

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

Findings and recommendations as a result of our examination are presented below. We reviewed these findings and recommendations with management to provide an opportunity for their response. Officials offered oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

OFFICE OF COUNTY CLERK

FINDING 03.01 **THE OFFICE HAD A CASH SHORTAGE OF \$16,835.93 RESULTING FROM IMPROPRIETIES IN ISSUING AUTOMOBILE LICENSE RENEWAL DECALS**

(Material Weakness in Internal Control Under Government Auditing Standards)

As of June 30, 2003, the Office of County Clerk had a cash shortage of \$5,032.20 that subsequently increased to \$16,835.93 as of October 24, 2003.

The county clerk informed us of improprieties involving automobile license renewal transactions that were processed by an employee at the office's drive-through location. This employee had entered motor vehicle registration renewals into the computer system, printed the required paperwork, issued a renewal decal to the customer, and deleted the transaction from the computer system. However, the office's internal control system has a software application that enabled us to identify the transactions that had been entered into the computer system and subsequently changed or deleted. Personnel of the County Clerk's Office assisted us in examining these deleted transactions to determine their propriety. Although the transactions had been deleted, most of the registration decals issued on these transactions could not be located in the office and could not be found on any future renewal transactions the office issued. From this review, we were able to identify 652 registration decals that were not accounted for. The value of these 652 renewal transactions for decals that could not be accounted for has been reflected as a cash shortage (\$16,835.93).

The employee involved in this cash shortage resigned, the county clerk notified law enforcement personnel about the missing funds, and the employee was subsequently charged with theft.

Numerous internal control deficiencies that allowed this shortage to occur and go undetected for an extended time are discussed in finding 03.02.

RECOMMENDATION

Sevier County officials should take steps to liquidate the cash shortage of \$16,835.93, including filing on the county's employee blanket bond.

FINDING 03.02

**THE OFFICE HAD DEFICIENCIES IN CONTROLS OVER
AUTOMOBILE LICENSES AND DECALS**

(Material Weakness in Internal Control Under Government Auditing
Standards)

We noted the following internal control deficiencies concerning the office's issuance of vehicle licenses and decals:

- A. The office's computer software had the ability to prepare a report showing all transactions deleted from the system, and the office printed this report weekly. However, these reports were not reviewed. If the office had reviewed these reports and attempted to determine the disposition of the deleted transactions, the cash shortage discussed in the previous finding would have been discovered sooner, and the amount of the shortage would have been less.
- B. The office did a physical inventory of vehicle license plates and decals two to three times a year. This physical inventory was reconciled with the perpetual inventory records; however, the perpetual inventory was not accurate because the decals deleted from the system were never accounted for. The office also did not maintain any detailed records of the plates and decals that were assigned to each clerk.
- C. Office personnel did not analyze the volume of transactions at the Courthouse Annex. The decreased level of activity at this location should have been an indication that something unusual was occurring.

RECOMMENDATION

As part of the daily checkout, the office should print and review the report each day that list deleted transactions. One employee should be responsible for reconciling these reports with actual deleted transactions and accounting for deleted plates or decals. The office should maintain a current inventory of all plates and decals in the office or at any of its satellite locations, and a physical count of this inventory should be done monthly and reconciled with the daily renewal and Motor Vehicle Department checkouts that list the inventory used. Furthermore, the office should closely monitor the activity of the satellite offices to determine if any significant variations have occurred.

OFFICE OF COUNTY EXECUTIVE

FINDING 03.03 **THE OFFICE DID NOT ALWAYS ISSUE PURCHASE ORDERS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The County Executive's Office did not issue purchase orders for some purchases. Purchase orders are necessary to control who has purchasing authority for the county and to document purchasing commitments.

RECOMMENDATION

The County Executive's Office should issue purchase orders for all applicable purchases.

FINDING 03.04 **THE EMPLOYEE HEALTH INSURANCE FUND HAD A NET ASSETS DEFICIT**
(Internal Control – Reportable Condition Under Government Auditing Standards)

At June 30, 2003, the Employee Health Insurance Fund had a net assets deficit of \$35,382. This deficit resulted from the reflection of the liability for unpaid claims at June 30, 2003, as required by generally accepted accounting principles. This liability of \$228,737 exceeded available funding. We made adjustments to establish interfund receivables and payables between the General, Solid Waste/Sanitation, Highway, and General Purpose School Funds and the Employee Health Insurance Fund to liquidate this deficit.

RECOMMENDATION

The County Commission should appropriate adequate funding for the Employee Health Insurance Fund.

FINDING 03.05 **EXPENDITURES EXCEEDED APPROPRIATIONS IN THE DRUG CONTROL FUND**
(Noncompliance Under Government Auditing Standards)

Expenditures exceeded appropriations approved by the Board of County Commissioners in the Drug Control Fund by \$15,371. Section 5-9-401, Tennessee Code Annotated, requires all uses of funds to be appropriated by the County Commission.

RECOMMENDATION

Expenditures should be held within appropriations approved by the Board of County Commissioners.

OFFICE OF JUVENILE COURT CLERK

FINDING 03.06 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICE OF JUVENILE COURT CLERK**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among the official and employees in the Office of Juvenile Court Clerk. The official and employees responsible for maintaining the accounting records in this office were also involved in receipting, depositing, and/or disbursing funds. We realize that due to limited resources and personnel, management may not be able to properly segregate duties among employees. However, our professional standards require that we bring this matter to the reader's attention in this report.

OTHER FINDING AND RECOMMENDATION

FINDING 03.07 **A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Sevier County officials had not adopted a central system of accounting, budgeting, and purchasing. Establishing a central system would significantly improve internal controls over the accounting, budgeting, and purchasing processes.

RECOMMENDATION

Sevier County officials should consider adopting the County Financial Management System of 1981 or a private act which would provide for a system of central accounting, budgeting, and purchasing covering all county departments.