

SHELBY COUNTY, TENNESSEE
Federal I.D. #62-6000841

Single Audit Report
For the Year Ended June 30, 2003

SHELBY COUNTY, TENNESSEE

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THOMPSON DUNAVANT PLC

Independent Auditors Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

To the Chairperson and Members of the
Shelby County Board of Commissioners and
Mayor of Shelby County, Tennessee

Compliance

We have audited the compliance of Shelby County, Tennessee (the "County") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The County's major federal programs are identified in the summary of auditors' 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 on the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program

in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be material weaknesses.

Schedules of Expenditures of Federal and State and Other Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Shelby County, Tennessee, as of and for the year ended June 30, 2003, and have issued our report thereon December 11, 2003. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedules of expenditures of federal and state and other awards are presented for purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the financial statements of the County. Such information has been subjected to the auditing procedures applied in the audit of the financial statements referred to above and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the County Mayor and Commissioners, management, the State of Tennessee, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Memphis, Tennessee
March 3, 2004

THOMPSON DUNAVANT PLC

Independent Auditors Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Chairperson and Members of the
Shelby County Board of Commissioners and
Mayor of Shelby County, Tennessee

We have audited the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Shelby County, Tennessee, as of and for the year ended June 30, 2003, and have issued our report thereon December 11, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the County's financial statements referred to above are free of material misstatement, we performed tests of the County's compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported herein under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to management of Shelby County in a separate letter dated December 11, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying scheduled of findings and questioned costs as items 03-1 and 03-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements referred to above being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. We noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated December 11, 2003.

This report is intended solely for the information and use of the County Mayor and Commissioners, management, the State of Tennessee, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Thompson Dunavant P.C." The signature is written in a cursive, flowing style.

Memphis, Tennessee
March 3, 2004

SHELBY COUNTY, TENNESSEE

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2003

CFDA	Contract Number	Program Name	Grantor or Pass-Through Agency	Federal Expenditures Incurred	Non-Federal Expenditures Incurred	Total Grant Expenditures Incurred
10.550	E-2186	USDA National School Lunch	USDA	\$ 615,594	\$ -	\$ 615,594
10.550	Z-00096485-00	Commodities Distribution	TN Department of Agriculture	31,795	-	31,795
10.550	Z-00096485-00	Commodities Distribution	TN Department of Agriculture	96,010	-	96,010
10.550	GG607170600	Aging Program-Food Dist.	TN Commission on Aging	365,910	-	365,910
			Total food donation	1,109,309	-	1,109,309
10.553		School Breakfast	TN Department of Education	464,295	-	464,295
10.555		School Lunch	TN Department of Education	2,988,339	-	2,988,339
10.557	Z-01-099935-00	WIC Program	TN Department of Health	652,295	25,071	677,366
10.557	Z-01-099935-00	WIC Program	TN Department of Health	2,101,318	133,750	2,235,068
			Total WIC Program	2,753,613	158,821	2,912,434
10.565	Z-00-0954426-00	Supplemental Food	TN Department of Health	113,085	-	113,085
10.565	Z-00-0954426-00	Supplemental Food	TN Department of Health	328,071	-	328,071
			Total commodity supplemental food program	441,156	-	441,156
12.300		Navy R.O.T.C.	U.S. Department of the Navy	86,090	-	86,090
14.218	B94-UC-47-0002	Community Development Block	HUD	10,370	-	10,370
14.218	B98-UC-47-0002	Community Development Block	HUD	331,301	-	331,301
14.218	B94-UC-47-0002	Community Development Block	HUD	456,551	14,163	470,714
14.218	B96-UC-47-0002	Community Development Block	HUD	562,464	-	562,464
14.218	H3-92-TN-0004-I-A	Hope 3	HUD	151,325	-	151,325
			Total community development block grant program	1,512,011	14,163	1,526,174
14.231	TN37D150799	Emergency Mental Health & Detox Program	HUD	164,981	-	164,981
14.235	TN37B960410	Homeless Case Management	HUD	74,261	3,699	77,960
14.239	M94-UC-47-0205	Home Entitlement	HUD	44,015	-	44,015
14.239	M95-UC-47-0205	Home Entitlement	HUD	91,872	-	91,872
14.239	M96-UC-47-0205	Home Entitlement	HUD	480,426	-	480,426
14.239	M97-UC-47-0205	Home Entitlement	HUD	102,786	-	102,786
			Total home program	719,099	-	719,099
14.900	TN-LAG002794	Lead Base Paint	HUD	138,322	-	138,322

The accompanying notes are an integral part of the schedules of expenditures of federal and state and other awards.

SHELBY COUNTY, TENNESSEE

Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2003

CFDA	Contract Number	Program Name	Grantor or Pass-Through Agency	Federal Expenditures Incurred	Non-Federal Expenditures Incurred	Total Grant Expenditures Incurred
16.007		Weapons of Mass Destruction		\$ 43,810	\$ -	\$ 43,810
16.007		CMAQ Intersection Improvements	Department of Transportation Total program	70,211	-	70,211
				114,021	-	114,021
16.523	CA002872	Juvenile Accountability Incentive Block Grant	TN Dept. Children's Services	294,914	-	294,914
16.523	CA002872	Juvenile Accountability Incentive Block Grant	TN Dept. Children's Services Total juvenile accountability incentive block grant program	587,332	-	587,332
				882,246	-	882,246
16.579		Cycle Stops Child Abuse Prevention		-	11,995	11,995
16.579	Z97088200-00	Offender RSAT Aftercare	Department of Justice Edward Byrne Memorial	61,858	-	61,858
16.579	CA12445	Residential Substance Abuse	TN Bureau of Justice	81,067	27,908	108,975
16.579	CA012443	Residential Substance Abuse	Edward Byrne Memorial	310,121	-	310,121
16.579		Exchange Club Byrne Grant		85,000	-	85,000
16.579	GG-01-8730-0	State Dept. Of Mental Health & Mental Retardation	Mental Health Services	6,086	-	6,086
16.579	GG-01-8730-0	State Dept. Of Mental Health & Mental Retardation	Mental Health Services	91,697	-	91,697
16.579		Mentally Ill Inmates	Department of Justice	50,151	-	50,151
			Total Byrne formula grant program	685,980	39,903	725,883
16.580	99DG109	W. TN Drug & Violent Crimes Task Force	TN Bureau of Justice	1,735	-	1,735
16.580	99DG109	W. TN Drug & Violent Crimes Task Force	TN Bureau of Justice Total drug & violent crimes program	516,349	-	516,349
				518,084	-	518,084
16.582	20,009,924,302	Bilingual Victim Advocate	Office of Justice Programs	39,861	-	39,861
16.582	200,099,241	Homicide Response Team	TN Bureau of Justice Total crime victim assistance/ discretionary grant	132,604	-	132,604
				172,465	-	172,465
16.588	20,009,386,200	Expanding Circle of Safety	Office of Justice Programs	47,810	-	47,810
16.588	97DSV03	First Step to Safety/Violence Against Women	Department of Finance & Administration Department of Justice	62,710	-	62,710
16.588	97-WE-VX-0071		Total violence against women formula grant program	227,267	-	227,267
				337,787	-	337,787
16.592	98LBVX3999	Local Law Enforcement Block Grant	Department of Justice	11,200	-	11,200
16.592	98LBVX3999	Local Law Enforcement Block Grant	Department of Justice	196,763	-	196,763
16.592	98LBVX3999	Local Law Enforcement Block Grant	Department of Justice	1,398,176	-	1,398,176
16.592	98LBVX3999	Local Law Enforcement Block Grant	Department of Justice Total local law enforcement block grant program	288,133	-	288,133
				1,894,272	-	1,894,272

The accompanying notes are an integral part of the schedules of expenditures of federal and state and other awards.

SHELBY COUNTY, TENNESSEE

Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2003

CFDA	Contract Number	Program Name	Grantor or Pass-Through Agency	Federal	Non-Federal	Total Grant
				Expenditures Incurred	Expenditures Incurred	Expenditures Incurred
16.710	95CCWX0301	Community Oriented Policing Services	Department of Justice	\$ 64,549	\$ -	\$ 64,549
17.588	97DSV04	First Step to Safety/Violence Against Women	Department of Finance & Administration	-	7,362	7,362
20.205	CM-STP9409(66)	CMAQ Rideshare	Department of Transportation	427,486	47,381	474,867
20.205		Transportation Planning	Department of Transportation	880	195	1,075
20.205	STPM9409(53)	CMAQ Rideshare	Department of Transportation	36,073	7,630	43,703
20.205	Z6074817600	Transportation Planning	Department of Transportation	214,452	29,171	243,623
20.205	Z-97-079361-01	Transportation Planning	Department of Transportation	507,630	86,221	593,851
20.205	76008-0700410	Transportation Planning	Department of Transportation	16,048	3,439	19,487
20.205	GG-00-08-08495	CTAP	State of TN	21,229	-	21,229
20.205		MDOT Section 8	Mississippi Dept. of Transportation	102,117	-	102,117
20.205	79-901-9611-4	Metropolitan Planning - FTA	Department of Transportation	11,256	2,416	13,672
20.205		CMAQ MSTD	Department of Transportation	84,921	-	84,921
			Total metropolitan planning program	1,422,092	176,453	1,598,545
47.076		Gender Equity	National Science Fund	137,238	-	137,238
66.001	A00482-00-1	Air Pollution	Environmental Protection Agency	286,333	62,437	348,770
66.001	A00482-00-1	Air Pollution	Environmental Protection Agency	883,389	190,284	1,073,673
			Total air pollution control program	1,169,722	252,721	1,422,443
66.006	PM984369-98-2	Special Air Pollution	Environmental Protection Agency	192,465	-	192,465
66.006	PM984369-98-2	Special Air Pollution	Environmental Protection Agency	158,795	-	158,795
			Total special air pollution program	351,260	-	351,260
66.951		Sweep	Environmental Protection Agency	55,117	-	55,117

The accompanying notes are an integral part of the schedules of expenditures of federal and state and other awards.

SHELBY COUNTY, TENNESSEE

Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2003

CFDA	Contract Number	Program Name	Grantor or Pass-Through Agency	Federal Expenditures	Non-Federal Expenditures	Total Grant Expenditures
				Incurred	Incurred	Incurred
81.042	Z-02-005298	Department of Human Services	Department of Human Services	\$ 254,332	\$ -	\$ 254,332
81.042	Z-00-090462	Weatherization	Department of Human Services	700,144	-	700,144
			Total weatherization assistance for low-income persons program	954,476	-	954,476
84.010		EDUC Deprived Children	TN Department of Education	1,909,414	-	1,909,414
84.027		EDUC of Handicapped Children	TN Department of Education	5,511,626	-	5,511,626
84.041	52-TN-95-E-0001	Public Law 874	U.S. Department of Education	143,676	-	143,676
84.048		Carl Perkins Vocational	TN Department of Education	364,623	-	364,623
84.168		Eisenhower Professional Development	TN Department of Education	788,731	-	788,731
84.173A		Preschool	TN Department of Education	334,107	-	334,107
84.186A		Drug Free Schools	TN Department of Education	236,588	-	236,588
84.195B		On Track	TN Department of Education	115,243	-	115,243
84.213C		Even Start	TN Department of Education	208,361	-	208,361
84.255A	CA012556	Women in Community Service II	U.S. Department of Education	50,169	-	50,169
84.255A	CA012556	Women in Community Service II	U.S. Department of Education	179,697	-	179,697
			Total women in community service program	229,866	-	229,866
84.298		Innovative Education Program Strategies	TN Department of Education	189,984	-	189,984
84.318		Technology Literacy	TN Department of Education	68,610	-	68,610
84.365		English Language Acquisition	TN Department of Education	74,889	-	74,889

The accompanying notes are an integral part of the schedules of expenditures of federal and state and other awards.

SHELBY COUNTY, TENNESSEE

Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2003

CFDA	Contract Number	Program Name	Grantor or Pass-Through Agency	Federal	Non-Federal	Total Grant
				Expenditures Incurred	Expenditures Incurred	Expenditures Incurred
93.041	GG607170600	Aging Program -Elder Abuse Prevention	TN Commission on Aging	\$ 1,810	\$ 23,750	\$ 25,560
93.042	GG607170600	Aging Program - Ombudsman Services	TN Commission on Aging	39,400	-	39,400
93.043	GG607170600	Aging Program - Disease Prevention	TN Commission on Aging	77,893	11,189	89,082
93.044	GG607170600	Aging Program - Supportive Services	TN Commission on Aging	1,878,855	-	1,878,855
93.045	GG607170600	Aging Program - Nutrition Services	TN Commission on Aging	1,176,812	-	1,176,812
93.052	GG607170600	Aging Program - Disaster Assistance	TN Commission on Aging	128,078	-	128,078
93.116	GG-00-08447-00	TB Outreach	Department of Health	231,414	-	231,414
93.116	GG-00-08447-00	TB Outreach	Department of Health	826,098	44,186	870,284
		Total tuberculosis outreach program		1,057,512	44,186	1,101,698
93.197	US7ICCU418467-01	CDC Lead Grant	Health & Human Services	265,702	22,967	288,669
93.217	GG-00-08549-00	Hispanic Outreach	TN Department of Health	56,065	-	56,065
93.217	GG-01-08913-00	Central Lab/Bio Terrorism	TN Department of Health	26,209	81,900	108,109
		Total family planning services program		82,274	81,900	164,174
93.252	GG920A00016-02	Community Access Program	Department of Health	946,370	-	946,370
93.268	GG-01-08809-00	WIC Immunization	Department of Health	160,303	-	160,303
93.268	GG-01-08809-00	Immunization	Department of Health	385,083	-	385,083
		Total immunization program		545,386	-	545,386
93.283		State Mosquito Control Grant	Department of Health	179,800	-	179,800
93.283		Tobacco Risk	Department of Health	10,000	-	10,000
93.283	GG-02-09229-04	Homeland Security Bioterrorism	Department of Health	64,390	-	64,390
93.283	GG-02-09229-04	Homeland Security Bioterrorism	Department of Health	10,619	-	10,619
93.283		Mosquito Study	Department of Health	30,186	2,814	33,000
93.283		Mosquito Study	Department of Health	24,000	-	24,000
		Total CDC-investigations and technical assistance program		318,995	2,814	321,809

The accompanying notes are an integral part of the schedules of expenditures of federal and state and other awards.

SHELBY COUNTY, TENNESSEE

Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2003

CFDA	Contract Number	Program Name	Grantor or Pass-Through Agency	Federal	Non-Federal	Total Grant
				Expenditures Incurred	Expenditures Incurred	Expenditures Incurred
93.558	98-14-999-114-99-85	Welfare to Work	City of Memphis	\$ -	\$ 11,752	\$ 11,752
93.558		Early Childhood	TN Department of Education	89,735	-	89,735
			Total temporary assistance for needy families program	89,735	11,752	101,487
93.561		Families First Jobs Grant	Department of Labor	1,633,871	100,000	1,733,871
93.564	GG02-09284-00	Child Support IV-D	Department of Human Services	7,243,237	1,087,783	8,331,020
93.568	Z-00-092644	LIHEAP	Department of Human Services	3,506,914	-	3,506,914
93.569	Z00-093423-01	Community Services Block Grant	Department of Human Services	2,256,587	-	2,256,587
93.600	O4CH3447	Headstart	Dept. of Health & Human Services	(15,028)	-	(15,028)
93.600	O4CH3447	Headstart	Dept. of Health & Human Services	11,226,861	-	11,226,861
93.600	O4CH3447	Headstart	Dept. of Health & Human Services	9,524,442	-	9,524,442
			Total headstart program	20,736,275	-	20,736,275
93.917	GG-01-09020-00	HIV Case Management	Department of Health	137,783	2,538	140,321
93.917	GG-01-09020-00	HIV Case Management	Department of Health	48,148	13,175	61,323
			Total HIV care formula grant program	185,931	15,713	201,644
93.918	2H76HA00568-03	Early Intervention	Department of Health	327,511	-	327,511
93.926E		City School Nursing	City Board of Education	382,746	12,969	395,715
93.926E	5H49MC00036-03	City School Nursing	City Board of Education	23,352	823	24,175
93.926E	5H49MC00036-03	City School Nursing	City Board of Education	144,097	-	144,097
			Total healthy start initiative program	550,195	13,792	563,987
93.940/						
93.944	Z-00-002606-00	HIV	Department of Health	377,668	14,769	392,437
93.940/						
93.944	Z-00-002606-00	HIV	Department of Health	323,997	132,836	456,833
			Total HIV prevention program	701,665	147,605	849,270

The accompanying notes are an integral part of the schedules of expenditures of federal and state and other awards.

SHELBY COUNTY, TENNESSEE

Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2003

CFDA	Contract Number	Program Name	Grantor or Pass-Through Agency	Federal Expenditures Incurred	Non-Federal Expenditures Incurred	Total Grant Expenditures Incurred
93.959	GG-02-09229-00	TennCare EPSDT	Department of Health	\$ 51,352	\$ -	\$ 51,352
93.959	GG-01-08809-00	Alcohol & Drug Program	Department of Health	10,073	-	10,073
93.959	GG-01-08809-00	Alcohol & Drug Program	Department of Health	239,239	30,546	269,785
			Total alcohol & drug program	300,664	30,546	331,210
93.977	GG-01-08809-01	State VD	Department of Health	35,400	-	35,400
93.977	GG-01-08809-01	State VD	Department of Health	1,251,670	290,177	1,541,847
			Total state VD program	1,287,070	290,177	1,577,247
93.978	GG-01-08809-02	State VD	Department of Health	43,420	-	43,420
93.991	GG-00-08447-00	Health Risk Reduction	Department of Health	212,142	8,140	220,282
93.988	202008421-01	Community Diabetes	Department of Health	7,000	2,000	9,000
93.000		HIV/STD Best Prevention Practice	Department of Health	20,302	-	20,302
93.000		Linking Neighborhoods	Department of Health	16,490	-	16,490
17.250		TennCare Dental Prevention	Department of Health	1,221,328	130,001	1,351,329
16.609	2001GPCX0013	OJP Gun Violence	U.S. Department of Justice	94,308	-	94,308
93.879		NIH Library	Department of Health	6,840	-	6,840
			Total federal awards	\$ 76,347,075	\$ 2,677,437	\$ 79,024,512

The accompanying notes are an integral part of the schedules of expenditures of federal and state and other awards.

SHELBY COUNTY, TENNESSEE

Schedule of Expenditures of State and Other Awards
For the Year Ended June 30, 2003

<u>Contract Number</u>	<u>Program Name</u>	<u>Grantor Agency</u>	<u>Grant Cost Incurred</u>
	Chores	Memphis Health Center, Inc.	\$ 102,540
	City Police Drug Court	Memphis Police Dept.	104,989
	LIHEAP	World Overcomers Church	11,950
XX-053	LIFT - GED	Assisi Foundation	2,934
	Tobacco Risk	TN Department of Health	41,233
	Welfare to Work	City of Memphis	113,771
98-14-999-114-99-85	Welfare to Work	Ford Motor Company	80,328
98-14-999-114-99-85	Home Visiting Services	TN Department of Health	176,600
GG-02-092229-00	City Courts Child Safety Seats	City of Memphis City Courts	212,055
CA011899	United Way HIV Nutrition	United Way of Midsouth	33,810
CA011899	United Way HIV Nutrition	United Way of Midsouth	11,482
01-082	Truancy Initiative	Assisi Foundation	64,907
01-082	Truancy Initiative	Assisi Foundation	25,000
Agreement	LHS Women's Health	LHS, Inc.	31,596
GG-01-08809-00	Health Planning	TN Department of Health	249,111
GG-02-092229-00	Family Planning	TN Department of Health	618,838
GG-97-07369-00	Aging Program	TN Commission on Aging	1,469,514
GG-97-07369-00	Aging Program	TN Commission on Aging	81,200
N14502/CA013024	Biological Response	City of Memphis	37,692
GG-01-08809-00	Families First	TN Department of Health	297,700
GG-02-092229-04	Homeland Security Bioterrorism	TN Department of Health	702,874
	Youthcare HIV	Methodist-LeBonheur Healthcare Foundation	83,274

The accompanying notes are an integral part of the schedules of expenditures of federal and state and other awards.

SHELBY COUNTY, TENNESSEE

Schedule of Expenditures of State and Other Awards (Continued)
For the Year Ended June 30, 2003

<u>Contract Number</u>	<u>Program Name</u>	<u>Grantor Agency</u>	<u>Grant Cost Incurred</u>
GG-01-08809-01	Parents Encouraging Parents	TN Department of Health	\$ 65,804
	Chickasaw Basin Authority Operations	TN Department of Health	29,901
GG-01-08809-01	Newborn Outreach	TN Department of Health	20,100
	Durham Foundation Sr. Needs Assessment	TN Commission on Aging	98,750
CHB841	Roadside Litter Grant	Department of Transportation	298,020
HS99E012	THDA House	TN Housing Development Agency	63,538
98DG092	Child Advocacy Center-Vertical Prosecution	Office of Justice Programs	26,659
	Children's Special Services	TN Department of Health	385,871
99-030	Frayser Community Court	Disabled American Veterans and DAV Auxiliary	4,665
GG-02-09229-00	State Grant in Aid	TN Department of Health	917,847
	Continuous Cycle Reevaluation	State of Tennessee	1,766,771
Agreement	Solid Waste Assistance Program	Dept. Of Environment & Conservation	98,721
GG-01-08809-00	Adolescent Pregnancy Prevention	TN Department of Health	49,879
GG-01-08809-00	Care Coordination Services	TN Department of Health	359,720
GG-01-08809-00	State Heating Assistance Endowment	TN Department of Health	25,000
	Correction Incentive	Ford Foundation	15,467
Agreement	County School Nurses	City Board of Education	822,914
	Breast & Cervical Cancer	TN Department of Health	22,924
	Headstart Full Day/Full Year	State of Tennessee	448,868
	Industrial Development Board	Industrial Development Board	568,435
	Integrated Delivery System	Health Loop-The Regional Medical Center	3,678,169
97-98GPI-24	CSA Administration	County of Shelby	30,041
	Robert Wood Johnson Healthcare	TN Department of Health	36,931
	Total state and other awards		<u>\$ 14,388,393</u>

The accompanying notes are an integral part of the schedules of expenditures of federal and state and other awards.

SHELBY COUNTY, TENNESSEE

Notes to the Schedules of Expenditures of Federal and State and Other Awards June 30, 2003

Note 1 - Basis of presentation

The schedules of expenditures of federal and state and other awards include the transactions related to the receipt of federal awards by Shelby County, Tennessee (the "County") and its component units receiving federal awards that do not issue separate financial statements under OMB Circular A-133. Accordingly, the Shelby County Board of Education and the Shelby County Healthcare Corporation, both component units of the County, are included in the schedule for the year ended June 30, 2003. The schedule also includes transactions of the County related to the receipt of state awards and designated contributions from individuals, corporations, foundations, and other groups. Such state awards and designated contributions received by the County's component units are not included in the schedule of expenditures of federal awards.

The schedules of expenditures of federal and state and other awards are prepared on the modified accrual basis of accounting, consistent with accounting for governmental type funds. Under this basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"), which is generally when the allowable program expenditures are incurred. Expenditures and transfers out are recorded when the related program liability is incurred, except for certain compensated absences.

Note 2 - Reconciliation of the schedules of expenditures of federal and state and other awards to the financial statements

The following is a reconciliation of expenditures per the schedules of expenditures of federal and state and other awards to the expenditure balances in the grant fund, per the County's financial statements.

Totals per Grant Activity Schedule:	
Federal expenditures	\$ 76,347,075
Non-federal expenditures	2,677,437
State and other grants	14,388,393
Total Board of Education grants	(14,382,260)
Total Shelby County Healthcare Corporation	(1,273,881)
Transfers to other funds	<u>(4,395,394)</u>
Total to agree to general ledger	<u>\$ 73,361,370</u>

SHELBY COUNTY, TENNESSEE

Notes to the Schedules of Expenditures of Federal and State and Other Awards (Continued)
June 30, 2003

Note 3 - Non-cash assistance

Non-cash assistance is included in the schedules of expenditures of federal and state and other awards. The amount received and expended in the current year is \$1,014,169 and \$1,109,309, respectively.

Note 4 - Program types

The threshold for distinguishing types A and B programs was \$2,290,412.

SHELBY COUNTY, TENNESSEE

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2003

A. Summary of Audit Results

1. The auditors' report expresses an unqualified opinion on the financial statements of Shelby County, Tennessee.
2. Two reportable conditions disclosed during the audit of the financial statements are reported in the Report on Compliance on Internal Control Over Financial Reporting Based on an Audit of Financial Statements in accordance with Government Auditing Standards. These were not reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of Shelby County, Tennessee were disclosed during the audit.
4. No reportable conditions or material weaknesses were noted during the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for Shelby County, Tennessee expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with OMB Circular A-133 are reported in this schedule. The audit did not disclose any audit findings related to major programs that are required to be reported under OMB Circular A-133.
7. The programs tested as major programs included:

93.564	Child Support
93.569	Community Service Block Grant
66.001	Air Pollution
14.218	CDBG-HUD
93.116	TB Outreach
20.205	Highway Planning
93.977	State VD
10.553/10.555	Child Nutrition Cluster
8. The threshold for distinguishing Types A and B programs was \$2,290,412.
9. Shelby County, Tennessee was determined to be a low risk auditee.

SHELBY COUNTY, TENNESSEE

Schedule of Findings and Questioned Costs (Continued) For the Year Ended June 30, 2003

B. Findings - Financial Statement Audit

Reportable Conditions

03-1 Prior period adjustment - Shelby County Board of Education

Condition: Beginning balances of buildings included construction costs that were also included in construction in progress. Additionally, beginning balances of equipment included items that were below the capitalization threshold.

Criteria: Construction costs should only be recorded as building costs when construction is completed and transferred out of construction in progress. Equipment and furniture are capitalized if they meet or exceed the \$5,000 capitalization policy.

Effect: Buildings at the beginning of the year were overstated due to the fact that they included certain construction costs before the construction in progress was completed and closed, thus duplicating these costs in both buildings and CIP balances. Because of the failure to capitalize costs in accordance with the capitalization policy, equipment and furniture were overstated at the beginning of the year.

Recommendation: Shelby County Board of Education should ensure that construction costs are only recorded as building additions at the time construction is completed and such costs are removed from the CIP schedule. Shelby County Board of Education should implement report specifications to only include equipment and furniture items that meet the \$5,000 capitalization requirement.

Response: We concur with the above comments and the recommendations are being implemented.

03-2 Oakville Health Care Center

Condition: We found several deficiencies at the Oakville Health Care Center (OHCC). We noted that OHCC's accounts are not reconciled on a timely basis, some of which have not been reconciled for several months. We also found that OHCC's accounting system has significant limitations, such as the fact that the accounts receivable module is not linked to the general ledger. In addition, we noted there is a lack of timely review of financial information at both the OHCC and County levels. There also appeared to be a low staff morale with OHCC employees.

SHELBY COUNTY, TENNESSEE

Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2003

B. Findings - Financial Statement Audit (continued)

03-2 Oakville Health Care Center (continued)

Criteria: Timely account reconciliations and reviews thereof are imperative to ensure that accounting information is meaningful and reliable.

Effect: Untimely reconciliations, low employee morale coupled with lack of County and OHCC oversight adversely impact OHCC's operating performance and ultimately OHCC's financial statements. These two factors also create an environment for potential misappropriation of funds.

Recommendation: We recommend that OHCC's controller prepare a monthly closing binder, which should include a checklist to insure all accounts are reconciled and reviewed each month. This closing binder should also be reviewed for completeness by the County finance department or the County's internal audit department. We recommend that if the County finance department does not review the closing binder, they at least review operating results quarterly with OHCC management. We also recommend that an operational review be performed to identify and implement improvements in the accounting system performance.

The employees of OHCC appear to have a poor morale as they believe the facility could be closed in the future and there have apparently been few upgrades or enhancements to the facility or its operating environment in the last several years. This concern has apparently been felt for the last few years. As such, we recommend the County assess the future of the OHCC and then communicate to its employees the plan and their respective roles.

Response: We concur with the above comments and the recommendations are being implemented.

C. Findings and Questioned Costs - Major Federal Award Programs Audit

NONE

SHELBY COUNTY, TENNESSEE

Schedule of Prior Year Audit Findings
June 30, 2003

There were no prior year audit findings.