

## **PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS**

Findings and recommendations as a result of our examination of Hamblen County are presented below. We reviewed these findings and recommendations with management to provide an opportunity for their response. The written responses of the county mayor (formerly titled county executive), director of finance, director of schools, trustee, county clerk, circuit and general sessions courts clerk, clerk and master, and sheriff are paraphrased in this report. Other officials offered oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

### **OFFICE OF SHERIFF**

During June 2003, the sheriff notified us that he had dismissed an employee (a sergeant in the jail who performed all jail bookkeeping duties, hereinafter referred to as the jail bookkeeper) for misappropriating prisoners' personal funds. He also stated that this employee had accounting duties over the jail commissary account operations, and he was concerned about the accountability of commissary funds. This employee had performed these duties since approximately April 2002. We reviewed certain controls over the personal effects of prisoners and prisoners' funds for the year ended June 30, 2003, and we audited the commissary operations for the year ended June 30, 2003. Our review and audit revealed a cash shortage of \$14,326.40, serious control weaknesses in accounting for prisoners' personal effects and funds, and serious internal control weaknesses over the administration of office funds.

Because of deficiencies and inadequate controls presented in the following findings, the scope of our audit was not sufficient to enable us to determine the propriety of financial operations of the Sheriff's Office (included in the Constitutional Officers – Agency Fund of Hamblen County).

These findings have been presented to the district attorney general.

#### **FINDING 03.01      **THE SHERIFF'S OFFICE HAD A CASH SHORTAGE OF \$14,326.40 ON JUNE 30, 2003****

(Internal Control – Material Weakness Under Government Auditing Standards)

The Sheriff's Office had a cash shortage of \$14,326.40 on June 30, 2003. This cash shortage resulted from commissary funds that were not accounted for (\$12,527.90) and from receipts that were issued from an unofficial receipt book without being accounted for (\$1,798.50). Findings 03.02 and 03.03 contain additional details concerning the cash shortage.

Because of the lack of auditable records and lack of controls discussed in the following findings, the cash shortage could be significantly larger than the amount detected and reported here. It should also be noted that the same jail bookkeeper who maintained the commissary records was also responsible for receiving and handling the prisoners' personal cash and effects as they entered and exited the facility. As discussed in Finding 03.04, the Sheriff's Office continues to investigate the disposition of prisoners' personal property.

RECOMMENDATION

Hamblen County officials should take steps to liquidate the cash shortage of \$14,326.40, including filing on the county's employee blanket bond.

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FINDING 03.02      **INTERNAL CONTROL DEFICIENCIES, POOR RECORDS, AND INADEQUATE PROCEDURES IN COMMISSARY OPERATIONS ALLOWED THE CASH SHORTAGE TO OCCUR AND NOT BE DETECTED PROMPTLY**

(Internal Control – Material Weakness Under Government Auditing Standards)

The jail commissary had a cash shortage of \$12,527.90 at June 30, 2003. Funds in the commissary bank account were not sufficient to cover liabilities of the commissary operation by the amount of the cash shortage (\$12,527.90) on that date.

Commissary funds collected from prisoners are held in a separate bank account and are used to pay the commissary contractor (Swanson's) for items prisoners purchase. Prisoners' commissary funds are also used to pay certain amounts the prisoners owe the county, such as medical expenses. If accounted for properly, balances in the commissary bank account would equal liabilities of the commissary operation (amounts due to prisoners upon release, amounts due the commissary contractor for sales to prisoners, amounts due the county, etc.).

At June 30, 2003, the commissary bank account was overdrawn by \$773.59, while net liabilities required to be paid from commissary collections were \$11,754.31, resulting in the cash shortage of \$12,527.90 (\$773.59 + \$11,754.31).

The shortage is further analyzed below:

Balances Payable from Commissary Collections, June 30, 2003:	
Due to Prisoners — Account Balances	\$ 7,348.78
Due to Commissary Contractor (Prisoner Sales and Sales Taxes)	1,526.95
Due to County — Funds Due Hamblen County Paid to an Inmate	417.00
Due to County from Prisoner Funds (Medical and Other Expenses)	648.99
Due to County for Funds Borrowed by Commissary in January 2003	2,000.00
Less: Due from County for Bank Service Charges	<u>(187.41)</u>
Net Balances Payable from Commissary Account, June 30, 2003	<u>\$ 11,754.31</u>
Actual Commissary Bank Account Balance, June 30, 2003 (overdraft)	\$ (773.59)
Cash Shortage June 30, 2003	<u>\$ 12,527.90</u>

Improprieties involving deposits and other internal control deficiencies that led to the shortage are discussed below:

### Improprieties Involving Deposits

In many instances, collections were credited to prisoners' accounts on the accounting records but were never deposited to the bank account. Also, deposits recorded on the accounting records did not match actual deposits made to the bank.

During July and August 2002, it appeared that the jail bookkeeper made efforts to match collections recorded with deposits made to the bank. However, during those months the bookkeeper recorded two deposits totaling \$1,548.03 on the commissary accounting records that never appeared on the bank statements. Also, during those months, the bookkeeper posted two additional entries totaling \$1,221.00 to the records to record shortages in the cash drawer. If officials had exercised proper oversight of the commissary, they would have recognized these two entries as signals of serious problems in the commissary operation. However, as indicated in this report, these discrepancies went unnoticed, and the irregularities continued for an additional ten months.

After August 2002, the jail bookkeeper stopped posting deposits to the accounting records on a regular basis. Although deposits were still made to the bank, the deposits were less than the actual collections of the office. Since the deposits were not posted to the accounting records and were not matched to collections recorded, bank balances soon became depleted, and funds were not available to pay liabilities of the commissary.

Because of the lack of funds in the bank account, amounts owed to the commissary contractor were not paid when due. Payments totaling \$10,789.34 were paid to the contractor with ten separate checks dated January 29, 2003. The amounts paid were for various days of sales as far back as October 21, 2002. A deposit was made to the account on February 3, 2003, for \$11,400, which included \$10,353 cash and money orders totaling \$1,047. We have been unable to determine the actual source of cash used to make this deposit. The ultimate determination of the source of this deposit could result in an additional cash shortage.

### Internal Control Deficiencies

Our audit revealed the following:

- A. Duties involving commissary accounting functions were not segregated adequately. The jail bookkeeper was responsible for issuing receipts, posting the accounting records, making deposits, writing checks, and reconciling the bank account. Allowing one employee to perform all of these duties increases the opportunity for fraud and the risk of misappropriation of funds.
- B. Collections were not deposited in compliance with the three-day deposit law, and collections were not deposited intact. As previously noted, many collections were never deposited. Section 5-8-207, Tennessee Code Annotated, requires that all funds be deposited to the office bank account within three days of collection.

- C. The accounting records were not posted accurately. On two occasions, the commissary vendor made large adjustments to the office's commissary accounting records in an attempt to correct entries made by the jail bookkeeper.
- D. The checking account balance was not reconciled with the cash control records.
- E. In January 2003, over 100 checks totaling \$2,985.45 representing funds due prisoners were erroneously marked on the accounting system as having cleared the bank and were removed from the outstanding check list when in fact they were still outstanding. We have increased the prisoner account balances for these outstanding checks.
- F. Some cancelled checks were not available for our review. Of the checks available for review, eight totaling \$4,355.12 reflected the endorsement of the jail bookkeeper, along with an endorsement purported to be that of the payee. Because of the numerous irregularities noted in this finding, we could not determine the propriety of disbursements from the account.
- G. In January 2003, the office borrowed \$2,000 from the county to supplement commissary operations. If accounted for properly, the commissary operation would have been self-sufficient and would have required no supplement from the county. We have reflected these borrowed funds (\$2,000) as due Hamblen County, thereby increasing the cash shortage. It should be noted that the Sheriff's Office borrowed an additional \$2,000 from the county in July 2003 to supplement commissary operations.
- H. Many checks were issued when the balance in the checking account was not sufficient to cover them, resulting in bank service charges of \$415.01 being assessed to the commissary account. We have included the amount of these insufficient funds service charges in the cash shortage.
- I. A check in the amount of \$417.00 was erroneously paid to an inmate upon his release. System records did not reflect that the prisoner had any funds in his prisoner account balance; therefore, the check was actually paid from funds due Hamblen County. We have included these diverted funds in the amount shown as due to Hamblen County and as part of the cash shortage.

## CONCLUSION

The jail commissary had serious internal control deficiencies. These internal control deficiencies allowed the cash shortage of \$12,527.90 to occur and be undetected for several months. Because records were not adequately maintained and controls were inadequate, the actual shortage could be larger than the amount identified.

## RECOMMENDATION

The sheriff should take steps to improve the internal controls over commissary operations and to ensure that the funds are accounted for properly. Duties should be segregated to the extent possible so that one person does not perform all duties associated with accounting for

the collections. All collections should be deposited within three days of collection, and all deposits should be posted accurately to the accounting records. Bank statements should be reconciled with the accounting records monthly, and checks should not be issued if funds are not available. Furthermore, adequate oversight should be provided by an independent person to ensure that the procedures are performed adequately.

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**FINDING 03.03      **THE JAIL BOOKKEEPER ISSUED UNOFFICIAL RECEIPTS, AND UNOFFICIAL RECEIPTS TOTALING \$1,798.50 WERE UNACCOUNTED FOR****

(Internal Control – Material Weakness Under Government Auditing Standards)

A generic receipt book covering the period June 6, 2003, through June 20, 2003, was found in the booking office. This receipt book contained eight receipts totaling \$1,598.50 written for funds received from prisoners. The receipts, signed by the jail bookkeeper, were purportedly collected for various court fees, charges, and fines; however, these funds were never remitted to the court or otherwise accounted for. Therefore, the amount of these receipts has been included in the cash shortage total noted in Finding 03.01.

Also, when one former inmate was arrested for not paying her court charges, she produced a receipt for \$200 signed by the jail bookkeeper. The receipt number on this receipt was not one of the numbered sequence contained in the book found in the office. Therefore, this receipt of \$200, dated January 17, 2003, could not be accounted for and has been added to the cash shortage. The example of this receipt leads us to conclude that the jail bookkeeper may have issued additional unofficial receipts of this type and that the actual cash shortage could be much larger than the amount detected.

**RECOMMENDATION**

Collections should be receipted into official receipt books, and all funds receipted should be accounted for properly on official accounting records and deposited into office bank accounts.

**MANAGEMENT'S RESPONSE TO FINDINGS 03.01, 03.02, AND 03.03 – SHERIFF**

I have segregated the duties associated with the commissary. As the funds come into the jail, they are entered in the inmate's commissary account. A second officer will make the deposits of these funds to the bank within three days of collection. Bank statements and ledgers will then be balanced by an independent person from the County Mayor's Office. A periodic check of this and all accounts will be done weekly by the administrative lieutenant to ensure that all accounting records are posted accurately.

All receipt books at the Sheriff's Office are official, numbered receipt books with the office letterhead. The receipt book in question was brought to the office by the commissary bookkeeper without permission from the supervisors.

When the Swanson's Company became the vendor for the commissary, the company assured me that it did monthly audits of the accounts and that if any improprieties occurred, the company would notify me.

The commissary is in the process of being eliminated. There have been no funds coming in to the jail as of January 26, 2004, and the closing of the commissary will be finalized on February 8, 2004, when the contract expires.

The bookkeeper who was in control of the commissary has been removed from duty. The district attorney general was made aware of this incident the day it was discovered.

Hamblen County will file for the shortage with the county's employee blanket bond.

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FINDING 03.04

**THE OFFICE HAD SERIOUS CONTROL WEAKNESSES IN ACCOUNTING FOR PRISONERS' PERSONAL EFFECTS AND FUNDS**

(Internal Control – Material Weakness Under Government Auditing Standards)

An internal control weakness in the office's booking system allowed documents noting prisoners' personal effects and funds in their possession at the time of booking to be changed later in the system without any record or audit trail of the change. This weakness provided an opportunity for prisoner funds to be misappropriated.

In the computerized system used to account for prisoners' personal effects and funds, jailers listed the items and funds on a sheet that was printed and signed by both the prisoner and the jailer(s). This sheet was then put into an envelope along with the items and funds and was locked in the jail booking office. The jail bookkeeper then deposited the personal funds in the commissary account if it was anticipated the prisoner would be in jail for more than a few days. If it was anticipated the prisoner would be released soon, the funds would remain in the office and would be returned to the prisoner upon release. The Sheriff's Office presented us a copy of a personal property receipt in the amount of \$1,071 for which the funds could not be located and which resulted in the termination of the jail bookkeeper. Because of the sheriff's continuing investigation, we have not included amounts for unaccounted for prisoners' personal property in the cash shortage reported in this report.

RECOMMENDATION

Officials should develop controls for the booking system that would prevent changes to original information entered into the system without a record or trail of the changes being documented in the system. Also, an additional copy of the original signed copy of the prisoners' personal effects and funds sheets should be filed with an employee outside the control of the employee who handles the actual personal effects and funds of the prisoners.

## MANAGEMENT'S RESPONSE – SHERIFF

This problem has been corrected by the booking officer making a second copy of the inmates' property list. All property is verified by another officer on duty and signed by both officers. This copy is secured in an area attainable only by the chief jailer, who will compare it to the inmates' file on a periodic basis and when inmate property is in question. All inmate property will be inventoried as taken from the inmate and recorded by video in the booking room.

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### FINDING 03.05      **THE OFFICE HAD WEAKNESSES IN INTERNAL CONTROLS OVER OTHER CASH COLLECTIONS, AND ACCOUNTING RECORDS WERE NOT MAINTAINED PROPERLY** (Internal Control – Material Weakness Under Government Auditing Standards)

Our audit revealed the following deficiencies over cash collections:

- A. Receipts were not issued for some collections of the office, as required by Section 9-2-103, Tennessee Code Annotated. Checks collected for telephone commissions, commissary commissions, and seizures were taken directly to the Trustee's Office. The Sheriff's Office did not issue receipts for these funds and did not deposit these funds to the sheriff's bank account.
- B. The office did issue receipts for fees received for service of process and miscellaneous collections. However, these collections were not deposited to the office bank account and were not disbursed by prenumbered check. Instead, these collections were remitted directly to the county trustee in the form in which they were received.
- C. None of the collections noted in A. and B. were recorded in the office's cash journal or a ledger.
- D. Collections related to a work release program were receipted, recorded on a ledger, and deposited to a bank account maintained by the Sheriff's Office. However, this ledger was not reconciled with the bank account on a monthly basis.

## RECOMMENDATION

Prenumbered receipts should be issued for all collections at the time of collection, and all collections should be deposited to and disbursed from the office bank account, as required by state statute. Furthermore, all financial transactions should be recorded in a cash journal or ledger and should be reconciled with related bank activity on a monthly basis.

MANAGEMENT'S RESPONSE – SHERIFF

The sheriff stated the following:

- A. The telephone company is now sending the checks for the telephone commissions directly to the Trustee's Office.
- B., C. An office bank account has been opened for all funds that come into the Sheriff's Office. These funds will be receipted and documented in the cash journal.
- D. A bookkeeper who is separate from any of the persons receiving the monies coming into the office reconciles the ledgers and bank statements monthly.

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FINDING 03.06      **DEFICIENCIES WERE NOTED IN THE OFFICES BOOKING PROCEDURES**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

We were unable to determine if the Sheriff's Office submitted all arrestees' fingerprints to the Tennessee Bureau of Investigation (TBI), as required by Section 84-115, Tennessee Code Annotated. The office was unable to provide supporting documentation to verify that all arrestees were fingerprinted and that the fingerprints were submitted to the TBI.

RECOMMENDATION

The Sheriff's Office should maintain supporting documentation to verify that fingerprints are taken for all arrestees and submitted to the TBI, as required by state statute.

MANAGEMENT'S RESPONSE – SHERIFF

Each day the chief jailer will check a log of all arrests, ensure that fingerprints were taken, and ensure that a copy is in the inmates' jail file.

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**OFFICES OF COUNTY EXECUTIVE AND DIRECTOR OF FINANCE**

FINDING 03.07      **THE OFFICE HAD DEFICIENCIES IN PURCHASING PROCEDURES**  
(Internal Control – Material Weakness Under Government Auditing Standards)

The Finance Department was established by an agreement between the county executive and the County Commission (Hamblen County Government Financial Management System

Policies and Procedures). We noted the following deficiencies concerning the office's purchasing process:

- A. The director of finance did not implement a purchasing system in accordance with established policies and procedures. The failure to implement a purchasing system subjected the county to the possibility of unauthorized purchases and weakened controls over the budgeting and accounting process. According to the Hamblen County Government Financial Management System, Article XVIII(a), "The director or a deputy appointed by the director shall serve as the county purchasing agent. The director shall develop policies and procedures for implementing an economical and efficient purchasing system." This section further outlines the director's responsibilities concerning purchasing, including the responsibility to issue purchase orders and to verify budget appropriations before authorizing a purchase.
- B. An employee of the Finance Department had been appointed to serve as the county purchasing agent. However, the agent did not maintain control over the purchase orders. Blank purchase order forms were distributed to the various department heads for the department heads to fill out.
- C. Purchase orders were not returned to the Finance Department until the departments received invoices for payment.

To have proper controls over purchasing and budgeting, the department must have a central approving authority for the purchase orders, and purchase requests must be checked against available appropriations on the accounting records before a purchase order is issued. It is also necessary to record purchase orders on the accounting system when they are issued to encumber the related amount of appropriations.

#### RECOMMENDATION

The director of finance should develop and implement policies and procedures for a purchasing system that ensures adequate controls over purchasing goods and services for the county. Before obligating the county to any purchase, the director of finance or appointee should verify budget appropriations. Furthermore, purchase orders should be approved by a central authority before the purchase is made and recorded on the accounting records when issued to encumber the related amount of appropriations.

#### MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE AND DIRECTOR OF FINANCE

Hamblen County has not changed the procedure for "purchasing" since the implementation of the Hamblen County Government Financial Management System Policies and Procedures due to several concerns that affect the Finance Department and the County Mayor's Office.

The first concern is staffing. The finance director reviewed the policies and procedures when hired and contrasted them with the current situation. The sheer volume of paperwork required to implement the policies and procedures would require another person in the office. At the council of the county mayor, the finance director postponed bringing the proposed policies and procedures to the County Commission until June 2003.

The second concern we have is legality. Hamblen County has not passed a private act (the 1981 or 1957 Acts). The Financial Management System adopted by the County Commission is accepted by all department heads/elected officials, but there is no law in place that binds them to follow these procedures. We will work to implement the authorization of a single person for all county purchases during the next fiscal year. The implementation of a complete system will be a difficult and lengthy process.

### REBUTTAL

The county should take immediate steps to implement an effective accounting and purchasing system. This finding, as well as many of the following findings involving the Finance Department, can be attributed to the office's lack of adequate controls over the accounting and purchasing process.

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**FINDING 03.08**      **DEFICIENCIES WERE NOTED IN THE MAINTENANCE OF THE GENERAL LEDGER**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Finance Department did not implement policies and procedures to properly maintain the general ledger. The following deficiencies were noted:

- A. The Finance Department did not maintain the general ledger accounts in accordance with the County Uniform Chart of Accounts. Section 5-8-501, Tennessee Code Annotated (TCA), provides for Comptroller of the Treasury to develop minimum standards to be used by all county offices and agencies. These standards require that counties conform to the County Uniform Chart of Accounts.
- B. The department did not reconcile the general ledger with the trustee monthly. Section 9-2-138(a), TCA, states, "The administrative officers and employees shall reconcile their respective fund accounts with the records of the trustee, and shall make a report at the end of each month showing the condition of the respective fund accounts." Instead, the trustee reconciled the Finance Department's general ledger with the trustee's records.
- C. Receivables and payables were not reflected accurately on the general ledger. Current-year receivables were not reflected at all, and account balances for payables were materially misstated. The presentation of receivables on the financial statements required us to make numerous audit adjustments that were presented to and approved by the finance director. The presentation of payables on the financial statements required that the finance director prepare an updated list of payables for our review and that the account balances be adjusted for material errors. To maintain adequate accounting and budgeting controls, the department must record receivables and payables accurately on the general ledger.

## RECOMMENDATION

The director of finance should maintain the general ledger in accordance with the Uniform Chart of Accounts and should reconcile the general ledger with the trustee's records each month. During the year-end close, the finance director should ensure that all receivables and payables are presented properly.

## MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE AND DIRECTOR OF FINANCE

Hamblen County recognizes that there are three separate issues with the general ledger, two of which have been corrected since June 30, 2003:

- A. The first issue is the Uniform Chart of Accounts. Unfortunately, Hamblen County had never been told that the Uniform Chart of Accounts is a firm guideline, and the county has no flexibility within the account numbers. Using the advice of County Audit, we have renumbered our accounts to properly reflect the County Uniform Chart of Accounts. The flexibility we needed for accounts was attained through the use of the location codes and program codes to tailor the accounts for our needs.
- B. Next, Finance Department staff have reconciled the general ledger with the trustee since June 30, 2003.
- C. The last issue deals directly with the purchasing agent. We do not have purchasing centralized and controlled, so we cannot post the accounts payable at year-end until sufficient time has passed to receive confirmation of the county's liability. Until the purchasing issue is resolved, this concern will be ongoing. We are in the process of rearranging our staff load and writing the policies and procedures to govern this area of the county's finances.

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## FINDING 03.09

### **THE OFFICE HAD DEFICIENCIES IN CONTROLS OVER TRAVEL AND CREDIT CARD USE**

(Internal Control – Reportable Condition Under Government Auditing Standards)

The following deficiencies were noted in controls over travel and credit card use:

- A. Receipts for meals paid by credit card(s) were not itemized. The failure to obtain itemized receipts subjects the county to unauthorized expenditures.
- B. The Finance Department routinely paid credit card charges past their due date, thus incurring unnecessary late charges.

## RECOMMENDATION

Itemized receipts should be included for all requests for reimbursement, and credit cards should be paid in a timely manner to avoid unnecessary charges to the county.

## MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE AND DIRECTOR OF FINANCE

We require documentation for all purchases and pay the credit cards late because of the required documentation before payment. This finding we believe ties to the purchasing issue again, and we will work to mitigate these problems as much as we can.

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## FINDING 03.10

### **THE OFFICE HAD DEFICIENCIES IN BUDGETING PROCEDURES**

(Material Noncompliance Under Government Auditing Standards)

The following budgeting deficiencies were noted during our review:

- A. The county did not pass a budget for the Drug Control Fund and the Other Special Revenue Fund. The Drug Control Fund had expenditures and other uses of \$90,817 and the Other Special Revenue Fund had expenditures and other uses of \$56,458 that were not appropriated. Section 5-9-401, Tennessee Code Annotated (TCA), requires all funds from whatever source derived that are to be used in the operation and respective programs to be appropriated.
- B. Certain transfers of appropriations between major expenditure categories were posted to the accounting records that were not approved by the County Commission. Section 5-9-407, TCA, requires all transfers of appropriations between major categories to be approved by the County Commission. It should be noted that the county's budgeting policies provide for the finance director to post certain transfers of appropriations between major categories without County Commission approval. However, this policy appears to conflict with the aforementioned statute. The county has no authority to adopt policies that circumvent state statutes. Therefore, the budget appropriations reflected in the financial statements of this report represent the original budgets approved by the County Commission plus any amendments that could be traced to the minutes of the County Commission.
- C. Expenditures and encumbrances exceeded appropriations approved by the County Commission by amounts ranging from \$737 to \$296,264 in various major appropriation categories of the General Fund.

## RECOMMENDATION

The County Commission should appropriate all applicable funds of the county. Expenditures should be held within appropriations approved by the County Commission,

and documentation should be maintained to support any adjustments made to the budget. The county's policies and procedures should be reviewed and revised so that their provisions do not conflict with state statutes.

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE AND DIRECTOR OF FINANCE

The officials stated the following:

- A. We were not told that we were required to pass a budget for special funds that did not use taxpayer dollars from the county. We have rectified this oversight and will approve these budgets on a continual basis.
- B. In the transfer of appropriations, we have always adhered to the policy stated at the beginning of the budget document. We will make adjustments to our county policy so that it does not conflict with the state statute. Apparently, there had been some adjustment in the state law since the local resolution was adopted.
- C. Our procedure has always been to post adjustments after the end of the period once we have established what payables should be. Unfortunately, we are not able to know the extent of payables until after year-end. We will not be able to accomplish this until we have proper controls over purchasing, and that issue has already been discussed.

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FINDING 03.11      **THE SOLID WASTE/SANITATION FUND HAD AN UNDESIGNATED FUND DEFICIT**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The Solid Waste/Sanitation Fund had an undesignated fund deficit of \$205,578 on June 30, 2003. This fund deficit resulted from expenditures that exceeded available funding. Throughout the year, budget amendments were approved by the County Commission increasing appropriations and reflecting the funding source as beginning fund balance. However, these increases to appropriations exceeded the actual available fund balance. Management expects the deficit to be liquidated through a 21-cent increase in the property tax rate for the Solid Waste/Sanitation Fund approved for the 2004 fiscal year budget.

RECOMMENDATION

As operations progress in the 2004 fiscal year, the Solid Waste/Sanitation Fund should be monitored to ensure that the fund deficit is liquidated. Expenditures that exceed actual available funding should not be incurred, and amendments increasing appropriations over the total available funding should not be made.

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE AND DIRECTOR OF FINANCE

This fund borrowed significant dollars from the County Wide Debt Fund in anticipation of the County Commission either raising property taxes or implementing a user fee to take care of the deficit in this fund. The property tax rate was increased 21 cents, and the fund is very healthy at this time.

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FINDING 03.12      **TAX ANTICIPATION NOTES WERE NOT RETIRED PRIOR TO THE CLOSE OF THE FISCAL YEAR**  
(Material Noncompliance Under Government Auditing Standards)

The county did not properly retire the following tax anticipation notes prior to the close of the fiscal year:

- A. A tax anticipation note issued for the General Fund and borrowed from a local financial institution was not retired by the close of the fiscal year, as required by Section 9-21-801, Tennessee Code Annotated. The tax anticipation note had a balance of \$252,566 at June 30, 2003. The note was retired subsequent to June 30, 2003.
- B. A tax anticipation note issued for the Solid Waste/Sanitation Fund and borrowed from a local financial institution was retired by the General Debt Service Fund rather than the Solid Waste/Sanitation Fund due to the poor financial condition of the Solid Waste/Sanitation Fund. A “due to other funds” and a “due from other funds” in the amount of \$230,422 are reflected in the Solid Waste/Sanitation Fund and General Debt Service Fund in this report. The balance has not been liquidated as of the date of this report.

RECOMMENDATION

All tax/revenue anticipation notes should be retired by the fund receiving the loan prior to the close of the fiscal year, as required by state statute. Officials should also ensure that the Solid Waste/Sanitation Fund promptly reimburses the General Debt Service Fund for the tax anticipation note and interest paid on its behalf (\$230,422).

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE AND DIRECTOR OF FINANCE

The officials stated the following:

- A. The tax anticipation note for the General Fund was retired ten days after year-end. It came to our attention that we had posted the payment to the general ledger, but not actually wired the transfer. We had a miscommunication between staff members and have preventative measures in place to make sure that this does not happen again.

- B. The Solid Waste/Sanitation Fund did not have the money to close the tax anticipation note until the property tax increase was passed. We will repay the note to General Debt Service Fund when the balance of cash in the Solid Waste/Sanitation Fund is high enough to avoid a deficit.

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**FINDING 03.13**      **THE GENERAL CAPITAL PROJECTS FUND HAD A CASH OVERDRAFT OF \$34,737**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The General Capital Projects Fund had a cash overdraft of \$34,737 at June 30, 2003. The overdraft resulted from issuing checks that exceeded cash on deposit with the county trustee. This overdraft was liquidated subsequent to June 30, 2003, with the receipt of other loan proceeds.

**RECOMMENDATION**

The office should not issue checks that exceed available cash on deposit with the county trustee.

**MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE AND DIRECTOR OF FINANCE**

Loan proceeds had been requested for this amount of overdraft in the payment of these checks. Policies and procedures have been put in place to make sure that there are not more overdrafts in funds of Hamblen County.

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**OFFICE OF DIRECTOR OF SCHOOLS**

**FINDING 03.14**      **DUTIES WERE NOT SEGREGATED ADEQUATELY**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among the official and employees in the Office of the Director of Schools. Employees responsible for maintaining the accounting records were also involved in receipting, depositing, and/or disbursing funds.

**RECOMMENDATION**

The responsibilities of maintaining the accounting records, receipting, depositing, and disbursing funds should be segregated to the extent possible among employees of this office.

MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS

Duties of employees will be redistributed in such a way that employees are not receipting money for the same fund for which they will write checks.

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FINDING 03.15      **DEFICIENCIES WERE NOTED IN THE ISSUANCE OF PURCHASE ORDERS FOR THE TRANSPORTATION DEPARTMENT**

(Internal Control – Reportable Condition Under Government Auditing Standards)

The following deficiencies were noted in the issuance of purchase orders for the school's Transportation Department:

- A.    The Transportation Department issued its own purchase orders. These purchase orders were then submitted to the school's Business Department after goods and services had been received and corresponding payment was due. This procedure circumvented the Business Department's internal control over appropriations that were in place for other office purchases.
  
- B.    Purchase orders issued by the Transportation Department were not numbered. The failure to use numbered purchase orders weakened internal control over the purchasing process and failed to provide assurance that all purchase orders were accounted for properly.

RECOMMENDATION

All purchase orders should be numbered and should be submitted to the Business Department for proper verification of appropriations before the corresponding purchase is made.

MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS

The Transportation Department has been provided procedures to follow for issuing purchase orders through the Business Department.

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## **OFFICE OF TRUSTEE**

### **FINDING 03.16      **THE TRUSTEE DID NOT CHARGE CHECKS TO THE APPROPRIATE FUNDS UNTIL THE CHECKS CLEARED THE FINANCIAL INSTITUTION****

(Internal Control – Reportable Condition Under Government Auditing Standards)

Hamblen County used a checking system for disbursing county funds, as provided by Section 5-8-210, Tennessee Code Annotated. However, the office did not implement the checking system in the manner set forth in this statute, which requires the county trustee to certify that funds are available for checks issued by the various departments and to charge those checks against the appropriate fund upon certification. During the year examined, the trustee did not certify the availability of funds for the checks issued and did not charge the checks to the fund on which they were drawn until the checks were cleared or paid by the financial institution. As a result, the General Capital Projects Fund had a cash overdraft of \$34,737 at June 30, 2003.

Subsequent to June 30, 2003, the trustee began certifying the availability of funds and maintaining a subsidiary ledger of balances by fund. However, the trustee still does not charge the checks to the funds on the accounting system until they are paid by the financial institution. Also, subsequent to June 30, 2003, the cash overdraft was liquidated with the receipt of other loan proceeds.

### **RECOMMENDATION**

The trustee should certify the availability of funds for checks issued by the various departments and should charge all checks against the appropriate funds on the accounting system after certifying that funds are available for checks being issued.

### **MANAGEMENT'S RESPONSE – TRUSTEE**

I acknowledge the facts presented in this finding. We have maintained a subsidiary ledger of balances by fund. I plan to consult with our computer vendor and County Audit's information systems staff to begin monitoring balances by fund using our accounting software.

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### **FINDING 03.17      **INTERNAL CONTROL DEFICIENCIES WERE NOTED RELATING TO CASH COLLECTIONS AND DEPOSITS****

(Internal Control – Reportable Condition Under Government Auditing Standards)

The following weaknesses were noted in controls relating to cash collections and deposits:

- A. The daily check-out procedures for the Trustee's Office did not routinely include printing the control register for each cash collection station. The trustee generated the itemized check list only. Also, the trustee used only one cash drawer for all employees at the courthouse, although there were as many as three stations taking collections. Using a separate cash drawer for each station and printing the control register for each station would improve controls over the daily check-out process and would identify errors more quickly.
- B. The trustee received funds for field line inspections that were never receipted in the Trustee's Office. The trustee deposited these unreceipted funds into a bank account on behalf of the State of Tennessee. The failure to receipt these funds does not allow for an audit trail to ensure that all funds collected are deposited into the State of Tennessee bank account.
- C. The trustee collected city property taxes and issued separate receipts for those collections on loose-leaf receipt stock. Although the receipts were prenumbered, the trustee did not account for the numbered sequence of these receipts. Also, the trustee did not deposit all city property tax collections into the bank account for later distribution to the city. The trustee deposited only the cash portion of the collections into the bank account and took all checks collected to the city. Subsequent to June 30, 2003, the trustee began accounting for the numbered sequences of the receipts issued for the collection of city property taxes; however, checks collected for city taxes are still taken to the city rather than deposited in the trustee's bank account.

#### RECOMMENDATION

Daily check-out procedures should be amended to ensure that deposits are supported properly in regard to the amount of cash and checks by printing the control reports each day. These control reports should be printed for all stations, and each station should have a separate cash drawer. Funds received for field line inspections should be receipted, and all city property tax collections should be deposited for subsequent distribution to the city.

#### MANAGEMENT'S RESPONSE – TRUSTEE

I acknowledge the facts presented in this finding and present the following responses:

- A. The Trustee's Office began printing the control registers for each station as part of our routine check-out procedures once the need was brought to our attention. I will review the individual cash drawer issue and implement a new procedure that is practical for the operation of the office.
- B. The office will begin immediately issuing handwritten receipts for the funds received for field line inspections on behalf of the State of Tennessee. We will continue to deposit the funds into the State of Tennessee bank account.

- C. The office ordered and began using prenumbered, bound receipts to document the receipt of property taxes for the City of Morristown when we learned the loose-leaf receipts were a weakness in our controls. I choose to deliver payments by check directly to the city rather than deposit the funds to a trustee account to avoid receiving a check with insufficient funds. I will begin discussions with the City of Morristown to establish stronger controls in this area.
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FINDING 03.18

**OTHER INTERNAL CONTROL WEAKNESSES OCCURRED FOR A MAJORITY OF THE YEAR**

(Internal Control – Reportable Condition Under Government Auditing Standards)

Other internal control weaknesses occurred in the Office of Trustee for a majority of the year. Upon being informed of those conditions during interim audit work, the official took steps to correct the weaknesses, thereby improving internal controls in the affected areas for the remainder of the year. Those weaknesses included the following:

- A. The office did not record all investment purchases, redemptions, and investment income/loss.
- B. The office did not maintain subsidiary records of investments or perform formal reconciliations of general ledger amounts with account balances for investments.
- C. There were delays in receipting funds turned into the Trustee's Office for building permits, park rentals, insurance reimbursement, and funds from other elected officials.
- D. The office had inadequate control over access to cash collections at its mall office.
- E. The office used generic receipts for tax enforcement collections rather than official, prenumbered receipts and issued receipts out of numerical order.

MANAGEMENT'S RESPONSE – TRUSTEE

I acknowledge the facts in this finding. These weaknesses were corrected when they were brought to my attention in April 2003.

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## **OFFICE OF COUNTY CLERK**

### **FINDING 03.19      **EXECUTION DOCKETS WERE NOT POSTED FOR JUVENILE COURT TRANSACTIONS****

(Noncompliance Under Government Auditing Standards)

Execution dockets were not maintained reflecting the receipt and disbursement of funds for Juvenile Court. Section 18-2-101, Tennessee Code Annotated, requires clerks to maintain a cash book “in which they shall enter, under each case, all sums of money received or disbursed by them, showing the date of receipt or disbursement, on what account received or disbursed, and to or from whom received or disbursed.” It should be noted, however, that child support payments, which are a portion of the funds collected for Juvenile Court, are processed on a computer system that maintains a history of receipts and disbursements, and the County Clerk’s Office did provide us with documentation of undisbursed child support collections.

### **RECOMMENDATION**

Execution dockets should be maintained reflecting the receipt and disbursement of funds for Juvenile Court, as required by state statute.

### **MANAGEMENT’S RESPONSE – COUNTY CLERK**

I concur with this finding, and we are in the process of updating execution dockets for Juvenile Court.

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### **FINDING 03.20      **OTHER INTERNAL CONTROL WEAKNESSES OCCURRED FOR A MAJORITY OF THE YEAR****

(Internal Control – Reportable Condition Under Government Auditing Standards)

Several internal control weaknesses occurred in the Office of County Clerk for a majority of the year. Upon being informed of these deficiencies during our interim audit work, the official took steps to correct the weaknesses, thereby improving internal controls in the affected areas for the remainder of the year. These weaknesses included the following:

- A. The office had inadequate control over access to cash collections at its mall office.
- B. The office allowed the intermingling of collections made by employees.
- C. Duties involving collections, deposits, and the recording of transactions were not segregated adequately.
- D. There were delays in receipting and depositing certain collections.
- E. The office used generic receipts for tax enforcement collections rather than official, prenumbered receipts and issued receipts out of numerical order.

- F. The office did not reconcile its physical inventory of automobile licenses with computerized inventory lists.
- G. The office did not maintain detailed subsidiary records to support all general ledger account balances.
- H. The office used a signature stamp for the clerk and one deputy.

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**FINDING 03.21      THE REMAINING CASH SHORTAGE BALANCE FROM THE PREVIOUS AUDITOR'S SPECIAL REPORT HAD NOT BEEN LIQUIDATED**  
(Noncompliance Under Government Auditing Standards)

In a special review performed by the previous auditor of Hamblen County, a cash shortage of \$41,379.85 was reported in the Office of County Clerk. A claim was filed with the county's insurance carrier, and the county received \$26,799.43; however, the remaining \$14,580.42 had not been collected as of June 30, 2003. Therefore, the remaining balance of \$14,580.42 is reflected as a cash shortage in the financial statements of this report.

**RECOMMENDATION**

Hamblen County officials should continue to pursue the liquidation of the remaining cash shortage of \$14,580.42.

**MANAGEMENT'S RESPONSE – COUNTY CLERK**

We are continuing to pursue measures to liquidate this remaining shortage.

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**OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK**

**FINDING 03.22      A SIGNATURE STAMP WAS USED TO SIGN CHECKS**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

The official used a signature stamp to affix her signature to checks issued by her office. Signature stamps do not provide adequate controls over checks, and we know of no statutory authority for their use.

**RECOMMENDATION**

The office should discontinue the use of the signature stamp.

MANAGEMENT'S RESPONSE – CIRCUIT AND GENERAL SESSIONS COURTS CLERK

I was using a signature stamp to place my signature on checks. The stamp was kept in a locked drawer to which no one else had access, and I had not designated anyone else to use it. I have now destroyed the stamp and am signing the checks personally, except when I am on vacation, or away for any length of time, on which occasions I have designated my two bookkeepers to each place their signatures on any check signed in my absence.

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FINDING 03.23      **OTHER INTERNAL CONTROL WEAKNESSES OCCURRED FOR A MAJORITY OF THE YEAR**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Several internal control weaknesses occurred in the Office of Circuit and General Sessions Courts Clerk for a majority of the year under audit. Upon being informed of those conditions during interim audit work, the official took steps to correct the weaknesses, thereby improving internal controls in the affected areas for the remainder of the year. Those weaknesses included the following:

- A. The office did not properly reflect trust account balances on the general ledger.
- B. The office did not issue receipts at the time of collection for checks received for multiple cases.
- C. Personal checks were cashed from office funds as a service to individuals.
- D. The office did not reconcile the totals for cash and checks reflected on the daily receipt reports with actual cash and checks deposited.

MANAGEMENT'S RESPONSE – CIRCUIT AND GENERAL SESSIONS COURTS CLERK

The clerk stated the following:

- A. The investment account has now been set up, and the trust account balances are reflected accurately on the general ledger.
- B. The receipts are now written on the same day.
- C. We no longer cash personal checks from office funds.
- D. All cash and checks per the daily receipt reports are now matched with the actual cash and checks deposited per the deposit slips.

## **OFFICE OF CLERK AND MASTER**

### **FINDING 03.24**

### **DEFICIENCIES WERE NOTED IN ACCOUNTING FOR CHILD SUPPORT TRANSACTIONS**

(Internal Control – Reportable Condition Under Government Auditing Standards)

The following deficiencies were noted in the procedures for child support transactions:

- A. The Clerk and Master's Office uses a computer system to issue receipts and disbursements for child support collections but does not post these transactions and the ending balances to the general ledger.
- B. Child support bank statements were not reconciled adequately. The amount listed for outstanding checks was not supported with a detailed list of outstanding checks. Also, deposits in transit at the end of the month were not noted on the bank reconciliations, and there were several reconciling differences from prior fiscal years (bank charges and bank errors) that had not been corrected.

### **RECOMMENDATION**

All child support transactions should be reflected on the general ledger, and the bank balance on the general ledger should be reconciled with the balance reflected on the bank statement. The amount reflected on the reconciliation for outstanding checks should be supported with a detailed list of outstanding checks, and the reconciliation should reflect all deposits in transit at the end of each month. In addition, all reconciling differences should be investigated and resolved in a timely basis.

### **MANAGEMENT'S RESPONSE – CLERK AND MASTER**

The clerk and master stated the following:

- A. We have contacted our computer technicians and have implemented a daily procedure that now posts all child support transactions to our general ledger.
- B. We have found, through contact with the computer support personnel, that our program has no ability to print a list that will identify and track cancelled and outstanding checks written for child support. However, we have begun a process of manually listing all outstanding checks and checking them by our bank statements to try to reconcile our records since we first began using the system. Understandably, this is a tedious and time-consuming process, but we are making progress.

FINDING 03.25

**DEFICIENCIES WERE NOTED IN PROCEDURES RELATED TO DELINQUENT PROPERTY TAXES**

(Noncompliance Under Government Auditing Standards)

The following deficiencies were noted in the procedures related to delinquent property taxes:

- A. The clerk and master did not provide a list of delinquent property taxpayers to the trustee, as required by Section 67-5-2403, Tennessee Code Annotated, and did not add the five-dollar fee for each property listed for each year to the fees and costs assessed.
- B. Documentation was not on file to support the exact amount of delinquent property taxes the trustee turned over to the clerk and master for tax years prior to 2001.
- C. Tax aggregate reconciliations were not prepared periodically by tax year.
- D. Delinquent tax collections remitted to the trustee were not identified by type (inside or outside the city limits). This identification is necessary for the trustee to prorate collections to the appropriate funds.

RECOMMENDATION

The official should provide a list of delinquent property taxpayers to the trustee and should add a five-dollar fee for each property listed for each year to the fees and costs. Documentation should be developed reflecting the exact balance of delinquent property taxes remitted to the clerk and master for collection. In addition, tax aggregate reconciliations should be prepared periodically by tax year, and delinquent property tax collections remitted to the trustee should be identified by type.

MANAGEMENT'S RESPONSE – CLERK AND MASTER

Several of these recommendations present new procedures we had never been informed about by our previous auditors. We plan to implement the five-dollar fee per property listed to the costs associated with the delinquent taxes that will be turned over to us this year. We have also worked with our trustee to prepare the tax aggregate information and balances due by tax year. We anticipate that this problem will be corrected and the proper procedure implemented by our next audit.

FINDING 03.26

**OTHER INTERNAL CONTROL WEAKNESSES OCCURRED FOR A MAJORITY OF THE YEAR**

(Internal Control – Reportable Condition Under Government Auditing Standards)

Other internal control weaknesses occurred in the Office of Clerk and Master for a majority of the year under audit. Upon being informed of those conditions during interim audit work, the official took steps to correct the weaknesses, thereby improving internal controls in the affected areas for the remainder of the year. Those weaknesses included the following:

- A. The office did not routinely print a detailed docket trial balance listing the balance in each case.
- B. The status of several old case balances was not reviewed.
- C. Trust account balances were not properly reflected on the general ledger.
- D. The office did not perform daily check-out procedures.
- E. The office did not restrictively endorse checks at the time of collection.

MANAGEMENT'S RESPONSE – CLERK AND MASTER

The clerk and master stated the following:

- A. We have begun routinely printing a detailed docket trial balance, a procedure we had not heretofore been made aware of.
- B. We have reviewed the status of old case balances and have taken care of the outstanding balances properly.
- C. We are working with clerks in other counties that use our computer system to try to reflect the individual debits and credits on our trust account balances on the general ledger, but we are having problems because of the way our program has been written. We are still working on this recommendation.
- D. We now perform daily check-out procedures.
- E. We now restrictively endorse each check at the time of collection.

## **OFFICE OF REGISTER**

### **FINDING 03.27      **AN INTERNAL CONTROL WEAKNESS OVER RECEIPTS OCCURRED FOR A MAJORITY OF THE YEAR****

(Internal Control – Reportable Condition Under Government Auditing Standards)

For most of the year under audit, the office did not maintain the original receipt (white copy) for voided receipts. Upon being informed of this deficiency during interim audit work, the official took steps to correct this weakness.

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## **OTHER FINDINGS AND RECOMMENDATIONS**

### **FINDING 03.28      **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF TRUSTEE, COUNTY CLERK, CIRCUIT AND GENERAL SESSIONS COURTS CLERK, CLERK AND MASTER, AND SHERIFF****

(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately in the Offices of Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, and Sheriff. Officials and employees responsible for maintaining the accounting records of these offices 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.

#### **MANAGEMENT'S RESPONSE – TRUSTEE**

I acknowledge the facts presented in this finding; however, the size of my office staff prohibits a complete segregation of duties. We separate the functions of the office as much as possible under our current staffing situation.

#### **MANAGEMENT'S RESPONSE – CIRCUIT AND GENERAL SESSIONS COURTS CLERK**

The records are now checked and cross-checked each day. The bookkeeper from Circuit and Criminal Courts and the bookkeeper from General Sessions Court collaborate the effort of reconciling the accounts. In addition, the bookkeepers no longer sign their own checks.

#### **MANAGEMENT'S RESPONSE – CLERK AND MASTER**

Duties are segregated as efficiently as possible in an office with only one official and four employees.

MANAGEMENT'S RESPONSE – SHERIFF

Duties involving money and property have been segregated.

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FINDING 03.29

**A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED**

(Internal Control – Reportable Condition Under Government Auditing Standards)

Hamblen 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

Hamblen 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.

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE AND DIRECTOR OF FINANCE

Please see our response to Finding 03.07.