

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, 2013



KNOX COUNTY, TENNESSEE

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**INDEPENDENT AUDITOR'S 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, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, budgetary comparison statement of the general fund and the aggregate remaining fund information of Knox County, Tennessee (the "County") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 18, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs we identified a deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency referenced as 2013-1 in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

A significant deficiency is a deficiency, or 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 deficiency referenced as 2013-2 in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free from 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is referenced as 2013-3 in the accompanying Schedule of Findings and Questioned Costs.

Knox County, Tennessee's Response to Findings

The County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
December 18, 2013

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

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, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of 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, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2013-3. Our opinion on each major federal program is not modified with respect to this matter.



The County's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 the 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2013-3 that we consider to be a significant deficiency.

The County's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements the County as of and for the year ended June 30, 2013, and have issued our report thereon dated December 18, 2013 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is 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. The 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
December 18, 2013

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, 2013

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-13-33694-00	\$ 1,224,010
Women, Infants, and Children (WIC)	10.557	GG-12-37189-00	371,355
Women, Infants, and Children (WIC)	10.557	GG-12-37667-00	<u>8,277</u>
Total U.S. Department of Agriculture			<u>1,603,642</u>
U.S. Department of Housing and Urban Development Direct Programs:			
Community Development Block Grant	14.218	B-12-UC-47-0001	239,592
Community Development Block Grant	14.218	B-11-UC-47-0001	<u>724,780</u>
Total CDBG - Entitlement Grants Cluster			<u>964,372</u>
HOME Investment Partnerships Programs	14.239	M-11-UC-47-0204	36,179
HOME Investment Partnerships Programs	14.239	M-10-UC-47-0204	<u>79,053</u>
Total HOME Investment Partnerships Programs			<u>115,232</u>
Total U.S. Department of Housing and Urban Development			<u>1,079,604</u>
U.S. Department of Justice:			
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 33901-52913	424,290
Edward Byrne Memorial Justice Assistance Grant	16.738	2012-DJ-BX-0080	1,118
Edward Byrne Memorial Justice Assistance Grant	16.738	2011-DJ-BX-3451	873
Edward Byrne Memorial Justice Assistance Grant	16.738	2009-DJ-BX-1324	<u>66,938</u>
Total Edward Byrne Memorial Justice Assistance Grant Program			493,219
ARRA-Edward Byrne Memorial Justice Assistance Recovery Program:			
ARRA-Edward Byrne Memorial Justice Assistance Recovery Grant	16.804	2009-SB-B9-2035	<u>175,466</u>
Total Edward Byrne Memorial Justice Assistance Grants			<u>668,685</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, 2013

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 (Continued)			
U.S. Department of Justice Direct Programs (continued):			
Public Safety Partnership and Community Policing Grant Program:			
Joint Terrorism Task Force FY 12-13	16.614	415-KX-68278-MOU-156	\$ 7,112
Joint Terrorism Task Force FY 13-14	16.614	415-KX-68278-MOU-156	19,584
Organized Crime Drug Enforcement Task Forces	16.710	SE-TNE-193	1,701
Safe Streets - FBI Overtime Reimbursement	16.710	281D-KX-61230	16,825
Safe Streets - FBI Overtime Reimbursement	16.710	281D-KX-61230	<u>4,457</u>
Total Public Safety Partnership and Community Policing Grant Program			<u>49,679</u>
Bureau of Justice Assistance State Criminal Alien Assistance Program	16.606	2013-H2540-TN-AP	<u>13,209</u>
Office of Criminal Justice JAG program CLO Re-Entry Grant	16.751	2009-D2-BX-0027	<u>41,152</u>
Total U.S. Department of Justice Direct Programs			<u>772,725</u>
Passed through the Tennessee Department of Children's Services:			
Juvenile Court Accountability Incentive Grant	16.523	EDISON 29026	9,463
Juvenile Court Accountability Incentive Grant	16.523	EDISON 29026	<u>31,486</u>
Total Passed through the Tennessee Department of Children's Services			<u>40,949</u>
Total U.S. Department of Justice			<u>813,674</u>
U.S. Department of Transportation - National Highway Traffic Safety Administration:			
Passed through Tennessee Department of Transportation:			
Alcohol Countermeasures Highway Safety Project	20.607	Z-12-GHS161	48,623
Alcohol Countermeasures Highway Safety Project	20.607	Z-13-GHS170	<u>34,522</u>
Total U.S. Department of Transportation - National Highway Traffic Safety Administration			<u>83,145</u>
Institute of Museum and Library Services:			
Passed through Tennessee Secretary of State:			
Library Services - Materials for the Disadvantaged	45.310	EDISON 34320	6,400
Tennessee State Archives Library Technology Assistance Grant	45.310	EDISON 33564	<u>3,000</u>
Total Institute of Museum and Library Services			<u>9,400</u>
Environmental Protection Agency Direct Programs:			
Air Pollution Control Program Support:			
Air Pollution Control Section 105	66.001	A-00408310-3	267,481
Air Pollution Section 103 Clean Air Monitoring	66.001	PM-96497608	<u>145,764</u>
Total Environmental Protection Agency			<u>413,245</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, 2013

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 Energy:			
U.S. Department of Energy Direct Programs:			
ARRA - Energy Efficiency and Conservation Block Grant	81.128	DE-EE0002315	\$ <u>1,849</u>
Total U.S. Department of Energy			<u>1,849</u>
U.S. Election Assistance Commission:			
Passed through Tennessee Secretary of State:			
Help America Vote Act Requirements Payments	90.401	EDISON 30029	<u>54,925</u>
Total U.S. Election Assistance Commission:			<u>54,925</u>
U.S. Department of Health and Human Services:			
Passed through Tennessee Department of Health:			
Centers for Disease Control and Prevention Programs:			
Tuberculosis Prevention and Control	93.116	GG-13-33242-00	<u>110,127</u>
Immunization Grants Program:			
Immunizations and Vaccines for Children Program	93.268	GG-12-38491-00	114,781
Immunizations and Vaccines for Children Program	93.268	GG-12-38491-00	<u>92,525</u>
Total Immunizations and Vaccines for Children Program			<u>207,306</u>
Public Health Emergency Preparedness:			
Public Health Emergency Preparedness Pandemic	93.069	GG-13-39379-00	587,005
Public Health Emergency Preparedness Pandemic	93.069	GG-12-37197	<u>52,502</u>
Total Public Health Emergency Preparedness			<u>639,507</u>
Centers for Disease Control and Prevention - Investigations & Technical Assistance:			
Tobacco Prevention	93.283	GG-13-35226	9,411
Tobacco Prevention	93.283	GG-12-38466-00	25,435
Eat Well and Play More	93.283	GG-13-34766	<u>17,406</u>
Total CDC Investigations & Technical Assistance			<u>52,252</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, 2013

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 (Continued):			
Centers for Disease Control and Prevention Programs (Continued):			
HIV Prevention Activities Program:			
HIV Prevention	93.940	GG-13-35174-00	\$ 68,156
HIV Prevention	93.940	GG-12-37670-00	<u>86,491</u>
Total HIV Prevention Activities Program			<u>154,647</u>
Infertility Youth Screening Projects:			
Infertility Youth Screening Project	93.977	GG-12-37668	33,769
Infertility Youth Screening Project	93.977	GG-13-34973-00	<u>34,009</u>
Total Infertility Youth Screening Projects			<u>67,778</u>
Preventive Health Services - Sexually Transmitted Disease Control Grants:			
Sexually Transmitted Disease	93.977	GG-13-35174-00	72,752
Sexually Transmitted Disease	93.977	GG-12-37670-00	<u>69,945</u>
Total Sexually Transmitted Disease Control Grants			<u>142,697</u>
Injury Prevention and Control Programs:			
Rape Prevention	93.136	GG-13-34767-00	18,257
Rape Prevention	93.136	GG-12-37187-00	<u>8,259</u>
Total Injury Prevention and Control Programs			<u>26,516</u>
Breast and Cervical Cancer Early Detection Program	93.919	GG-13-38492-00	55,000
Preventative Health and Health Services - Health Promotion	93.991	GG-13-39397-00	<u>61,500</u>
Total Centers for Disease Control and Prevention			<u>1,517,330</u>
Health Resources and Services Administration Programs:			
HIV Care Formula Grant Program:			
HIV Centers of Excellence	93.917	GG-13-36377-00	98,575
HIV Centers of Excellence	93.917	GG-12-38487-00	<u>241,960</u>
Total HIV Care Formula Grant Program			<u>340,535</u>
Maternal and Child Health Services Grants:			
Children's Special Services	93.994	GG-13-38075-00	92,724
Family Planning Services	93.994	GG-13-38051-00	<u>272,831</u>
Total Maternal and Child Health Services Grants			<u>365,555</u>
Total Health Resources and Services Administration Programs			<u>706,090</u>
Office of the Secretary:			
Teenage Pregnancy Prevention Program	93.297	5TP1AH000008-03-00	651,813
Office of Population Affairs:			
Family Planning Services	93.217	GG-13-38051-00	<u>300,600</u>
Total Passed through Tennessee Department of Health			<u>3,175,833</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, 2013

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):			
Office of Administration for Children and Families:			
Passed through Tennessee Department of Human Services:			
Child Support Enforcement			
Child Support Enforcement IV-D	93.563	GG-11-32034	\$ 198,603
Child Support Enforcement IV-D	93.563	GG-11-32079	<u>243,235</u>
Total Child Support Enforcement Passed through TN Department of Human Services			<u>441,838</u>
Total U. S. Department of Health and Human Services			<u>3,617,671</u>
U.S. Department of Homeland Security:			
Passed through Tennessee Emergency Management Agency:			
Disaster Recovery Grant - Public Assistance	97.036	FEMA 1974 DR TN	207,763
Assistance to Firefighters Grants	97.044	EMW-2008-FP-01488	<u>79,152</u>
Total Passed through Tennessee Emergency Management Agency			<u>286,915</u>
Passed through Tennessee Department of Military:			
Homeland Security Grant Programs:			
Homeland Security 2010	97.067	GG-18000	734,445
Homeland Security 2011	97.067	GG-11-34400	205,610
Homeland Security 2012	97.067	EDISON 12689	<u>31,419</u>
Total Passed through Tennessee Department of Military:			<u>971,474</u>
Total U.S. Department of Homeland Security			<u>1,258,389</u>
Executive Office of the President - Office of National Drug Control Policy:			
Passed through Laurel County, Kentucky:			
High Intensity Drug Trafficking Areas	95.001	G-12-AP0001A	17,248
High Intensity Drug Trafficking Areas	95.001	G-13-AP0001A	<u>35,537</u>
Total Executive Office of the President - Office of National Drug Control Policy			<u>52,785</u>
Total Federal Financial Assistance-Knox County Primary Government			<u>8,988,329</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, 2013

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	\$ 4,015,868
USDA School Lunch Program - Cash Assistance	10.555	2012	11,074,997
USDA School Lunch Program - Non-Cash Assistance	10.555	2012	<u>1,842,298</u>
Total Child Nutrition Cluster			<u>16,933,163</u>
Total U.S. Department of Agriculture			<u>16,933,163</u>
U.S. Department of Education:			
Passed through National Institute of Excellence Teaching:			
NIET Teacher Incentive Fund	84.374A	2012-2013	3,859,410
NIET Teacher Incentive Fund (Support)	84.374A	2012-2013	<u>472,718</u>
Total passed through National Institute of Excellence Teaching			<u>4,332,128</u>
Passed through Tennessee Arts Commission:			
Arts 360 Grant	84.351D	31625-21397	<u>166,000</u>
Total passed through Tennessee Arts Commission			<u>166,000</u>
Passed through Tennessee Department of Labor and Workforce Development			
Adult Education Program:			
Adult Basic Education	84.002	PO 20010	253,302
Adult Basic Education - Critical Need	84.003	2012-2013	20,833
English Literacy and Civics	84.002	PO 20010	<u>54,142</u>
Total passed through Tennessee Department of Labor and Workforce Development			<u>328,277</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, 2013

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	2012-2013	\$ <u>10,768,970</u>
Total Title I Part A Program:			<u>10,768,970</u>
Special Education (IDEA) Cluster:			
Individuals with Disabilities Education Act Part B	84.027A	2011.21	487,270
Individuals with Disabilities Education Act Part B	84.027A	2012.21	2,484,047
Individuals with Disabilities Education Act Part B	84.027A	2012-2013	9,418,377
Special Education Transition	84.027A	2012-2013	<u>75,000</u>
Total Individuals with Disabilities Education Act Part B			<u>12,464,694</u>
Preschool Program:			
Preschool	84.173A	2011.21	2,382
Preschool	84.173A	2012.21	5,818
Preschool	84.173A	2013.01	<u>232,247</u>
Total Preschool Program			<u>240,447</u>
Total Special Education (IDEA) Cluster			<u>12,705,141</u>
Career and Technical Education Program:			
Carrer and Technical Education - Carl Perkins	84.048A	2012-2013	<u>719,808</u>
Total Career and Technical Education Program			<u>719,808</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, 2013

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 (Continued):			
Education Technology Programs:			
Title II Part D	84.318X	2011	\$ <u>10,350</u>
Total Education Technology Programs			<u>10,350</u>
Education for Homeless Children and Youth Programs:			
Homeless Education	84.196A	2012-2013	<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	2012-2013	317,152
Title III - Immigrant	84.365A	2011	6,745
Title III - Immigrant	84.365A	2012	17,747
Title III - Immigrant	84.365A	2013	<u>12,954</u>
Total English Language Acquisition Grants Program			<u>354,598</u>
21st Century Community Learning Centers	84.287C	2012-2013	<u>368,095</u>
Focus Schools	84.010	2012-2013	<u>190,857</u>
State Teacher Incentive Fund	84.374	2012-2013	<u>945,367</u>
ARRA - School Improvement Grant	84.388A	2012-2013	<u>1,414,132</u>
ARRA - School Improvement Grant - Reallocation	84.388A	2012-2013	<u>124,064</u>
ARRA - Race-to-the-Top Incentive Grants:			
ARRA - First to the Top	84.395	2012-2013	6,048,246
ARRA - Stem Academy Battelle	84.395	280740	201,352
ARRA - Stem Karst Hub	84.395	319362	235,744
ARRA - RTT Renewal Schools	84.395	2012-2013	806,997
ARRA - Race to Top - IAF	84.395	2012-2013	1,430,829
ARRA - RTT Reward School	84.395	2012-2013	<u>31,533</u>
Total - ARRA - Race-to-the-Top Incentive Grants			<u>8,754,701</u>
Improving Teacher Quality Title II - Part A	84.367A	2012-2013	<u>2,217,805</u>
Safe and Drug-Free Schools - School Climate Grant	84.184	2012-2013	<u>168,905</u>
Total passed through Tennessee Department of Education			<u>38,804,793</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, 2013

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):			
Passed through Tennessee Department of Human Services:			
Vocational Rehabilitation Services - Case Manager	84.126	Z-13-70512	\$ <u>16,310</u>
Total passed through Tennessee Department of Human Services			<u>16,310</u>
Passed through Tennessee College Access and Success Network:			
ARRA - Tennessee College Access	84.395	2012-2013	<u>15,000</u>
Total passed through Tennessee College Access and Success Network			<u>15,000</u>
Total U.S. Department of Education			<u>43,662,508</u>
Total U.S. Department of Education			<u>43,662,508</u>
U.S. Department of Health and Human Services:			
Affordable Care Act (ACA) Grants - School Based Health Center	93.501	2012-2013	<u>39,455</u>
Total U.S. Department of Health and Human Services			<u>39,455</u>
Total Federal Financial Assistance--Knox County Board of Education Component Unit			<u>60,635,126</u>
Total Federal Financial Assistance			<u>\$ <u>69,623,455</u></u>

KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT)
KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended June 30, 2013

Program Title	Identifying Number	State Expenditures
Knox County, Tennessee (Primary Government):		
Tennessee Department of Corrections:		
Community Corrections (CAPP)	GG-11-32083-04	\$ <u>625,169</u>
Total Tennessee Department of Corrections		<u>625,169</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	EDISON 34320	<u>45,500</u>
Total Tennessee Secretary of State		<u>45,500</u>
Tennessee Department of Environment and Conservation:		
Waste Tire	EDISON 25703	270,384
Used Oil	GG-12-38009	16,289
Clayton Park TDEC LPRF Grant Phase I	Grant Contract 33139	<u>2,545</u>
Total Tennessee Department of Environment and Conservation		<u>289,218</u>
Tennessee Department of Health:		
Tuberculosis Nursing	GG-13-33242-00	390,451
Immunization	GG-12-38491-00	44,551
Immunization	GG-13-35753-00	35,508
Sexual Transmitted Disease	GG-13-35174-00	16,120
Sexual Transmitted Disease	GG-12-37670-00	18,210
Family Planning	GG-13-38051-00	40,400
Oral Health	GG-12-35512	210,836
Adolescent Pregnancy	GG-10-29670-02	52,616
EPSDT Tenndercare	GG-13-39377-00	315,400
Children's Special Services	GG-13-38075-00	75,865

KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT)
KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended June 30, 2013

Program Title	Identifying Number	State Expenditures
Knox County, Tennessee (Primary Government) (Continued):		
Tennessee Department of Health (Continued):		
Diabetes	GG-13-34097-00	\$ 161,731
Adult Emergency Dental Services	GG-13-34379-00	179,310
Help Us Grow Successfully	GG-13-38053-00	<u>228,060</u>
Total Tennessee Department of Health		<u>1,769,058</u>
Tennessee Department of Agriculture - Forestry Division:		
TAEP FY13 Tree Planting Program	Edison 0000005873	1,535
Tenn. Agriculture Enhancement Program - New Harvest	6922	<u>1,448</u>
Total Tennessee Department of Agriculture - Forestry Division		<u>2,983</u>
Tennessee Department of Transportation:		
Litter Grant	Z13LIT0047	<u>164,035</u>
Total Tennessee Department of Transportation		<u>164,035</u>
Tennessee Emergency Management Agency:		
TEMA Disaster Recovery - April 2011 Storm	TEMA 1974 DR TN	<u>34,626</u>
Total Tennessee Emergency Management Agency		<u>34,626</u>
Total State Financial Assistance - Knox County Primary Government		<u>2,939,589</u>

KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT)
KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)
SCHEDULE OF EXPENDITURES OF STATE AWARDS

For the Year Ended June 30, 2013

Program Title	Identifying Number	State Expenditures
Knox County Board of Education (Component Unit):		
Tennessee Department of Labor and Workforce Development:		
Adult Education	PO 20010	\$ 50,673
Adult Education - Critical Need	2012-2013	4,168
EL Civics	PO 20011	<u>10,831</u>
Total Tennessee Department of Labor and Workforce Development		<u>65,672</u>
Tennessee Department of Education		
Coordinated School Health	2012-2013	185,000
Pre-Kindergarten	2012-2013	1,865,003
Safe Schools Act	2012-2013	<u>189,700</u>
Total Tennessee Department of Education		<u>2,239,703</u>
Total State Financial Assistance - Knox County Board of Education (Component Unit)		<u>2,305,375</u>
Total State Financial Assistance		<u>\$ 5,244,964</u>

KNOX COUNTY, TENNESSEE

NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Year Ended June 30, 2013

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards includes the federal and state 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, 2013. 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 2013 Loan Funding</u>	<u>Outstanding Balance</u>
Community Development Block Grant	14.218	\$ 25,502	\$ 1,158,764
HOME Investment Partnerships Programs	14.239	-	1,458,380

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	\$ 783,648
HOME Investment Partnerships Programs	14.239	138,211
Total Subrecipient Awards		<u>\$ 921,859</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 distributions 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, 2013

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? X yes 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 X yes no

Major federal programs for Knox County, Tennessee for the fiscal year ended June 30, 2013 are:

<u>Program Name</u>	<u>CFDA#</u>
Community Development Block Grant	14.218
Title I – Part A	84.010A
Special Education (IDEA) Cluster	
Special Education – IDEA Part B	84.027A
Special Education - Preschool	84.173A
School Improvement Grant (ARRA)	84.388A
Race-To-The-Top Incentive Grants (ARRA)	84.395
Emergency Preparedness Pandemic	93.069
Teenage Pregnancy Prevention Program	93.297

Dollar threshold used to distinguish between Type A & Type B programs: \$2,088,704

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, 2013

Section II - Financial Statement Findings

Current Year Audit Findings:

2013-1 Accounting Reconciliations - Trustee's Office and Knox County Finance Department

Criteria or Specific Requirement - The Knox County Trustee is the treasurer of Knox County and operates as the internal "bank" for the County. The Trustee's accounting records should be maintained on the cash basis of accounting and should reflect the allocation of the pooled cash and investments to individual County funds. The Finance Department maintains County funds on the modified accrual basis of accounting which includes the accrual of various receivables and payables in accordance with generally accepted accounting principles (GAAP).

Condition - The Trustee's Office and the Finance Department maintain their respective accounting records utilizing accounting software that records numerous transactions applicable to both the Office and the Department. Cash basis transactions, for example, cash receipts and cash disbursements, affect both sets of accounting records and are posted simultaneously when the applicable transaction occurs. However, certain modified-accrual basis transactions (e.g., accrual of various liabilities) that do not affect the Trustee's actual cash and investment account balances, but do affect the allocation of net pooled cash and investments to the County's various Funds, also have been recorded in the Trustee's accounting records as a result of the setup of the accounting software and of the related procedures utilized in maintaining the accounting records for both the Office and the Department. This condition has resulted in unnecessary complexity in the Trustee's accounting records.

The County did not properly analyze, reconcile and adjust the balances of the above mentioned accruals recorded in the Trustee's records in the current and prior years and, as a result, in our 2013 audit we have recorded a prior period audit adjustment in the amount of approximately \$2.4 million, decreasing net pooled cash and investments allocated to the County's General and Debt Service Funds, to correct these balances as of July 1, 2012.

In addition, the Trustee's Office did not provide copies of the monthly bank reconciliations to the Finance Department as was recommended in the prior year audit finding 2012-1.

Cause and Effect - Certain accruals and allocations recorded in the Trustee's accounting records were not recorded and reconciled correctly. Failure to perform such procedures resulted in undetected errors.

Recommendations - We recommend the following:

- a. The Trustee's Office and County Finance Department should re-evaluate their accounting processes that involve both departments.
- b. The Trustee's accounting records should be maintained on the cash basis and monthly and year-end accruals should be eliminated in that office.
- c. All monthly and year-end accruals should only be maintained by the County Finance Department and recorded in the various County funds. These accruals should be properly recorded, reconciled and reviewed by supervisory personnel monthly.
- d. Copies of all monthly bank and investment reconciliations completed in the Trustee's Office should be reviewed by a member of the County Finance Department on a monthly basis.

KNOX COUNTY, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended June 30, 2013

Section II - Financial Statement Findings (Continued)

Current Year Audit Findings (Continued):

2013-1 Accounting Reconciliations - Trustee's Office and Knox County Finance Department (Continued)

Management's Planned Corrective Actions - Management concurs with the facts of the finding. It should be noted that management of the Finance Department and of the Trustee's Office have continually worked during 2013 to implement improvements in recordkeeping and reporting in this area. As a result, procedures have been implemented correcting four of the six recommendations related to the Trustee's office made during the 2012 audit. These corrective actions implemented in 2013 assisted in the identification of the errors noted in the 2013 finding, and these errors have now been corrected. The Trustee's Office handles a very large volume of cash receipts annually, totaling over \$265 million in 2013. It is necessary to carefully consider the consequences of changes in recordkeeping procedures to ensure that such changes are appropriate and that they result in complete and accurate reporting of not only the cash receipts and disbursements of the cash accounts maintained by the Trustee's Office but also the various funds and accounts maintained by the Finance Department. Management of both the Finance Department and the Trustee's Office have had numerous meetings and discussions and are developing a plan to implement revised procedures to fully correct the findings. We have previously identified the need to maintain the Trustee's Office records on a cash basis and to record all modified accrual basis adjustments only in the Finance Department records, and therefore our plan will address recommendations (a), (b) and (c).

It should be noted that the Trustee's Office was completing bank account reconciliations timely during FY 2013 as recommended in the 2012 audit, and these reconciliations were being reviewed by the external auditors, as recommended by the Knox County Audit Committee. Although the bank account reconciliations were not being provided to the Finance Department as recommended by the external auditors, there was an independent review being performed of these reconciliations. Beginning in FY 2014, the Trustee's Office has begun providing copies of the bank account reconciliations to the Finance Department for review by Finance Department personnel, which will address the 2012 audit recommendation (d).

KNOX COUNTY, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended June 30, 2013

Section II - Financial Statement Findings (Continued)

Current Year Audit Findings (Continued):

2013-2 Capital Asset Recordkeeping

Criteria or Specific Requirement - Detailed capital asset records, including construction in progress schedules, are to be accounted for in a complete and accurate manner.

Condition - The County's current system of maintaining detailed capital asset records does not allow for a centralized comprehensive detail report to be generated to show listings of individual assets, the current year depreciation for each asset, and the accumulated depreciation related to that asset. This results in a situation that makes tie-in of the detailed records and related activity to the general ledger difficult and subject to the use of excel spreadsheets downloaded from the system in order to reconcile.

Cause and Effect - The opportunity exists for errors due to the complexity of the current reconciliation process using these spreadsheets.

Recommendations - We recommend that the County fully implement the use of a software program designed for capital asset record maintenance and incorporate sufficient review procedures of such records to ensure appropriate coding and classification.

Management's Planned Corrective Actions - Management concurs with the facts of the finding. The County implemented a new accounting software system in a previous year, which does include a capital asset reporting module. Management believes that the system is capable of being tailored to our reporting needs, and has arranged for assistance by the vendor to include needed refinements to the system and training of County personnel. Management expects that the changes to the system will be fully implemented in fiscal year 2014.

KNOX COUNTY, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended June 30, 2013

Section III - Federal Award Findings

Current Year Audit Finding:

2013-3: Davis-Bacon Act

Program: Community Development Block Grant (CFDA# 14.218)

Criteria or Specific Requirement - The Davis-Bacon Act is a mandatory requirement under the Community Development Block Grant which means that all laborers and mechanics employed by contractors or subcontractors to work on new construction or rehabilitation property containing 8 or more units must be paid wages not less than those established for the locality of the project (prevailing wage rates). The County must require the contractor or subcontractor to submit to the County weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6). This reporting is often done using Optional Form WH-347, which includes the required statement of compliance (OMB No. 1215-0149).

Condition - In the course of grant testing, we noted that the County did not obtain certified payrolls from one of the subcontractors tested.

Questioned Costs - None

Context - There were four projects totaling over \$200,000 whose contracts would require the County to obtain certified payrolls from their subcontractors.

Cause and Effect - The County did not have controls in place to ensure that they obtain the required certification and certified payroll registers from their contractors. The amount, if any, by which laborers may have been paid incorrectly has not been determined.

Recommendation - We recommend that the County implement procedures to ensure that the Davis-Bacon Act is complied with for all applicable contractors by obtaining certified payrolls. There should also be a system in place for testing that the certified payrolls submitted by the subcontractors did include prevailing wage rates for their employees.

Management's Planned Corrective Actions - The lapse in Davis-Bacon monitoring requirements was due to personnel turnover in administration. This has been corrected and the employees were trained in the associated monitoring procedures.

KNOX COUNTY, TENNESSEE

SCHEDULE OF CORRECTED PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2013

2012-1 Bank and Investment Account Reconciliations - Trustee's Office (Partially Corrected)

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 CORRECTED PRIOR AUDIT FINDINGS (Continued)

For the Year Ended June 30, 2013

2012-1 Bank and Investment Account Reconciliations - Trustee's Office (Partially Corrected) (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 CORRECTED PRIOR AUDIT FINDINGS (Continued)

For the Year Ended June 30, 2013

Current Year Status - This finding has been partially corrected during the 2013 fiscal year with the implementation of recommendations (a), (c), the second part of (d) and (e) above. Recommendation (b) and the first paragraph of recommendation (d) have not been fully implemented. The \$522,766 uncorrected error at June 30, 2012 was not corrected until our current year audit adjustment was recorded. (See FY 2013 current year audit finding 2013-1.)

Management's Current Year Updated Corrective Actions - As discussed in our response to finding 2013-1, the Trustee's office has begun providing copies of the bank account reconciliations to the Finance Department in fiscal 2014. Also as discussed therein, we are currently in the process of discussing, both internally and with the County Finance Department, potential changes in our accounting process in the Trustee's office, including the month-end and year-end closings. In addition, any adjustments needed to properly record accounts at their proper amount will be posted each month on a timely basis.

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

Current Year Status - This finding has been corrected during the 2013 fiscal year.

KNOX COUNTY, TENNESSEE

SCHEDULE OF CORRECTED PRIOR AUDIT FINDINGS (Continued)

For the Year Ended June 30, 2013

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.

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.

KNOX COUNTY, TENNESSEE

SCHEDULE OF CORRECTED PRIOR AUDIT FINDINGS (Continued)

For the Year Ended June 30, 2013

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

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.

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.

Current Year Status - This finding has been corrected during the 2013 fiscal year.

