

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 GENERAL SESSIONS COURT CLERK

FINDING 04.01 **THE OFFICE OF GENERAL SESSIONS COURT CLERK HAD A CASH SHORTAGE OF \$2,616.00 AS OF AUGUST 31, 2004**
(Internal Control – Material Weakness Under Government Auditing Standards)

The Office of General Sessions Court Clerk had a cash shortage of \$2,616 as of August 31, 2004. The shortage resulted from the failure to account for \$1,271.25 in inappropriately voided receipts and \$1,344.75 of money orders that were deposited to the office account but not receipted. The general sessions court clerk informed us that she had discovered improprieties regarding certain cash collections. Some receipts for cash collections were recorded as void on the accounting records; however, the customers or the probation department had the originals of these receipts, which were not voided. The clerk later notified us of additional improprieties with money orders that were deposited to the office bank account but were not receipted. The District Attorney General's Office and the Tennessee Bureau of Investigation were informed about this matter, and an employee of the office was terminated because of these improprieties. As discussed below, the amount of the shortage could be significantly larger than the amount identified. We will continue to examine the office to determine if an additional shortage should be recognized, and we will communicate the results of our work in a future report.

The following are details of the improprieties:

- A. We found four instances in which receipts for cash collections had been recorded as void on the accounting records, but the original receipts were later produced by the customer or the Probation Department. These four receipts totaled \$1,271.25 and are included in the cash shortage.
- B. There were other instances where receipts were voided and we have not determined the appropriateness of those transactions. Most voided entries recorded on the accounting system were made to correct errors such as the payment type or the case number. In such instances, another receipt was issued in the same amount as the original, with the corrected information. However, we noted that some receipts were voided for cash payments without corresponding new receipts being issued. Although the propriety of these entries is suspect, we have included in the cash shortage only those entries for which the customer or the Probation Department produced original receipts. The ultimate disposition of these voided receipts for cash payments could result in an additional cash shortage.

- C. Several individuals called the General Sessions Court Clerk's Office to complain that they had received notifications that their traffic citations had not been paid. Records of the office did not reflect any receipts for these cases; however, these individuals presented proof that they had made payments to the clerk's office for these citations, including copies of their money orders that reflected an endorsement with the clerk's stamp. We noted nine instances in which money orders were deposited to the office bank account without any receipts being written for those payments. It appears that these unreceipted money orders were deposited to the clerk's account, and an equal amount of cash, for which receipts had been written, was not deposited and has not been accounted for. These nine money orders totaled \$1,344.75 and are included in the cash shortage.
- D. The following internal control weaknesses aided in the concealment of the cash shortage:
1. One office employee was assigned the task of handling all traffic citations, including the investigation and resolution of any complaints received from customers. The failure to segregate duties gave this employee the opportunity to incorrectly record transactions and inappropriately resolve any questions that arose, without involvement by other office employees.
 2. Adequate supervision was not provided over the voided receipt function. Receipts were sometimes voided with the explanation of "wrong case" or "wrong type" without new receipts being issued to replace the incorrect receipts. Consequently, this allowed cash to be removed from the office and receipt totals to be manipulated to agree with amounts deposited.

The identified cash shortage at June 30, 2004, was \$1,014. This cash shortage increased to \$2,616 as of August 31, 2004. The potential for a material amount of other unreceipted collections exists. Determining the extent of the cash shortage will require obtaining from the bank copies of all deposits made to the office account and comparing the individual checks and money orders listed on these deposit records with receipts issued by the office.

RECOMMENDATION

Officials should take steps to liquidate the cash shortage of \$2,616, including filing a claim against the employee blanket bond. More oversight should be provided for the handling of customer complaints, and the individual responsible for recording receipts should not handle the complaints about collections without involvement of another employee. Also, more oversight should be provided for recording voided receipt entries. An individual other than the one making the entry to void the receipt should be required to review and approve the entry and should also ensure that an adequate explanation is provided for the voided entry.

To determine the extent of the cash shortage, the clerk should request detailed deposit entries from the bank and compare the receipts issued by the office with the individual items deposited to the bank. Our office will assist the clerk in making that comparison and will include any additional shortage discovered in a future report.

FINDING 04.02 THE OFFICE HAD WEAKNESSES IN LOG-IN CONTROLS FOR ITS COMPUTER SYSTEM
(Internal Control – Reportable Condition Under Government Auditing Standards)

The General Sessions Court Clerk’s Office had weaknesses in the log-in controls for its computer system. One employee logged in to each terminal of the computer system at the start of the day, and this log-in name was not changed if another employee worked from this terminal. Consequently, it is difficult to determine each employee’s responsibility for writing receipts.

RECOMMENDATION

The office should implement log-in controls that would require each employee to log in to the system to receipt monies. Assigning responsibility for individual employees’ work is necessary for a clear and workable internal control system.

AMBULANCE SERVICE DEPARTMENT

FINDING 04.03 THE SEVIER COUNTY AMBULANCE SERVICE COULD NOT ACCOUNT FOR COLLECTIONS OF \$3,785.23
(Internal Control – Material Weakness Under Government Auditing Standards)

The Sevier County Ambulance Service could not account for collections of \$3,785.23 that were receipted December 11, 2003. These collections consisted entirely of checks and money orders made payable to the Sevier County Ambulance Service and had not been deposited or otherwise accounted for. Our investigation revealed that those checks and money orders never cleared the various payers’ bank accounts, and management is currently working to obtain replacement checks or money orders from the payers. As of the date of this report, \$899.90 of these collections have been recovered by some payers’ reissuance of checks.

Ambulance Service personnel stated to us that at the end of the day all collections are placed in a deposit bag and locked in the office safe until they are taken to the Trustee’s Office for deposit. However, the Ambulance Service has no record that these funds were ever taken to the Trustee’s Office and the trustee has no record of the collections for that day ever reaching her office. These missing funds went undetected by the Ambulance Service personnel because collections were never reconciled with receipts written by the Trustee’s Office. Such a reconciliation would have allowed the missing collections to be detected and corrective action to be taken in a more timely manner.

RECOMMENDATION

The Ambulance Service should maintain proper controls over collections, including reconciling trustee’s receipts with the Ambulance Service’s collection records. Management should also continue their efforts to recover the remaining missing collections.

OFFICE OF COUNTY CLERK

FINDING 04.04 THE CASH SHORTAGE FROM THE PRIOR-YEAR AUDIT HAD NOT BEEN LIQUIDATED
(Noncompliance Under Government Auditing Standards)

The prior-year audit report of Sevier County reflected a cash shortage of \$16,835.93 in the Office of County Clerk. This cash shortage remains unpaid as of June 30, 2004. Subsequent to June 30, 2004, a former employee of the office entered into a plea agreement to charges of theft and agreed to pay \$300 per month until the shortage is repaid. The \$16,835.93 is reflected as a cash shortage in the financial statements of this report.

RECOMMENDATION

Sevier County officials should monitor payments and ensure that the cash shortage of \$16,835.93 is liquidated.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 04.05 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.

FINDING 04.06 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.