrected.

KNOX COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended June 30, 2012

Section II - Financial Statement Findings (Continued)

Current Year Audit Findings (Continued):

2012-2 Lack of Segregation of Duties over Accounting – Offices of the Clerk and Master, Register of Deeds, and Criminal and Fourth Circuit Court Clerk

Criteria or Specific Requirement - Good internal controls require segregation of duties throughout the cash receipting, depositing, disbursing, bank reconciliation and recording process. Segregation of duties limits the ability of one individual from controlling all phases of financial transactions throughout the accounting process.

Condition - During the audit we noted that various bookkeepers and office managers perform cash receipting, deposit funds, sign checks, complete bank reconciliations and maintain the general ledgers within their respective offices.

Cause and Effect - Limited segregation of duties over the accounting process increases the potential risk of undetected discrepancies, material errors or inappropriate transactions.

Recommendations - We recommend that these offices improve the segregation of duties by:

- a. Remove the bookkeeper, or office manager, as one of the authorized check signatures.
- b. Reassign other employees to perform cash receipting.
- c. Look for other ways to maintain dual control over certain cash processes where segregation of duties is not possible due to limited staff or look for ways to improve controls with supervisory review of these transactions.

Management's Planned Corrective Actions

Clerk and Master: We concur with the audit finding. The Clerk and Master will (a) personally receive and review bank statements on a monthly basis as they are received from the banks and (b) review and approve the completed bank reconciliations.

Register of Deeds: We concur with the audit finding. We have removed the Office Manager, who is in charge of bookkeeping, from the authorized signatures on the checking accounts. Previously, this responsibility was given to the Office Manager as part of his financial duties. Any violation of proper internal auditing controls was unintentional. Except for the bank reconciliation, all duties mentioned in the findings are the responsibility of other employees.

Criminal and Fourth Circuit Court Clerk: We concur with the audit finding and will implement the following:

- a. require two signatures on all checks,
- b. the Criminal and Fourth Circuit Court Clerk will sign and date the bank reconciliations, and
- c. the office managers will limit cash receipting

KNOX COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended June 30, 2012

Section II - Financial Statement Findings (Continued)

Current Year Audit Findings (Continued):

2012-3 Cash Receipting Processes - Offices of the Mayor (Codes, Parks and Recreation, and Probation), Circuit and General Sessions Court Clerk, and Clerk and Master

Criteria or Specific Requirement – Good internal controls require that individual cashiers operate from a separate cash drawer, prepare daily reconciliation reports and that supervisors review and approve daily reconciliation reports to improve accountability. Segregation of duties limits the ability of one person to control all steps within the cash receipting and depositing process.

Condition – During the audit we noted the following:

- a. It was noted that more than one cashier could use the same cash drawer throughout the day when collecting payments. This situation reduces the individual cashier's accountability.
- b. In the Circuit and General Sessions Court Clerk's Office (Juvenile Court) it was noted that any cashier can void receipts without a supervisor's approval.
- c. The Codes Department occasionally uses generic receipt books without the Knox County logo. These manual receipt books are pre-numbered and purchased periodically with several gaps in the receipt numbers.
- d. The Parks and Recreation Department does not utilize an electronic cash receipting system but instead uses excel to document each manual receipt transaction. In addition, the department has a \$150 petty cash fund that is also used as a change fund in the cash receipting process.
- e. The Parks and Recreation Department has an office supervisor who is collecting cash receipts without another employee review or approval of their daily cash receipts and deposits.
- f. The Probation Department's Office employee prepares the daily cash receipt and deposit reconciliation reports and deposits funds without a supervisory review and approval.

Cause and Effect – Cashiers cannot be held accountable for daily cash receipts of payments. Possible discrepancies cannot be traced back to the individual cashier who is responsible for the transaction. The lack of segregation of duties and a supervisory level review and approval of daily cash receipts reports increases the risk of possible discrepancies, misclassifications or other undetected errors.

KNOX COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended June 30, 2012

Section II - Financial Statement Findings (Continued)

Current Year Audit Findings (Continued):

2012-3 Cash Receipting Processes - Offices of the Mayor (Codes, Parks and Recreation, and Probation), Circuit and General Sessions Court Clerk, and Clerk and Master (Continued)

Recommendations - We recommend the following:

- a. Individual cashiers should operate out of separate locked cash drawers. Separate locked cash drawers should be kept in a safe for overnight storage. Each individual cashier should have a secure user name and password if using an electronic cash receipting system.
- b. Supervisors should review and approve the voiding of receipts before the transaction is completed or recorded.
- c. Supervisors should review and approve all individual cashier's daily cash receipts and reconciliation reports.
- d. All departments utilize an electronic cash receipting system wherever possible. For departments with a high volume of receipting consideration should be given to the implementation of a point-of-sale (POS) cash receipting system that could be integrated with the County Finance Department's MUNIS accounting software.
- e. Petty cash funds should not be used as a change fund. A separate change fund should be established and used in the cash receipting process.
- f. We recommend that the above referenced Elected Officials and departments, with any needed assistance from the County Finance Department where applicable, develop written policies and procedures for cash receipting and depositing of receipts and revenues.

Management's Planned Corrective Actions

Mayor's Office:

Codes Office: Management concurs with the finding and (a) each individual cashier will use a separate cash drawer, for which that cashier will be responsible and (b) pre-numbered receipt books will be obtained and all receipts will be accounted for.

Parks and Recreation Office: Management concurs with the finding and (a) each individual cashier will use a separate cash drawer, for which that cashier will be responsible, (b) consideration will be given to utilizing an electronic cash receipting system, (c) a separate change fund with an appropriate limit will be established and accounted for and (d) supervisory personnel who do not handle cash receipts will review and approve daily cash receipts and deposits.

Probation Office: Management concurs with the finding and (a) each individual cashier will use a separate cash drawer, for which that cashier will be accountable and (b) supervisory personnel who do not handle cash receipts will review and approve daily cash receipts and deposits.

KNOX COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended June 30, 2012

Section II - Financial Statement Findings (Continued)

Current Year Audit Findings (Continued):

2012-3 Cash Receipting Processes - Offices of the Mayor (Codes, Parks and Recreation, and Probation), Circuit and General Sessions Court Clerk, and Clerk and Master (Continued)

Management's Planned Corrective Actions (Continued)

Circuit and General Sessions Court Clerk: We concur with the audit finding. Upon reviewing the audit findings our offices will adopt the procedure where all voided receipts must be reviewed and approved by a supervisor. Currently all voided receipts and individual cashier's daily cash receipts have been reviewed by the bookkeeper, but following recommendations we will have only supervisors void the receipts. We will evaluate the situation of one cash drawer for collecting payments and modify procedures as needed, although we have always followed the practice of individual passwords for our bookkeeping and all computer systems.

Clerk and Master: We concur with the audit finding. The Clerk and Master will personally review the cash receipts journal and cash slips for the cash drawer on a daily basis. Due to our small staff size, we do not deal with large amounts of cash. Most of the payments the Clerk and Master's office receives are in the form of checks or money orders. Receipts for those payments are generated by computer. Each of my deputy clerks are required to sign in with their own personal passwords before issuing a receipt. Our office maintains strict control over all cash funds received, notwithstanding we have one (1) cash drawer. We suggest, therefore, that the above change in procedure regarding the cash drawer would be the most effective response, given our circumstances, to your findings rather than having multiple cash drawers.

KNOX COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended June 30, 2012

Section III - Federal Award Findings

Current Year Audit Finding:

No matters are being reported.

KNOX COUNTY, TENNESSEE
SCHEDULE OF CORRECTED PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2012

2011-2 **CFDA# 14.239 – HOME Investment Partnership Program of the U.S. Department of Housing and Urban Development**

Requirement

Per review of the 2011 compliance supplement issued by the Office of Management and Budget, KPMG notes that the HOME program must submit Form HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons (OMB No. 2529-0043)*, for each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction.

Condition

During the course of our testwork, KPMG noted that the HOME program had not established an effective control structure to ensure that the required information for Form HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons (OMB No. 2529-0043)*, was properly obtained and compiled. Therefore, this report could not be accurately prepared and submitted for fiscal year 2011.

Questioned Cost

None

Possible Asserted Cause and Effect

Due to lack of appropriate oversight, the HUD program did not submit the Section 3 compliance report for fiscal year 2011. Continued noncompliance with program requirements could potentially result in reduced or discontinued funding.

Recommendation

We recommend that the HOME program establish effective procedures to ensure that adequate information is obtained in order to complete the Section 3 compliance report and submit it on a timely basis in accordance with program requirements stated in the compliance supplement.

View of Responsible Management

We concur. In February of 2011, the HOME program drafted and approved a specific Section 3 policy and appointed a Section 3 Coordinator to ensure the required reporting requirements are being met under the HOME program on a go-forward basis. The HOME program is now obtaining and complying with the required information in order to begin submission of the Section 3 report on a timely basis starting in fiscal year 2012.

Current Year Status – During FY 2012, this item was corrected.

