

Department of Environment and Conservation

**For the Years Ended
June 30, 1997, and June 30, 1996**

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February 22, 1999

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and

The Honorable Milton H. Hamilton, Jr., Commissioner
Department of Environment and Conservation
401 Church Street
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Environment and Conservation for the years ended June 30, 1997, and June 30, 1996.

We conducted our audit in accordance with generally accepted government auditing standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the department's compliance with the provisions of laws, regulations, contracts, and grants significant to the audit. Management of the Department of Environment and Conservation is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. In addition, a special investigation disclosed a finding which is detailed in the Special Investigation section. The department's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the department's internal controls and/or instances of noncompliance to the Department of Environment and Conservation's management in a separate letter.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/rm
98/053

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Department of Environment and Conservation
For the Years Ended June 30, 1997, and June 30, 1996

AUDIT SCOPE

We have audited the Department of Environment and Conservation for the period July 1, 1995, through June 30, 1997. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of state parks, citizen support organizations, Division of Underground Storage Tanks, Division of Air Pollution Control, Hazardous Waste Management Program, Division of Water Pollution Control, equipment, and compliance with the Financial Integrity Act. The audit was conducted in accordance with generally accepted government auditing standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

AUDIT FINDINGS

Employee Not Performing Duties Associated With His Position

The department hired an individual as a hospitality manager for Paris Landing State Park; however, the employee is performing duties at the executive residence (page 6).

Collection Efforts for Delinquent Accounts Not Adequately Monitored

Collection efforts for accounts receivable at the state parks are not adequately monitored to ensure the department's collection policies and procedures are followed (page 7).

Weak Controls Over Cash Receipts*

At Harrison Bay, David Crockett, Fall Creek Falls, and Warrior's Path State Parks, duties are not properly segregated, cash is not adequately safeguarded, profit-and-loss statements are not prepared, and sales tests, sales projections, and inventory turnover tests for retail operations are not performed (page 8).

Inadequate Gasoline Inventory Procedures**

The department's procedures for recording, safeguarding, and reporting gasoline inventories at the state parks are not adequate (page 11).

Weak Controls Over the Cash-Receipting Process*

In some of the Environmental Divisions, cash-receipting duties are not always segregated and periodic reconciliations are not always performed by someone independent of the cash-receipting process (page 14).

Financial Responsibility Rules Not Enforced

The Division of Underground Storage Tanks does not enforce its rules requiring tank owners or operators who do not participate in the Underground Storage Tank Fund to demonstrate financial responsibility (page 17).

Inadequate Controls Over Underground Storage Tank Fund Expenditures

Neither inspections of clean-up sites nor field audits of contractors' invoices are routinely performed to ensure that contractors are not abusing the reimbursement system (page 18).

Procedures for Delinquent Accounts Not Followed*

The Division of Water Pollution Control does not always follow the department's procedures for billing and collecting delinquent accounts (page 22).

SPECIAL INVESTIGATION

Controls Over Golf Pro Shop Inadequate

The T. O. Fuller State Park golf pro shop lacked controls over rain checks, voided cash register transactions, and reconciliations of cash register tapes with funds deposited. Cashiers were unsupervised at closing. Management was unable to determine if all sales were properly recorded (page 25).

* This finding is repeated from the prior audit.

** This finding is repeated from prior audits.

PAST FINDING NOT ACTED UPON BY MANAGEMENT

Prior audits of the department have contained a finding about the department's providing maintenance benefits without apparent authority to do so. This finding resulted from the Department of Finance and Administration's failure to formulate a statewide maintenance policy as required by statute. Management concurred with this repeat finding and stated that it would comply with a maintenance policy when such a policy is issued. The Department of Finance and Administration issued Policy 16 (Employee Housing and Meals) effective March 31, 1998. Compliance with this policy will be reviewed in the next audit of the department.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Audit Report
Department of Environment and Conservation
For the Years Ended June 30, 1997, and June 30, 1996

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Department of Environment and Conservation For the Years Ended June 30, 1997, and June 30, 1996

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of Environment and Conservation. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The mission of the Department of Environment and Conservation is to promote, protect, and conserve the state’s natural, cultural, recreational, and historical resources for the benefit of Tennesseans and visitors. The commissioner and his staff are supported by four sections: Administrative Services, Conservation, Environment, and Tennessee State Parks.

Administrative Services provides overall policy management, legal assistance, and support services to all areas of the department. Overall support services include environmental policy, fiscal services, human resources, information systems, internal audit, legal, and public information.

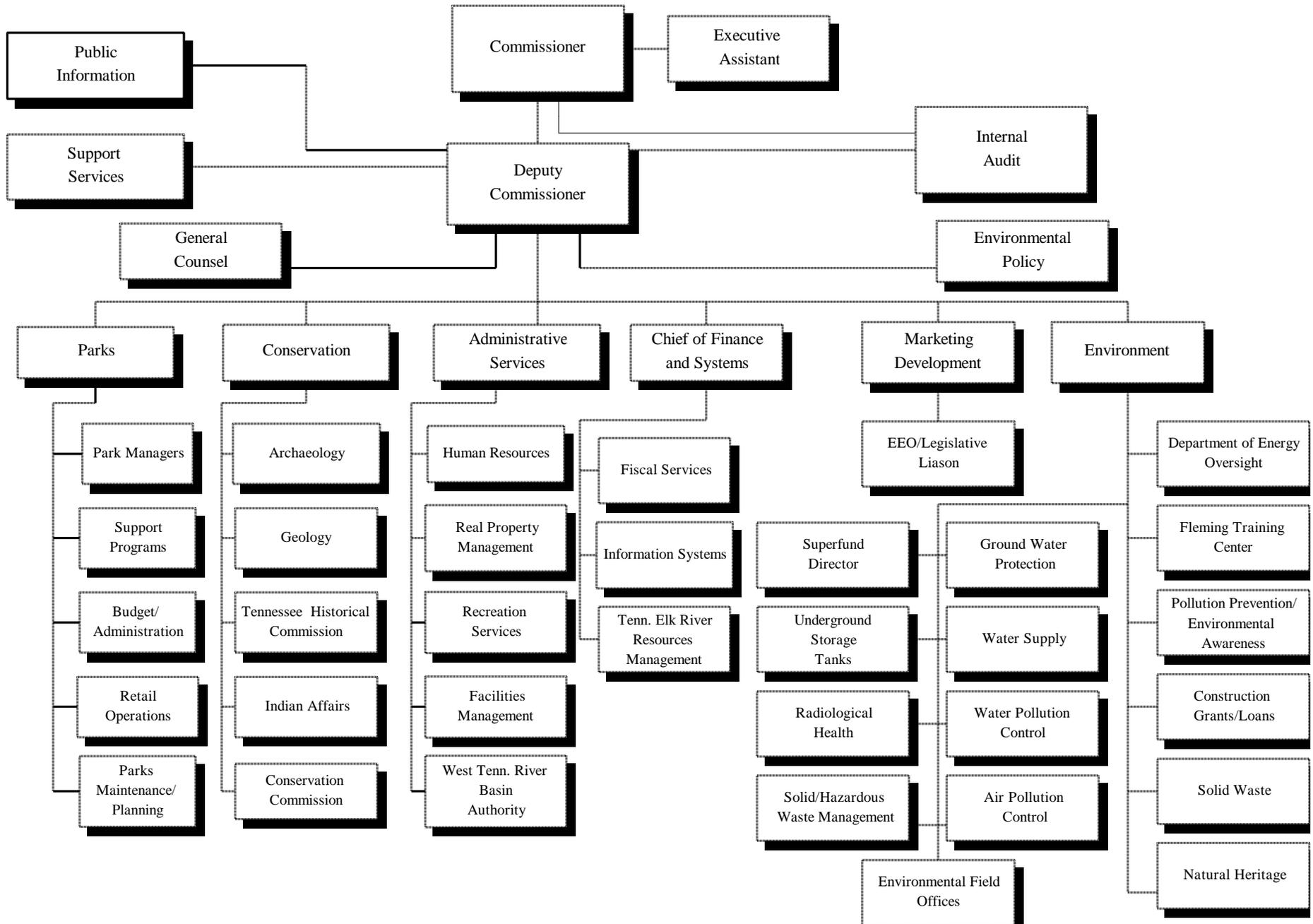
Conservation works to identify and preserve significant historical and archaeological sites, as well as natural resources. Some of this section’s responsibilities are publishing *The Tennessee Conservationist* magazine, maintaining state-owned historical sites, providing grants to local governments for the acquisition and development of public outdoor recreation areas, and providing aid and technical assistance to Tennessee’s Native American population.

Environment is responsible for preserving and enhancing the state’s environmental resources and for ensuring compliance with state and federal regulations.

Tennessee State Parks manages the system of resort, rustic, and recreational parks and natural, historical, and archaeological areas. State parks maintenance provides a systematic approach to constructing, inventorying, and maintaining all facilities managed by the department.

An organization chart of the department is on the following page.

Department of Environment and Conservation



AUDIT SCOPE

We have audited the Department of Environment and Conservation for the period July 1, 1995, through June 30, 1997. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of state parks, citizen support organizations, Division of Underground Storage Tanks, Division of Air Pollution Control, Hazardous Waste Management Program, Division of Water Pollution Control, equipment, and compliance with the Financial Integrity Act. The audit was conducted in accordance with generally accepted government auditing standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. In addition, a special investigation involving the department was conducted by staff of the Division of State Audit. The result of this investigation is discussed in the Special Investigation section of this report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

STATE PARKS

We reviewed with park administration at the central office in Nashville various controls and reports used to manage the state parks. Following this overview, we visited four parks: one resort park, Fall Creek Falls State Park; two large recreational parks, Warriors' Path State Park and Harrison Bay State Park; and one smaller recreational park, David Crockett State Park. The objectives of our work on the state parks were to

- follow up prior audit findings,
- determine the adequacy of central office control of state parks by reviewing controls and reports used to manage state parks,
- determine whether state parks were clean and visitor friendly and whether employees were efficient,
- determine whether controls over petty cash and change funds, accounts receivable, bad checks and collections, and cash-receipting were adequate,
- observe whether undeposited cash receipts and petty cash funds were adequately safeguarded,
- determine that funds on hand equaled expected amounts,
- determine whether escrow receipts and void and credit transactions were properly accounted for,
- determine if rental and/or usage fees were adequately displayed,
- determine whether proper rental and/or usage fees were collected,

- determine if senior citizen and employee discounts and other employee benefits, such as free meals, were properly accounted for and reported,
- determine that park control of leased operations was adequate and that the terms of lease agreements were followed,
- determine whether controls over gasoline usage and inventories were adequate,
- determine that state vehicle usage by park personnel was properly documented, and
- determine that the volunteer guest hosts program was adequately supervised.

We obtained and reviewed reports prepared by the State Parks section to analyze individual park performance. Analytical comparisons of revenue and expenditure accounts between years for individual parks were performed, and explanations for significant variances were obtained. This testwork resulted in a finding on the filling of a Paris Landing State Park hospitality manager position by an employee who actually works at the executive residence (finding 1). Other less significant items were reported to management in a separate letter.

We obtained and reviewed the listing of accounts receivable for the parks, as prepared by the individual parks and compiled by the central office. Controls over accounts receivable were discussed with central office personnel in Nashville, as well as with park personnel at the four state parks visited. We determined that the parks generally continue making collection efforts until they decide to turn the account over to the central office for collection or write-off. The parks' accounts receivable collection efforts were not timely, and billings were not adequately monitored as discussed in finding 2.

A series of internal control questionnaires and procedural memos were completed by the auditors at each park, depending on the operations and facilities available. Controls were reviewed at the park offices and other areas such as golf pro shops, marinas, campgrounds, restaurants, and gift shops. Weaknesses in the cash-receipting process are discussed in finding 3. Other less significant weaknesses were reported to management in a separate letter.

Surprise counts of petty cash accounts were performed; revenue items were compared with the daily sales reports; and daily sales reports were compared with deposit slips. Reservation books were reviewed, and a nonstatistical sample of reservations requiring deposits was traced to escrow receipts. Escrow receipts were compared with the retail operation report, the sales report for the day, and the deposit slip. A nonstatistical sample of days during the audit period was selected, and all prenumbered escrow receipts for those days were tested in detail. This testing consisted of determining whether

- prenumbered receipts were used consecutively,
- escrow receipts were traceable to the reservation book,
- deposits received agreed to the daily sales reports and deposit slips, and
- cancellations requiring a deposit refund were properly approved.

No significant weaknesses were noted.

For parks which accepted credit card payments, a nonstatistical sample of credit card receipt reports was reconciled with the cash register tape and deposit slip for the same day. A nonstatistical sample of cash receipts for each operation was selected for detailed testing. Receipts were examined, and the numerical sequence was accounted for. The receipts were then totaled and compared to the amount collected as recorded on the retail operation report. The amount on the retail operation report was compared with the daily sales report. Deposit dates were reviewed, and any untimely deposits were noted.

The same sample of cash receipts was also examined to determine that the charges agreed with posted fees, that discounts were correctly applied and calculated, and that any alteration of a receipt was properly approved and documented. Leased operations were reviewed and payments by lessee were examined to verify that payments were in the proper amount and up-to-date. No significant weaknesses were noted during testwork.

A stick measurement was taken of all gasoline storage tanks at the parks visited, and the pump meter reading was recorded. From the last reported reading, gallons pumped were reconciled with gallons issued according to the gasoline issue tickets. The gasoline issue tickets were examined for proper signatures, license plate identifications, and reasonableness of gallons pumped. Explanations for any significant variance between expected gasoline inventory and measured inventory were obtained. At Warriors' Path State Park, an unexplained variance was noted (finding 4).

Using computer-assisted audit techniques, park-use gasoline expenditures were extracted for the department. A nonstatistical sample of gasoline expenditures was selected for each state park to be visited. Gasoline purchased according to the vendor invoices was compared to the perpetual inventory records at the parks to ensure the gallons of gasoline invoiced were properly recorded. Also, the expenditure extract was examined to determine if items on invoices were correctly coded. Testwork revealed that invoices at Harrison Bay State Park and Warriors' Path State Park were not always properly recorded. The review of invoices also revealed that federal fuel excise taxes had been paid on some gasoline purchases. The improper recording of invoices and payment of fuel excise taxes are included in finding 4.

Park personnel were interviewed concerning the controls and procedures related to park vehicles. For a nonstatistical sample of park vehicles, the mileage logs were examined for completeness, and reported mileage amounts were reconciled with the current odometer readings. For the same sample of vehicles, the miles-per-gallon computations, as reported on the monthly gasoline usage reports, were compared for a selected time period. We determined whether the calculated usage appeared consistent and appropriate for the vehicle type and obtained explanations for any significant variances between months for the same vehicle. The inconsistent preparation of the miles-per-gallon computation and the lack of park management review are included in finding 4.

Procedures for the volunteer guest hosts program were discussed with the golf course managers at the applicable parks. Procedures appeared adequate.

1. An employee is not performing the duties associated with the position he was hired to fill

Finding

An employee is not performing the duties associated with the position to which he was hired. Personnel records indicate that on July 1, 1994, an employee transferred from an Executive Housekeeper position with the Department of General Services to a Hospitality Manager position assigned to the restaurant at Paris Landing State Park. However, the employee continues to work full time at the executive residence as he has since October 1, 1987, and at no time has he performed duties at the state park.

At the time of the transfer, the Commissioner of the Department of General Services requested that the employee temporarily continue his current assignment as Executive Housekeeper at the executive residence. The department's new commissioner repeated this request on March 21, 1995. Since this agreement is still in place, it can no longer be considered temporary.

While working at the executive residence, the employee's salary and benefits are paid by the Department of Environment and Conservation (Paris Landing State Park), as requested by the Department of General Services. His salary and benefits are then reimbursed as revenue to the state park through monthly journal vouchers from the Department of Environment and Conservation to the Department of General Services.

Review of the request for personnel action form (PNF 201) and the accompanying daily input roster suggests the transfer was made to give the employee a two-step raise above the range for an Executive Housekeeper.

The job description for a Hospitality Manager states that "an employee in this class is a manager over either a restaurant or an inn at a state park." An Executive Housekeeper "is responsible for directing housekeeping services at a large institution." Based on discussions with department personnel, the employee's job title and responsibilities remained the same, although personnel records indicated a promotion and transfer to a state park.

Recommendation

The commissioner should ensure that employees perform the duties associated with the position for which they were hired and paid to perform. He should request that the Department of General Services follow Department of Personnel procedures for upgrading or obtaining an exception for the salary level for the position at the executive residence.

Management's Comment

The department has accepted this arrangement; however, we understand the concern and will forward the recommendation to the Commissioner of General Services. We will work with General Services to address the concern.

2. Collection efforts for accounts receivable at state parks are not adequately monitored

Finding

Collection efforts for accounts receivable at the state parks are not adequately monitored to ensure that the department's collection policies and procedures are followed. According to fiscal services and parks accounting personnel at the central office, no one in these offices determines whether collections are timely, whether the parks prepare billings monthly, or whether uncollectible accounts have been submitted to the central office for collection or write-off.

According to fiscal services personnel, each state park continues billing for an accounts receivable until park personnel determine they cannot collect. However, departmental policy indicates that after park personnel have sent two monthly statements and a letter, the account should be turned over to the central office. Testwork revealed that state parks were not sending statements monthly and that accounts remained uncollectible for several years with little effort made to collect. The department's *Fiscal Procedures Manual*, Section 408.02, states:

After a division [state park] has sent two (2) monthly statements on an account receivable, a letter will be sent from the division [state park] requesting payment. If the account receivable remains unpaid, the division [state park] will send copies of the two (2) statements and the letter to the Director of Fiscal Services to be retained as documentary evidence of collection efforts. . . . After the above criteria have been followed, a letter will be sent by the Staff Attorney to the customer. After that, further follow up procedures will be determined by the Staff Attorney.

Without proper collection efforts, money owed the state may go uncollected.

Recommendation

The Assistant Commissioner of State Parks should ensure customers are notified of unpaid fees in a timely manner as required by written departmental policies and procedures. Central office personnel should monitor state parks to ensure that collection efforts are timely and that

employees responsible for delinquent accounts understand and implement the established written departmental policies and procedures.

Management's Comment

We concur. Management will require compliance with Section 408.02 of the department's *Fiscal Procedures Manual* regarding notification and collection of unpaid accounts receivable. The Division of Fiscal Services will review monthly accounts receivable lists received from state parks. Upon completion of the third documented attempt of collection by the park, the collection file will be turned over to Fiscal Services for collection. Fiscal Services will then enlist the help of our Office of General Counsel for assistance in the collection effort.

3. Controls over cash receipts are weak

Finding

As noted in the prior audit, the department does not have adequate controls over the cash-receipting procedures at the state parks. During the audit, a review was performed of the cash-receipting activities at the parks visited, and the following weaknesses were noted:

Harrison Bay State Park

- Only one park employee is responsible for removing the money from the vending machines.
- Cash receipts are not adequately safeguarded. The park manager, three rangers, and two account clerks all have the combination to the safe in which all money is stored overnight.
- Checks are endorsed at the park office when the deposit is prepared, not immediately upon receipt.
- Neither park personnel nor central office personnel prepare profit-and-loss statements and perform sales tests, sales projections, and inventory turnover tests for retail operations to ensure that all sales are properly recorded and that inventory is accounted for accurately.

David Crockett State Park

- The account clerk responsible for preparing the sales report and deposit slip may also count the cash, endorse checks, write receipts, and prepare the retail operation report for park office operations (gift shop, camping, and seasonal boat rental).

- Only one park employee is responsible for removing the money from the vending machines.
- Neither park personnel nor central office personnel prepare profit-and-loss statements and perform sales tests, sales projections, and inventory turnover tests for retail operations to ensure that all sales are properly recorded and that inventory is accounted for accurately.

Fall Creek Falls State Park

- Cash receipts are not adequately safeguarded. At the park office, seven park rangers and five office employees have access to the safe in which daily collections and change funds are stored overnight. At the pro shop, all employees, including part-time summer employees, have access to the safe in which the afternoon sales and the change fund are stored overnight.
- The individual responsible for making deductions from the escrow account at the park office may be the same person who receives and receipts the escrow payments and prepares the deposit slip.
- Neither park personnel nor central office personnel prepare profit-and-loss statements and perform sales tests, sales projections, and inventory turnover tests for retail operations to ensure that all sales are properly recorded and that inventory is accounted for accurately.

Warrior's Path State Park

- The individual responsible for preparing the retail operation report and daily sales report for shelters and recreational games may also endorse checks and prepare the deposit slip.
- The individual responsible for additions to and deductions from the escrow account at the park office may be the same person who receives and receipts the escrow payments and prepares the deposit slip.
- Only one park employee is responsible for removing the money from the vending and recreational machines.
- Neither park personnel nor central office personnel prepare profit-and-loss statements and perform sales tests, sales projections, and inventory turnover tests for retail operations to ensure that all sales are properly recorded and that inventory is accounted for accurately.

The department's *Fiscal Procedures Manual*, Section 208.01, states, "Checks must be endorsed immediately upon receipt." Chapter 2, section 5.7, states, "To ensure all cash receipts are deposited intact, a comparison must be made between the cash receipt vouchers and deposit slips. This task should be performed by someone other than the person preparing the cash receipts or Deposit Slip."

Segregating duties so that one person does not have control over all aspects of a transaction is essential to detect clerical errors and possible misuse of funds. Restrictively endorsing checks immediately upon receipt enhances safeguards over revenue received and aids in preventing possible misappropriation.

Tracking sales and costs for individual inventory items for retail operations by someone independent of the sales process is necessary to maintain adequate inventory records and to detect possible theft of inventory, misuse of funds, or clerical errors.

Recommendation

The park managers at all state parks should implement procedures to strengthen controls over cash receipts and should monitor compliance with these procedures. Duties should be segregated to the greatest extent possible. Management should review employees' work when adequate segregation is not practical. This management review should be documented.

Management's Comment

We concur. Chapters 2 and 44 of the department's *Fiscal Procedures Manual* address all phases of cash receipts and vending machine operation. Management will remind park personnel of those policies and stress the requirement to follow those policies. Where park staffing allows, there will be a segregation of duties regarding depositing of funds; however, if adequate staffing is not available, management will institute other control measures. Management will evaluate and limit access to the safe containing cash receipts to only those employees whose access is critical to their job function.

Management currently prepares profit-and-loss statements for the parks' restaurant operations. This accounts for \$5.7 million or 77% of the total retail revenues. The department intends to refine this process and increase this coverage to at least 90% of retail sales by preparing profit-and-loss statement on all retail operations in the resort parks.

The department's Internal Audit division performs sales tests and inventory turnover tests as part of their audit of individual parks; however, these tests are not routinely performed on all parks. Management will institute such testing on a more routine basis.

4. Controls over gasoline inventory are not adequate

Finding

As stated in the five prior audits covering the period July 1, 1985, through June 30, 1995, the Department of Environment and Conservation's procedures for recording, safeguarding, and reporting gasoline inventories are not adequate. During visits to four state parks, the following problems were noted:

Harrison Bay State Park

- Fuel tanks were not always measured daily.
- Fuel purchases were not posted accurately to the perpetual inventory records. The quantities of fuel received according to the inventory records for three of 19 purchases (16%) did not agree with the quantities billed on the vendor invoices.
- The department had no documentation to indicate it had requested a refund of federal excise taxes paid for five of 32 park-use fuel invoices reviewed (16%).
- Two invoices for fuel purchases had not been coded to the correct major object code. One fuel purchase on the perpetual inventory records was coded as a janitorial and maintenance supply item, and one invoice coded as park-use fuel was actually a purchase of fuel for resale at the marina.
- The miles-per-gallon usage varied significantly between months for three of seven vehicles tested (43%). Management indicated the variances were probably due to the failure to record fuel purchased away from the state park; such purchases are supposed to be documented on the monthly gasoline reports. Also, there was no evidence park management had reviewed the monthly gasoline reports to detect large usage variances.

David Crockett State Park

- For 13 of 14 park-use fuel invoices paid during the audit period (93%), there was no documentation to indicate tax refund requests had been made for federal excise taxes paid. A total of \$1,740.41 could have been recovered during the audit period.
- The miles-per-gallon usage varied significantly between months for two of six vehicles tested (33%). Management indicated the variances were probably due to the failure to record fuel purchased away from the state park; such purchases are supposed to be documented on the monthly gasoline reports. Also, there was no evidence park management had reviewed the monthly gasoline reports to detect large usage variances.

Fall Creek Falls State Park

- The department had no documentation to indicate it had requested a refund of federal excise taxes paid for 10 of 12 park-use fuel invoices reviewed (16%).
- The miles-per-gallon usage varied significantly between months for one of six vehicles tested (17%). Management indicated the variances were probably due to the failure to record fuel purchased away from the state park; such purchases are supposed to be documented on the monthly gasoline reports. Also, there was no evidence park management had reviewed the monthly gasoline reports to detect large usage variances.
- Gasoline reports were not always reviewed, and several calculation errors were found on the gasoline report spreadsheet.
- Too many employees have access to the fuel pumps.

Warrior's Path State Park

- Non-fuel purchases were coded as fuel, oil, and lubricants.
- The miles-per-gallon usage varied significantly between months for two of five vehicles tested (40%). Management indicated the variances were probably due to the failure to record fuel purchased away from the state park; such purchases are supposed to be documented on the monthly gasoline reports. Also, there was no evidence park management had reviewed the monthly gasoline reports to detect large usage variances.
- Too many employees have access to the fuel pumps.
- Discrepancies on the gasoline reports were not noted or questioned. For two months during fiscal year 1997, the ending stick measurement was significantly different from the following month's opening measurement, but the fuel tank meter reading did not change, indicating no fuel had been pumped.
- One gasoline report showed two different amounts for gallons issued per fuel issue tickets. Documentation was unavailable to confirm which value was correct, and a revised report had not been submitted.
- Fuel tanks were not always measured daily.

Section 706.01 of the department's *Fiscal Procedures Manual* requires each facility to measure the fuel in the tanks daily, reconcile that amount with perpetual records, and reconcile fuel issue tickets with actual gallons pumped. Any material differences are to be reported to Fiscal Services and Internal Audit.

The department may not detect or prevent shortages or losses of fuel if all issues and purchases are not documented properly and posted to perpetual inventory records, if measurement conversions are not accurately calculated, if tanks are not measured daily, and if significant variances in usage or expected inventory quantities are not questioned.

Management concurred with the prior finding and stated that the park managers would work to improve compliance with the department's fiscal guidelines. Some improvement had been made, but further action is still needed to bring all parks into compliance.

Recommendation

State park managers should ensure that the department's fiscal guidelines are followed so that gasoline inventory records are complete and accurate. Fuel tanks should be measured daily and reconciled with the perpetual inventory records; fuel issue tickets should be reconciled with the actual gallons pumped; and proper conversion charts should be obtained and used consistently. Fuel invoices should be reconciled with quantities purchased according to the perpetual inventory records prior to payment. Monthly gasoline reports should be reviewed, and a comparison made between the current month's and prior months' vehicles miles-per-gallon calculation. Fiscal services and park management should work together to ensure that federal excise taxes paid on fuel purchased for park use is properly identified and that tax refunds are requested.

Management's Comment

We concur. Management will emphasize the requirement to follow the procedures outlined in the *Fiscal Procedures Manual*, Section 706.01. As such, the park managers will be reminded of the need to perform daily reconciliation of pump readings to gasoline tickets, obtain conversion charts and working meters, and report and investigate inventory discrepancies. To the extent possible, access to gas pumps will be limited to only those employees whose access is critical to their job function. Furthermore, management will instruct vehicle users to record fuel purchases made away from the park on the monthly gas reports.

The department's Fiscal Services Division will work in partnership with the parks to ensure that refunds of federal excise taxes paid on park-use gasoline are requested in a timely manner.

CITIZEN SUPPORT ORGANIZATIONS

Two citizen support organizations not visited previously—Friends of Panther Creek State Park and Friends of Frozen Head State Park—were reviewed. Our objectives were to review internal controls and procedures and focus on determining whether

- cash receipts were properly accounted for and deposited timely,
- cash disbursements were adequately supported and properly approved,
- cash disbursements were made only to support the park's activities,
- equipment purchased could be located and was being used for park-related activities, and
- the cash balance at year-end shown on the books of account or checkbook could be reconciled with the bank balance.

We interviewed officers from the organizations to gain an understanding of procedures and controls over cash receipts, cash disbursements, equipment, and conflict of interests. Supporting documentation was reviewed for nonstatistical samples of receipts and disbursements.

We determined that the organizations needed to improve controls over their financial activities. We believe these two support groups should review the audit report on other citizen support organizations issued by this office dated November 5, 1997, and implement the report's recommendations.

ENVIRONMENTAL DIVISIONS

Internal Control

Our review of internal control consisted of following up a prior audit finding related to cash receipts. We interviewed personnel and observed the cash-receipting processes in the environmental divisions. Our testwork resulted in finding 5 which is repeated from a prior audit report.

5. Controls over the cash-receipting process are weak

Finding

As stated in the prior audit report, the department does not have adequate controls over cash-receipting procedures in some of the Environmental Divisions. Management concurred with the prior audit finding and stated that the division directors would implement the recommended procedures. Otherwise, compensating controls, such as supervisory review, would be implemented. However, division directors have not implemented all of the recommended procedures or implemented compensating controls. The following weaknesses were noted:

Division of Solid and Hazardous Waste Management

- The receipts listing is not compared with the cash-receipt records or deposits by someone independent of these activities.

- The same person writes the receipts, prepares the deposit, makes the deposit, and posts to the internal accounting records.
- There are no controls in place to provide reasonable assurance that cash receipts equal permits issued.

Division of Groundwater Protection

- The accounts receivable ledger is not reconciled with invoices. Also, permits are not sequentially numbered.
- There are no controls in place to provide reasonable assurance that cash receipts equal permits issued.

Division of Air Pollution Control

- Minor source open-burning permits are not properly safeguarded, and no numerical control is maintained over the permits.
- There are no controls in place to provide reasonable assurance that cash receipts equal minor source open-burning permits issued.

Division of Water Pollution Control

- There are no controls in place to provide reasonable assurance that cash receipts equal permits issued.

Segregation of duties and supervisory review are essential to detect possible misuse of funds and clerical errors.

Recommendation

The directors of these divisions should implement procedures to strengthen controls over cash receipts and should monitor compliance. Duties should be segregated to the greatest extent possible, and supervisors should review employees' work when adequate segregation is not practical.

Management's Comment

The Commissioner is committed to complying with all Finance and Administration procedures regarding cash handling and receipting. In late 1997, the Commissioner appointed a reengineering team to conduct a study of our fee collection processes and to recommend changes to improve the cash-handling processes in the department.

Division of Solid and Hazardous Waste Management

We concur. The division is aware of the need to segregate the duties of receiving cash, writing receipts, depositing cash, and issuing permits to strengthen the internal control over the cash-receipting process. In the past, much of this lack of segregation was due to a lack of personnel, and we attempted to offset this weakness by instituting alternate control mechanisms. However, management will continue to strengthen our internal controls by working with our Internal Audit Division to evaluate our existing procedures and to install mitigating controls where a formalized segregation of duties is not possible.

Division of Groundwater Protection

We concur. Accounts receivable and invoices need to be reconciled, and cash receipts do need to equal permits issued. We will work with our Information Systems and Internal Audit Divisions to reevaluate our present procedures and to develop procedures to strengthen these processes.

Division of Air Pollution Control

We concur. At the time of the audit fieldwork, the conditions described in the finding did exist. However, at the time the fieldwork was conducted, the auditor recommended several improvements to our system articulated in the audit report. Management has since implemented those suggested improvements.

Division of Water Pollution Control

We concur. Management agrees with the need for additional internal controls and has initiated a new program to verify exactly how many permits are issued and contained in the Permit Compliance System (PCS). Management has also initiated a month-by-month verification that all facilities in the PCS are invoiced in the month of their permit anniversary date.

Since the division's current Environmental Protection Fund database does not allow for varied report writing, the verification activities will be performed manually. A new tracking and reporting system and database, which will be on line by the end of this fiscal year, will have that capability. Until then, the division will access the PCS permits issued database and manually compare it to the invoices paid list by permit number.

In August 1998, the division began comparing the permits issued from the previous month with an invoice to ensure that an invoice had been generated for each permit. This procedure also ensures that the PCS system is working correctly.

Division of Underground Storage Tanks

One of the primary functions of the Division of Underground Storage Tanks is to investigate, identify, and clean up leaking petroleum underground storage tanks.

The division's rules and regulations require owners or operators of petroleum underground storage tanks to demonstrate they are financially able to correct accidental releases and to compensate third parties for bodily injury and property damage caused by the releases.

An owner or operator can demonstrate financial responsibility by participating in the department's Underground Storage Tank Fund, by meeting a financial test of self-insurance, or by using one of the other mechanisms of financial assurance allowed by the U. S. Environmental Protection Agency, provided the owner or operator obtains the approval of the division for the alternate form of financial responsibility.

The division does not ensure that owners or operators of petroleum underground storage tanks who do not participate in the fund demonstrate financial responsibility. This matter is discussed in finding 6.

Underground Storage Tank Fund

The purpose of this fund is to provide tank owners a method of reducing the risk of personal liability for environmental clean-up costs associated with leaks from or the removal of underground storage tanks. All tank owners are eligible to participate in the fund, although participation is not mandatory.

Fund revenues come from fees assessed to participants; fund expenditures are payments to participating tank owners and/or contractors overseeing the site clean-ups.

In order to determine that fund expenditures were properly reviewed and documented, we interviewed key division personnel about procedures for making expenditures from the fund to site owners and contractors for clean-up of site contamination. This review resulted in finding 7.

6. The Division of Underground Storage Tanks does not enforce the rules regarding financial responsibility

Finding

The Division of Underground Storage Tanks does not ensure that owners or operators of petroleum underground storage tanks who do not participate in the Underground Storage Tank Fund demonstrate financial responsibility. *Rules and Regulations of the State of Tennessee*, "Underground Storage Tank Program," Section 1200-1-15-.08(4)(a), states, "Owners or operators of petroleum underground storage tanks shall demonstrate financial responsibility for taking corrective action and for compensating third parties for bodily injury and property damage caused by accidental releases arising from the operation of petroleum underground storage tanks..."

The division's enforcement and compliance section performs on-site inspections to determine whether the owners or operators are complying with the department's rules concerning areas such as installation and leak detection. These inspections include the review of various

documents to ensure compliance but do not include verification of the owner's or operator's compliance with the financial responsibility requirements, even though such documents are required to be kept on site. Section 1200-1-15-.08(9)(a), states:

Owners or operators shall maintain evidence of all financial assurance mechanisms used to demonstrate financial responsibility under this rule for an underground storage tank... An owner or operator shall maintain such evidence at the underground storage tank site or the owner's or operator's place of business. Records maintained off-site shall be made available upon request of the Department.

Recommendation

Documentation of the owner's or operator's compliance with the financial responsibility requirements should be reviewed during on-site inspections.

Management's Comment

We concur. The division is currently developing procedures to ensure that all owners or operators of petroleum underground storage tanks in operation after the December 22, 1998, tank upgrade are in compliance with the financial responsibility regulations as promulgated by the Underground Storage Tank Board.

7. Controls over Underground Storage Tank Fund expenditures are inadequate

Finding

The division does not routinely inspect clean-up sites, nor perform field audits of the contractor's invoices. Once an underground storage tank has leaked fuel and clean-up has begun, no one in the division ensures that the contractor is billing only for clean-up activities actually performed or that invoices have not been inflated by the contractor's overstatement of employees' education, experience, or hours worked.

Site owners must sign off on contractor invoices submitted for payment, but they may not have the technical ability necessary to know and thus to provide assurance that the contractor is adequately cleaning up the site or that the contractor's invoices to the state are correct. Although the contractor submits progress reports of the clean-up to the department's local field office, no routine on-site inspections are performed during or after the clean-up. Any on-site visits are performed at the discretion of the local field office. Also, although division personnel thoroughly

review the contractor's invoices, this review may not reveal overbillings, especially since the contractors are not required to submit documentation supporting employees' education, experience, or hours worked.

The Division of Underground Storage Tanks relies on the Internal Audit Division to audit the contractors. However, because of the reduction in internal audit staff, only one contractor was audited during the audit period.

Since division personnel do not routinely go on site, the department does not have adequate assurance that goods or services have been received prior to making payment. The director of the division indicated that there was insufficient personnel in the field offices to perform these inspections. As of April 1998, clean-up actions were in progress at 2,355 sites. For 1,651 of these sites, fund participants are receiving payments for allowable expenses from the Underground Storage Tank Fund.

The lack of routine on-site inspections and audits of contractors may allow contractors to abuse the reimbursement system and receive overpayments.

Recommendation

The Underground Storage Tank Board in conjunction with division management should develop written policies and procedures for routinely monitoring clean-up sites and auditing contractors' invoices. Also, the commissioner should increase the internal audit staff so that they can perform audits of these contractors.

Management's Comment

We concur. The division will work to develop a written policy and procedure manual for routinely monitoring Corrective Action Contractors' fieldwork and for auditing the invoices that accompany claims for payment of expenses associated with those jobs. The department will consider increasing the internal audit staff as budget constraints allow.

Division of Air Pollution Control

Our work in the Division of Air Pollution Control was to determine that the division had adequate procedures for

- processing facility construction applications,
- processing open-burning permit applications,
- collecting emission fees,
- monitoring permit holders,

- assessing penalties and interest for late payments, and
- collecting delinquent accounts.

Testwork consisted of interviewing division personnel about the assessment and collection of fees to gain an understanding of the division's procedures and the methods of implementing those procedures. No significant weaknesses were noted in processing facility construction applications. However, a weakness in the control over open-burning permits is addressed in finding 5.

A nonstatistical sample of construction and open-burning permits was reviewed to determine if

- a properly completed application was submitted,
- the permit was issued or denied within the required time frame,
- the application fee was deposited timely, and
- a public notice was posted in the proper geographical area.

No significant discrepancies were noted; however, other less significant weaknesses were reported to management in a separate letter. A nonstatistical sample of annual emission fee receipts was selected to determine whether

- the amount of the fee was correct,
- the fee was deposited timely, and
- emission tonnage shown on the bill agreed with the amount of operating revenues.

Also, a nonstatistical sample of visible emissions validation fees was tested to determine that the amount of the fee was correct and the fee was deposited timely. No problems were noted in these areas.

We selected a nonstatistical sample of delinquent companies and tested the calculation of interest and penalties. No reportable weaknesses or conditions were noted. Other less significant items were reported to management in a separate letter.

The inspection of air pollution sources and the oversight of the environmental specialists performing the inspections were discussed with the division's field office manager. Also, the control procedures for motor vehicle emission inspections were discussed with the division's environmental manager. No problems were noted in these areas.

Hazardous Waste Management Program

The objectives of our work in the Hazardous Waste Management Program of the Division of Solid Waste Management was to determine that the division had adequate procedures for

- assessing and collecting fees,

- issuing permits,
- processing treatment, storage, and disposal facilities applications,
- monitoring permit holders,
- issuing emergency permits,
- assessing penalties and interest for late payments, and
- collecting delinquent accounts.

The hazardous waste section issues transporter, treatment, disposal, post-closure, and combustion permits to businesses and governmental units operating in Tennessee. We interviewed program personnel about the assessment and collection of fees to gain an understanding of the program's procedures and the methods of implementing those procedures.

We selected a nonstatistical sample of cash receipts to determine that

- annual permit fees were deposited in a timely manner,
- annual permit fees were in the correct amount,
- an annual report was filed by the permit holder, and
- any penalties and interest were properly calculated.

We also tested this sample to determine that the hazardous waste transporter had properly completed an application and that the permit was issued and the application was filed in a timely manner. No problems were noted in this testwork.

A nonstatistical sample of treatment, storage, and disposal facilities was selected to determine

- if the permit holder had filed a closure/post-closure plan which includes a detailed written estimate in current dollars of the cost of closing the facility,
- if the post-closure plan had been revised for inflation,
- if a proper financial assurance mechanism was on file with the division director in an amount at least equal to the current post-closure cost estimates, and
- if the permit holder had proper liability coverage for sudden or nonsudden accidents.

The Division of Solid Waste Management contracts with the United States Environmental Protection Agency to perform compliance inspections each year. The inspections are subject to contract renewal. We interviewed the assistant program manager to determine whether inspection procedures appeared adequate and whether there were procedures in place for inspection oversight. Procedures appeared adequate.

The Environmental Protection Agency semiannually reviews the program. We reviewed the federal reports issued and discussed with management their responses to immaterial

weaknesses included in the report. No material weaknesses were noted, but items of lesser significance were reported to management in a separate letter.

Division of Water Pollution Control

The objective of our work in the Division of Water Pollution Control was to follow up a prior audit finding on procedures for collecting delinquent accounts. Our testwork consisted of interviewing the division director and other division personnel about the procedures, as well as reviewing documents. As a result of the testwork, we have repeated the audit finding.

8. The Division of Water Pollution Control did not follow procedures for delinquent accounts

Finding

Although there are established procedures for delinquent accounts, the Division of Water Pollution Control did not exert sufficient effort to collect delinquent permit fees. Notification letters were not always sent at the appropriate intervals to request payment of late permit fees. Delinquent accounts were not submitted to the attorney for the necessary legal action. Furthermore, penalties and interest were not applied to the unpaid balances.

This finding was also in the prior audit. Management concurred with the finding and stated that measures had been initiated to collect the delinquent fees, penalties, and interest. The division, however, is hampered in its efforts by out-of-date computer software, manual ledgers, and employee turnover.

When the established written departmental policies and procedures for handling delinquent accounts are not followed, chances of collection greatly decrease and revenue is lost.

Recommendation

The Director of the Division of Water Pollution Control should ensure employees follow the established written departmental policies and procedures for delinquent accounts. Permit holders should be notified of unpaid annual maintenance fees in a timely manner. Penalties and interest should be calculated immediately and applied to unpaid balances.

Management's Comment

We concur. As previously stated, employee turnover and out-of-date computer software have contributed to this problem. However, progress has been made to correct this situation: (1) The majority of the delinquent accounts are mining permits for bankrupt or reclaimed mine sites

whose owners left unpaid invoices. An “Invoices not paid report” is sent to the mining section on a quarterly basis identifying delinquent accounts. Applications by mining operators or owners for renewal permits are delayed until all past due accounts are settled. (2) A new collection procedure has been implemented in partnership with the Office of General Counsel (OGC). (3) A fee operator knowledgeable of Permit Compliance System was appointed.

The uncollectible accounts continue to be sent to the OGC, which attempts to collect outstanding fees, penalty and interest. When these efforts fail, the OGC provides input as to whether the debt should be written off.

EQUIPMENT

The objectives of our work in the area of equipment were to

- determine that the Department of General Services’ equipment listing represented a complete and valid listing of the assets purchased, constructed, or leased and physically on hand,
- determine that fixed assets were adequately safeguarded, and
- determine that proper procedures were followed concerning lost or stolen equipment.

We interviewed fiscal personnel to gain an understanding of the procedures for adding and deleting equipment from the state’s equipment listing, as well as updating equipment location information. Controls over purchasing, receiving, tagging, and safeguarding equipment were discussed with appropriate personnel at each of the state parks visited. No material weaknesses were noted; however, less significant weaknesses were reported to management in a separate letter.

A nonstatistical sample of items on the Department of General Services’ property listing was selected for the state parks to be visited by the auditors. The items were physically located and the descriptions, tag numbers, and serial numbers were compared to the property listing. In addition, we nonstatistically selected items observed at the state parks and traced those items by tag or serial number to the Department of General Services’ property listing. No material problems were noted, but less significant matters were reported to management in a separate letter.

Testwork on lost and stolen items reported to the Division of State Audit was performed. A nonstatistical sample was selected from the lost and stolen items memoranda prepared by the department’s Internal Audit Division. The items were tested for timely reporting of the loss to management and other appropriate authorities and for proper removal from the Department of General Services’ property listing. No material discrepancies were noted.

FINANCIAL INTEGRITY ACT

The Financial Integrity Act of 1983 requires each executive agency to annually evaluate its systems of internal accounting and administrative control and report the results of its evaluation to the Commissioner of Finance and Administration and the Comptroller of the Treasury by December 31 of each year.

The objectives of our review of the Department of Environment and Conservation's compliance with the Financial Integrity Act were to determine whether

- the department's reports were filed in compliance with the act,
- documentation to support the department's evaluation was properly maintained,
- procedures used in compiling information for the reports were adequate, and
- corrective actions had been implemented for weaknesses identified in the reports.

We interviewed key employees responsible for compiling information for the reports to gain an understanding of the procedures. We also reviewed the supporting documentation for these procedures and the reports submitted to the Comptroller of the Treasury and to the Department of Finance and Administration.

We determined that the Financial Integrity Act reports were submitted on time and that support for the reports was adequate.

SPECIAL INVESTIGATION

T. O. FULLER STATE PARK

At the request of department officials, the Division of State Audit reviewed the collection of golf cart rental fees and golf course fees at the T. O. Fuller State Park pro shop for the period January through July 1997. Park management's earlier analysis of park revenues had revealed a significant decrease in the collection of golf cart rental fees. The objective of our review was to determine (by matching cash register tape transactions, golf cart receipts daily reports, and golf course starter sheets) whether golf cart rental fees had been properly collected and to evaluate the internal controls over funds to determine whether they were adequate.

The review included an examination of relevant documents and interviews with the pro shop's employees—the golf course manager, the two cashiers, and two park volunteers. The review determined that the decrease in the collection of golf cart rental fees and golf course fees did not appear the result of irregularities, although the internal controls over pro shop activities were not sufficient to prevent and detect irregularities as discussed in finding 9.

9. Internal controls over pro shop activities were inadequate

Finding

Internal controls for the pro shop at the T. O. Fuller State Park were determined to be inadequate. The noted deficiencies limited management's ability to prevent and detect errors and irregularities. The following lack of internal controls were noted:

- Rain checks issued to patrons were not accounted for. These checks were not prenumbered, listed upon issuance, or voided after they were used by patrons.
- Voided transactions on the cash register were not documented or approved by management.
- The cash register was not closed and receipts were not reconciled with register tapes when the cashiers changed shifts. Cashiers closing the register at the end of the day were unsupervised. The cashiers' duties were not segregated. One cashier admitted to recording fictitious sales upon closing the cash register in order to balance the register tape with funds collected.
- The lack of a perpetual inventory system and detailed records of items sold prevented management from determining whether daily sales were appropriately recorded.

Recommendation

The Assistant Commissioner of State Parks should ensure internal control procedures are developed for the operation of the golf course cash registers. These procedures should be provided to all the park and pro shop managers. The golf course manager should ensure that the cashiers are supervised when they count the cash register and that the cash register is closed and funds counted between shifts. Cashiers and managers issuing refunds should initial the cash register tape and retain the original cash register receipts. The golf course manager should consider using prenumbered, duplicate rain check slips. The golf course manager should consider appropriate disciplinary actions for the cashier involved in creating sales.

The golf course manager should ensure a detailed inventory of pro shop merchandise is maintained, and discrepancies between inventory amounts and sales recorded on the register should be investigated immediately.

Management's Comment

We concur. Management will reiterate to park managers the requirement that internal controls over cash receipts and inventories, identified in Chapters 2 and 31 of the *Fiscal Procedures Manual*, be followed.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of Environment and Conservation filed its report with the Department of Audit on June 5, 1997. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the department had corrected previous audit findings about enforcing the financial responsibility rules associated with the Underground Storage Tank Fund and enforcing the lease agreement requirements at the state parks.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning inadequate segregation of duties at the state parks, failure to follow gasoline inventory procedures, weak controls over cash receipts, and ineffective collection efforts. These findings have not been resolved and are repeated in the applicable sections of this report.

PAST FINDING NOT ACTED UPON BY MANAGEMENT

Prior audits of the Department of Environment and Conservation have contained a finding about the department's providing maintenance benefits without apparent authority to do so. This finding resulted from the Department of Finance and Administration's failure to formulate a statewide maintenance policy as required by statute. Management has concurred with this repeat finding and stated that it will comply with a maintenance policy when such a policy is issued. The Department of Finance and Administration issued Policy 16 (Employee Housing and Meals) effective March 31, 1998. Compliance with this policy will be reviewed in the next audit of the department.

OBSERVATIONS AND COMMENTS

SPECIAL INVESTIGATIONS

During the audit period, the internal audit staff notified this office of four areas of concern the division was specifically requested to review or had discovered during a regularly scheduled internal audit. After requesting the assistance of this office, these matters were reviewed jointly and subsequently reported on. The internal auditors investigated surface mine inspections (East Tennessee) in February 1997, gift shop operations (Life and Casualty Tower in Nashville) in April 1997, and the misuse of state funds and services (Natchez Trace State Park) in September 1997. This office issued a special report on March 26, 1998, regarding the theft of restaurant funds from Paris Landing State Park. These four reports are summarized below.

Surface Mine Inspections (East Tennessee)

The internal audit report of this matter dated February 3, 1997, concluded that a surface mining inspector completed inspection reports for days he had not visited the site, improperly signed operator-agent's names on inspection reports, and changed inspection reports after the operators had received their official copies. Although the full extent of these falsifications could not be determined (the inspector was responsible for approximately 130 mining sites), the inspector appeared to have falsified 21 reports for one mine company and three reports for another.

On January 29, 1997, the surface mining inspector was interviewed and admitted preparing inspection reports for days on which he had simply driven by the site and taken a quick look from his vehicle. The inspector stated that he used his prior knowledge of the site and his physical observation during his drive by to later complete the inspection report. The inspector further stated that he had signed operators' names to inspection reports and changed inspection reports after the operators had received their official copies. From the evidence gathered, it appears the inspector falsified reports, including operator signatures, in an effort to conceal his lack of proper and complete inspections.

These observations were communicated to management in a February 3, 1997, memorandum from the department's internal audit unit. On February 25, 1997, the department terminated the inspector's employment for gross misconduct. He did not appeal this decision.

It was recommended that the Director of Water Pollution Control implement controls to ensure inspections comply with departmental policies. It was also recommended that the department continue its re-inspection of mining sites assigned to the former inspector.

Gift Shop Operations (Life and Casualty Tower in Nashville)

As reported in an internal audit report dated April 23, 1997, management failed to adequately oversee the gift shop operations, duties were not segregated, and subordinates' work

was not supervised or reviewed. The administrative assistant receipted sales, reconciled receipts with the funds collected, prepared both a retail operation report and a sales report, posted all transactions related to inventory, maintained the gift shop inventory, prepared the deposit, and took the deposit to the bank.

It was also determined that gift shop employees did not follow proper procedures in handling cash receipts. Checks were not endorsed immediately. The administrative assistant had established an unauthorized change fund. This change fund was established through cash sales that were not properly deposited with daily receipts. The funds that were deposited were not done so in a timely manner.

Moreover, records were not kept to indicate the amount of merchandise sold or returned; thus, management was prevented from monitoring sales revenue, or losses. The beginning and ending inventory balances at the gift shop could not be determined because the records were not adequately maintained. The ending inventory dollar value of sales was overstated because employees neglected to adjust the dollar value from employee discounts. Also, original inventory sheets were not retained, and the entries were not compared to the computerized inventory sheet.

The internal audit report recommended that management provide proper training to gift shop employees and that management separate the accounting and depositing functions. All receipt numbers should be accounted for and written on the deposit slip, and deposits should be intact and made daily. Checks should be endorsed immediately upon receipt and accepted only for the amount of legitimate goods and services. The Division of Fiscal Services must approve the use of a change fund. This fund should be kept at a constant amount and counted daily. Also, adequate records should be kept concerning merchandise sold or returned. Management should review inventory procedures. All employee discounts should be approved and properly documented.

Management concurred with all observations and had previously closed the gift shop on March 3, 1997. All remaining inventory was moved to other gift shops.

Misuse of State Funds and Services (Natchez Trace State Park)

According to an internal audit report dated September 23, 1997, Mr. James Keeton, a former park manager, used \$977.40 in state funds to purchase personal items, did not pay for meals at the park restaurant, and permitted individuals to stay in cabins without paying.

Specific incidents included the purchase of a mailbox and welding costs associated with the mailbox (\$147.99), which was used by a church (where the former park manager was the pastor) and was charged to the state. The costs of lumber totaling \$304.33 for the construction of tables for the church were billed to (and paid by) the state. The former park manager also purchased a large rubber ball and Easter baskets (totaling \$126.08) which also appeared to be for personal use. At the instruction of Mr. Keeton, a park ranger purchased a stove with state funds for use in the ranger's personal residence. Mr. Keeton indicated that the stove was a "replacement for cabin" and approved the \$399 invoice.

In addition to the personal purchases, the former park manager admitted that he had not paid for his meals at the park's restaurant. He stated that the hospitality and retail marketing managers had given him permission to have free meals. When asked, both managers denied giving the former park manager this authorization.

The former park manger also admitted permitting friends to stay in cabins at the park without collecting revenue on two occasions. The reservation sheets indicated that the former park manager had reserved cabins on 14 occasions and collected no revenue for their use. The loss of revenue to the state totaled \$910.

The total loss was identified as \$1,887.40. Of this amount, the church repaid \$125.00 for the mailbox; the lumber company credited the park's account for \$304.33; the ranger replaced the stove for \$399.00; and the remaining \$1,059.07 was deducted from Mr. Keeton's compensatory leave balance. After notification of his termination, the former park manager filed a grievance regarding his dismissal.

On September 23, 1997, the internal audit memorandum, relating to this park manager's activities, was forwarded to the office of the District Attorney General for the Twenty-sixth Judicial District (Henderson County). On February 20, 1998, Mr. Keeton was granted a pre-trial diversion and required to repay the state, and agreed to dismiss the grievance against the state. His employment termination was made official on February 20, 1998. The park ranger involved was given a ten-day suspension without pay.

It was recommended that management implement periodic reviews of park managers' purchase requests and also train employees on the policies regarding purchasing meals and reserving cabins.

Restaurant Operations (Paris Landing State Park)

As reported by the Division of State Audit in a special report dated March 26, 1998, management did not effectively oversee restaurant cashiers' activities which led to the loss of at least \$3,560. Cashiers collected funds, accounted for guest checks, and reported the nightly collections without management supervision. Management also neglected to review the control logs, guest checks, voided transactions, and "no sales." Furthermore, management did not have any procedures in place for supervisory staff to confirm that credit card transactions were recorded on the cash register.

The misappropriations involved the substitution of credit card sales amounts that had not been recorded on the cash register for cash sales that had been recorded. In this way, the cashier obtained the cash for personal use. To conceal this substitution, the cashier apparently destroyed guest checks associated with the unrecorded sales. The cash register was closed only at the end of the second shift. The employee counted the funds in a locked room with no supervision, recorded amounts from the cash register tape on the retail operation report, reconciled guest checks' amounts with the cash register tape, completed the count of funds collected (cash, checks, and credit card slips), and reconciled the count of funds with the retail operation report. Only after the funds were reconciled with the retail operation report would the cashier have the

report would the cashier have the desk clerk recount the funds to be deposited. The cashier had the opportunity to misappropriate any funds above the amount shown on the cash register tape because she was alone, without supervision, while counting, reconciling, and recording cash register activity.

It was recommended that management supervise the cashiers and track each guest check. No food items should be served without a guest check. The cash drawer should be closed at the end of each shift. Procedures should be implemented to ensure that the cashiers do not count the funds while unsupervised and that the desk personnel immediately receipt funds. The desk clerk and the night manager should also confirm credit card sales with the transactions on the cash register tape.

Management of the park stated that they had begun implementing stronger controls over restaurant funds, and that cashiers and servers must now account for guest checks. A credit card key was added to the register to indicate when a credit card was used to purchase a meal. In addition, the cash register is now closed after each shift, and the funds are collected and recorded by the manager or night auditor. The department's Retail Section has drafted guidelines for the operations of the cash register and the reconciliation of funds collected in the state park restaurants.

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Tennessee Code Annotated, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. For the year ended June 30, 1997, the Department of Environment and Conservation filed its compliance report and implementation plan on June 30, 1997, and for the year ended June 30, 1996, on June 28, 1996.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

The State Planning Office in the Executive Department was assigned the responsibility of serving as the monitoring agency for Title VI compliance, and copies of the required reports were filed with the State Planning Office for evaluation and comment. However, the State Planning Office has been abolished. The Office of the Governor has not designated a new monitoring agency for the Executive Branch.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

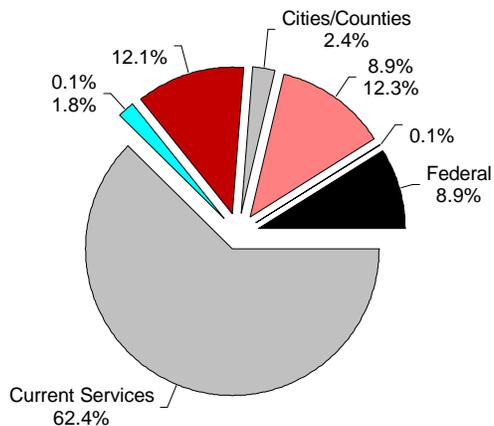
APPENDIX

Department of Environment and Conservation divisions and allotment codes:

327.01	Administrative Services
327.03	Conservation Administration
327.04	Historical Commission
327.06	Land and Water Conservation Fund
327.08	Division of Archaeology
327.11	Division of Geology
327.12	Tennessee State Parks
327.14	Division of Natural Heritage
327.15	Tennessee State Parks Maintenance
327.18	Maintenance of Historic Sites
327.19	Local Parks Land Acquisition Fund
327.20	State Land Acquisition Fund
327.22	State Land Acquisition Compensation Fund
327.23	Used Oil Collection Program
327.25	Tennessee Ocoee Development Agency
327.26	West Tennessee River Authority
327.28	Tennessee Dry Cleaners Environmental Response Fund
327.29	Environmental Assistance
327.30	Environment Administration
327.31	Division of Air Pollution
327.32	Division of Radiological Health
327.33	Division of Construction Grants and Loans
327.34	Division of Water Management
327.35	Division of Solid Waste Management
327.36	Department of Energy Environmental Oversight
327.37	State Abandoned Lands
327.38	Division of Superfund
327.39	Division of Water Supply
327.40	Division of Ground Water Protection
327.41	Division of Underground Storage Tanks
327.42	Division of Solid Waste Assistance Fund
327.43	Environmental Protection Fund

Revenue by Source

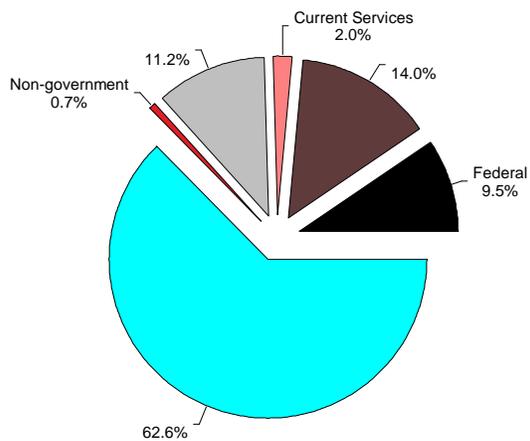
Year Ended June 30, 1997 (Unaudited)



Source: Environment and Conservation

Revenue by Source

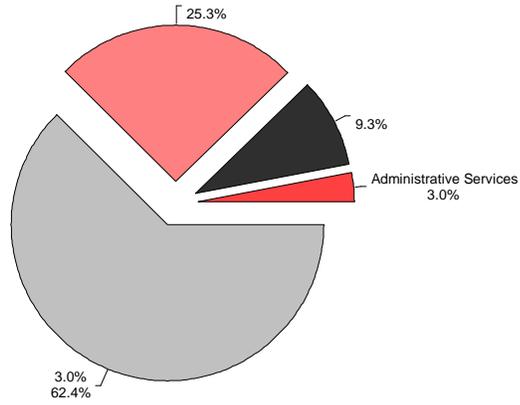
Year Ended June 30, 1996 (Unaudited)



Source: Environment and Conservation

Expenditures by Section

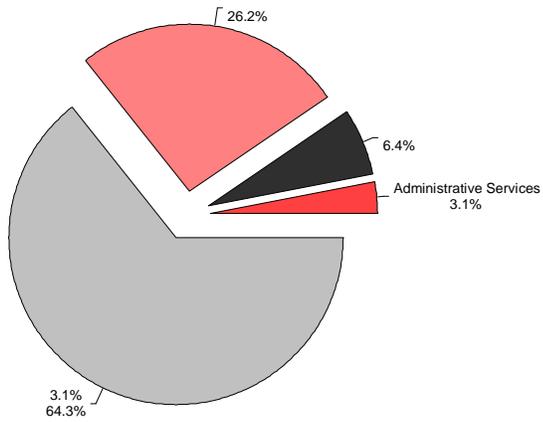
Year Ended June 30, 1997 (Unaudited)



Source: Environment and Conservation

Expenditures by Section

Year Ended June 30, 1996 (Unaudited)



Source: Environment and Conservation