

**DEPARTMENT OF ENVIRONMENT AND CONSERVATION**

**FOR THE YEARS ENDED  
JUNE 30, 1995, AND JUNE 30, 1994**

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December 18, 1996

The Honorable Don Sundquist, Governor  
and

Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

and

The Honorable Justin P. Wilson, Commissioner  
Department of Environment and Conservation  
401 Church Street  
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the compliance audit of the Department of Environment and Conservation for the years ended June 30, 1995, and June 30, 1994.

Consideration of the internal control structure and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The department's administration has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Very truly yours,

W. R. Snodgrass  
Comptroller of the Treasury

WRS/cr  
96/092

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Compliance Audit

**Department of Environment and Conservation**

For the Years Ended June 30, 1995, and June 30, 1994

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## AUDIT OBJECTIVES

The objectives of the audit were to consider the department's internal control structure; to test compliance with certain laws, regulations, contracts, or grants; and to recommend appropriate actions to correct any deficiencies.

## INTERNAL CONTROL FINDINGS

### **Inadequate Segregation of Duties at State Parks**

A review of the cash collection and receipting process at Chickasaw, Edgar Evins, Henry Horton, and Pickwick Landing State Parks revealed that duties are not properly segregated (page 16).

### **Gasoline Inventory Procedures Not Followed\*\***

The department's procedures for recording and safeguarding gasoline inventory are not always followed at state parks (page 19).

### **Weak Controls Over Cash Receipts**

Duties over cash receipts are not always segregated in some divisions, cash receipts are not always written, checks are not always restrictively endorsed immediately upon receipt, and periodic reconciliations are not always performed by someone independent of the cash-receipting process (page 14).

## COMPLIANCE FINDINGS

### **Procedures for Delinquent Accounts Not Followed**

The department's procedures for billing and collecting delinquent accounts are not always followed in the Division of Water Pollution Control (page 12).

### **Lease Agreements Not Enforced**

A review of leased operations at Chickasaw, Edgar Evins, and Pickwick Landing State Parks revealed that not all requirements of the lease agreements are enforced (page 18).

### **Financial Responsibility Rules Not Enforced\***

The department does not require owners or operators to submit an updated certification of financial responsibility for the Underground Storage Tank Fund. In addition, the department does not require owners or operators to send in the required documentation within 30 days of a reported underground storage tank leak or release (page 10).

\* This finding was repeated from the prior audit.

\*\* This finding was 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 has 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.

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"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

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AUDIT REPORT  
DEPARTMENT OF ENVIRONMENT AND CONSERVATION  
FOR THE YEARS ENDED JUNE 30, 1995, AND JUNE 30, 1994

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DEPARTMENT OF ENVIRONMENT AND CONSERVATION  
FOR THE YEARS ENDED JUNE 30, 1995, AND JUNE 30, 1994

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INTRODUCTION

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**POST-AUDIT AUTHORITY**

This is a report on the 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.

**OBJECTIVES OF THE AUDIT**

The objectives of the audit were

1. to consider the department’s internal control structure to determine auditing procedures for the purpose of testing compliance with certain laws, regulations, contracts, or grants;
2. to test compliance with certain laws, regulations, contracts, or grants; and
3. to recommend appropriate actions to correct any deficiencies.

**SCOPE OF THE AUDIT**

The audit was limited to the period July 1, 1993, through June 30, 1995, and was conducted in accordance with generally accepted government auditing standards. In addition, the audit scope was limited to concentrating on compliance with certain laws, regulations, contracts, or grants related to property and equipment, the Division of Water Pollution Control, and the state parks.

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## BACKGROUND AND ORGANIZATION

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### LEGISLATIVE HISTORY

The Department of Environment and Conservation was created pursuant to Executive Order number 42, dated February 4, 1991, which transferred the Bureau of Environment, its related functions, and the administration of the Tennessee environmental statutes to the Department of Conservation from the Department of Health and Environment. This transfer did not include the Food and General Sanitation program, which remains a part of the Department of Health. The Division of Forestry and the administration of the Tennessee Forestry Act were transferred from the Department of Conservation to the Department of Agriculture pursuant to Executive Order number 41, also dated February 4, 1991.

The Department of Environment and Conservation officially received its name pursuant to Chapter 693 of the Public Acts of 1992, which referenced environmental and conservation statutes to the “Department of Environment and Conservation.”

### ORGANIZATION

The department is organized into three bureaus:

1. Bureau of Conservation
2. Bureau of Environment
3. Bureau of Administrative Services

The Bureau of Conservation includes Archaeology, Geology, Natural Heritage, Real Property Management, State Parks Foundations, Tennessee State Parks, Tennessee Historical Commission, Recreational Services, Indian Affairs, and *The Tennessee Conservationist* magazine. The bureau is responsible for promoting, conserving, and protecting Tennessee’s natural and cultural resources; identifying and preserving significant historical and archaeological sites; providing information on geological and mineral resources; protecting and preserving unique examples of natural, cultural, and scenic areas; and providing a variety of quality outdoor experiences.

The Bureau of Environment contains Air and Water Programs which include Air Pollution Control, the J. R. Fleming Environmental Training Center, Ground Water Protection, Water Pollution Control, and Water Supply; Land and Radiological Programs which include Solid/Hazardous Waste Management, Department of Energy Oversight, Radiological Health, Superfund, and Underground Storage Tanks; and Assistance and Support Administration which includes Construction Grants and Loans, Pollution Prevention/Environmental Awareness, Solid Waste Assistance, and Support Services. This bureau is responsible for all environmental regu-

latory activities in the state, acts as the administrative office for the implementation and enforcement of state and federal laws to protect the public's health and the environment, directs the department's overall endeavors in pollution prevention education, and provides technical and financial assistance to help communities build and upgrade local parks, recreation areas, and water and wastewater treatment facilities.

The Bureau of Administrative Services contains Fiscal Services, Internal Audit, Information Systems, Personnel Services, and Education and Outreach Legislative Liaison. The bureau provides a wide range of support services for the offices and staff of the department.

An organization chart of the department is on the following page. The Department of Environment and Conservation is part of the general fund of the State of Tennessee. The Environmental Protection, Abandoned Land, Underground Storage Tanks, Solid Waste, Hazardous Waste, and Parks Acquisition funds are special revenue funds.

The department is responsible for the following 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
327.23	Used Oil Collection Program
327.25	Tennessee Ocoee Development Agency
327.28	Tennessee Dry Cleaners Environmental Response Fund
327.29	Environmental Assistance
327.30	Environment Administration
327.31	Division of Air Pollution Control
327.32	Division of Radiological Health
327.33	Division of Construction Grants and Loans
327.34	Division of Water Pollution Control
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

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**PRIOR AUDIT FINDINGS**

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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, 1995. 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 has corrected previous audit findings concerning payroll deduction authorization forms, controls over property and equipment, and maintenance of park grounds and facilities.

**REPEATED AUDIT FINDINGS**

The prior audit report also contained findings concerning enforcing the rules regarding financial responsibility and gasoline inventory procedures. These findings have not been re-solved and are repeated in this report.

**PAST FINDING NOT ACTED UPON BY MANAGEMENT**

Prior audits of the Department of Environment and Conservation (formerly the Department of Conservation) have contained a finding about the department's providing maintenance benefits without apparent authority to do so. This finding has resulted from the Department of Finance and Administration's failure to formulate a statewide maintenance policy as required by statute. Similar findings have been noted in audits of mental health and mental retardation facilities, correctional facilities, special education institutes, and developmental centers.

Section 8-23-201(b), *Tennessee Code Annotated*, states:

State officers and employees subject to appointment by the department of personnel shall be provided maintenance, including, but not limited to, housing and meals, only under policies prepared by the

commissioner of finance and administration in consultation with the commissioner of personnel, the comptroller of the treasury, and the attorney general and reporter.

The General Assembly enacted this amendment to the code as Chapter 428 of the Public Acts of 1979, effective October 1, 1979. The statute's apparent purpose is to provide a uniform system of maintenance for state employees.

Some employees of the Department of Environment and Conservation reside on state property and are furnished utilities without cost. These maintenance provisions appear to violate *Tennessee Code Annotated* because the Department of Finance and Administration has not yet promulgated a statewide maintenance policy. Several departments in state government offer varying maintenance benefits to their employees, including free meals, housing, utilities, furniture, consumable supplies, and ground maintenance. Establishing a uniform statewide maintenance policy would standardize fringe benefits throughout state government. However, until such a policy is established, there apparently is no authorization for the provision of maintenance.

Management has concurred with this repeat finding and stated that it will comply with a maintenance policy when such a policy is issued.

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## OBSERVATIONS AND COMMENTS

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*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, 1995, the Department of Environment and Conservation filed its compliance report and implementation plan on June 30, 1995, and for the year ended June 30, 1994, on December 21, 1994.

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 ground of race, color, or national 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 the 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 is currently evaluating which office in the Executive Branch will be the new monitoring agency.

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.

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## RESULTS OF THE AUDIT

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### **AUDIT CONCLUSIONS**

#### Internal Control Structure

We considered the internal control structure to determine auditing procedures for the purpose of testing compliance with certain laws, regulations, contracts, or grants. The report on the internal control structure is on the following pages. Certain deficiencies, along with recommendations and management's responses, are detailed in the findings and recommendations, which follow the report on the internal control structure.

#### Compliance with Laws and Regulations

With respect to the items tested, the department complied with the provisions of certain laws, regulations, contracts, or grants except for certain instances of noncompliance included in the findings and recommendations. The compliance report follows the findings and recommendations.

## **Report on the Internal Control Structure**

May 31, 1996

The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have applied procedures to test the Department of Environment and Conservation's compliance with the provisions of certain laws, regulations, contracts, or grants for the years ended June 30, 1995, and June 30, 1994, and have issued our report thereon dated May 31, 1996. We performed the procedures in accordance with generally accepted government auditing standards.

We considered the department's internal control structure in order to determine our procedures for the purpose of testing the department's compliance with certain laws, regulations, contracts, or grants and not to provide assurance on the internal control structure.

The Department of Environment and Conservation's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

The Honorable W. R. Snodgrass  
May 31, 1996  
Page Two

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the department's ability to comply with laws, regulations, contracts, or grants. However, we did note the following deficiencies:

- Controls over cash receipts are weak.
- Duties are not adequately segregated in the cash collection and receipting process at the state parks.
- Gasoline inventory procedures are not followed.

These deficiencies are described in the Findings and Recommendations section of this report.

We also noted certain matters involving the internal control structure and its operation that we have reported to the department's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/cr

## FINDINGS AND RECOMMENDATIONS

### THE DEPARTMENT SHOULD ENFORCE THE RULES REGARDING FINANCIAL RESPONSIBILITY

#### 1. FINDING:

As stated in the prior audit, the department does not enforce its rules regarding the certification of financial responsibility for the Underground Storage Tank Fund.

Underground storage tank owners or operators must pay a deductible before they can be reimbursed from the fund for the cleanup of contaminated sites. A certification of financial responsibility provides assurance that the owner or operator can pay the required deductible. However, the department does not require owners or operators to submit to the department an updated certification of financial responsibility with the annual tank fee. *Rules and Regulations of the State of Tennessee*, “Underground Storage Tank Program,” Section 1200-1-15-.08(17)(b)6, states that “an owner or operator . . . must maintain and submit to the Department with the annual tank fee an updated copy of a certification of financial responsibility.”

In addition, the department does not require owners or operators to send in the required documentation within 30 days of a reported underground storage tank leak or release as outlined in Section 1200-1-15-.08(16)(a):

An owner or operator must submit the appropriate forms . . . documenting current evidence of financial responsibility to the Commissioner . . . [w]ithin 30 days after the owner or operator identifies a release from an underground storage tank.

The Division of Underground Storage Tanks’ enforcement and compliance section performs on-site inspections to determine whether the owners or operators are complying with the department’s rules over areas such as installation and leak detection. These inspections include the review of various documents to ensure compliance; however, the review does not include verification that the owner or operator is in compliance with financial certification requirements even though these documents are required to be kept on site. Section 1200-1-15-.08(17)(a) of the “Underground Storage Tank Program” states:

Owners or operators must maintain evidence of all financial assurance mechanisms used to demonstrate financial responsibility under this rule for an underground storage tank . . . . An owner or operator must maintain such evidence at the underground storage tank site or the owner’s or operator’s place of business. Records

maintained off-site must be made available upon request of the Department.

Without certification of financial responsibility, there is no assurance that the owner or operator can pay the required deductible. If the owner or operator cannot pay, a delay could occur in the cleanup of contaminated sites.

Management concurred with the prior audit finding but responded that they did not agree with all of the requirements contained in their financial responsibility regulations. However, management has neither revised the state regulations nor complied with the current state regulations regarding financial responsibility as was recommended in the prior audit.

#### RECOMMENDATION:

The Director of Underground Storage Tanks should ensure that the owner or operator of an underground storage tank submit to the department with the annual tank fee an updated copy of a certification of financial responsibility and submit the appropriate forms documenting current evidence of financial responsibility to the Commissioner within 30 days after the owner or operator identifies a release from an underground storage tank. During on-site inspections, documentation should be reviewed to determine whether the owner or operator is in compliance with the financial certification requirements. The department should consider the possible consequences for the failure to provide the appropriate certification. If these requirements are not feasible or other procedures are more appropriate, the department's rules should be revised.

#### MANAGEMENT'S COMMENT:

We concur. The Division of Underground Storage Tanks has revised Section 1200-1-15-.08(17)(b)6 effective October 1995. The rule now states that "an owner and/or operator . . . must maintain and submit to the Department a copy of a certification of financial responsibility. . . . The owner and/or operator must update this certification whenever the financial assurance mechanism(s) used to demonstrate financial responsibility change(s) or expires. A copy of this updated certification is to be submitted to the Department whenever the financial assurance mechanism(s) used to demonstrate financial responsibility change(s) or expires."

Section 1200-1-15-.08 is derived from federal regulation and is found in 40 CFR (Code of Federal Regulations) 280.106 and 280.107 almost verbatim. These federal regulations were intended to apply to all underground storage tank programs nationwide, and the Environmental Protection Agency's directive that state programs be "no less stringent" than the federal program basically required that state programs adopt federal language in state regulations, which Tennessee did in 1990. While we do not agree with

all requirements contained in these financial responsibility regulations, it is essential they appear in state regulations if our program is to be considered “no less stringent” and we are ever to receive program approval from the Environmental Protection Agency.

The requirement that owners or operators submit forms when paying tank fees and within 30 days of a release, as in Section 1200-1-15-.08(16)(a), is a moot issue. It has no relationship whatever to payment of state fund monies. Whether the individual has liquid assets or no assets, the fund will not make payment until the deductible for a site has been met. It makes no difference in how the program operates whether the owner sends in such a form. In addition, compliance inspectors are trained in technical regulatory compliance and not financial matters. The inspectors would only be able to confirm the presence of a document and not if the facility met the financial requirements.

In conclusion, the department agrees with the finding; however, we believe that our compensating procedures are more appropriate than those identified in the regulations.

AUDITOR’S COMMENT:

The department’s compensating procedures should be incorporated into the regulations if management believes these procedures are more appropriate. Writing procedures only to satisfy the federal government with no intention of following them could jeopardize the program.

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THE DIVISION OF WATER POLLUTION CONTROL DID NOT FOLLOW THE ESTABLISHED WRITTEN PROCEDURES FOR DELINQUENT ACCOUNTS

2. FINDING:

The Division of Water Pollution Control issues permits for discharges of pollutants into the state’s waters. Permit holders are required to pay annual maintenance fees for the duration of the permit. During testwork on unpaid annual maintenance fees, several problems were noted concerning (a) notification of unpaid maintenance fees, (b) calculation of penalties and interest, and (c) compliance with written departmental policies and procedures for delinquent accounts.

- a. The division did not notify permit holders of unpaid annual maintenance fees in a timely manner for 12 of 15 delinquent accounts tested. The number of days between the due date and the date the second invoices were sent ranged from 27 to 309 days. For two delinquent accounts tested, the division sent a timely second billing statement; however, no

other collection attempts were made. A total of \$10,450 was still uncollected as of April 1996.

- b. Penalties and interest were not calculated and added to the unpaid balances for 14 of 15 delinquent accounts tested.

Section 68-203-103(e)(1), *Tennessee Code Annotated*, states:

If any part of any fee imposed under this chapter is not paid within fifteen (15) days of the due date, a penalty of five percent (5%) of the amount due shall at once accrue and be added thereto. Thereafter, on the first day of each month during which any part of any fee or any prior accrued penalty remains unpaid, an additional penalty of five percent (5%) of the then unpaid balance shall accrue and be added thereto. In addition, the fees not paid within fifteen (15) days after the due date shall bear interest at the maximum lawful rate from the due date to the date paid.

For one of the 15 delinquent accounts tested, penalties and interest were calculated, but the division received only the initial annual maintenance fee due from the permit holder. Penalties and interest were never received because the division removed them from the account. Departmental policies for handling delinquent accounts state that if the payer pays the entire fee amount but does not pay the accrued penalty and interest, the penalty would continue to accrue the first of each month on the unpaid penalty and the interest would accrue from the due date to the fee payment date.

- c. The division did not follow the established written departmental policies and procedures for delinquent accounts. This resulted in a lack of monitoring delinquent accounts to ensure that all efforts to collect from the permit holder were exercised so that legal action could possibly be initiated.

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 by appropriate monitoring that (a) permit holders are notified of unpaid annual maintenance fees in a timely manner as required by written departmental policies and procedures, (b) penalties and interest are calculated immediately on unpaid balances as required by *Tennessee Code Annotated* and written departmental policies and procedures, and (c) employees

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

MANAGEMENT'S COMMENT:

We concur. We have initiated measures to attempt to receive the uncollected fees, penalties, and interest. We have implemented a collection procedure developed by the attorney in charge of delinquent accounts. We have also implemented a procedure in our Mining Program which will allow for termination of mining permits of facilities which have not paid their Environmental Protection Fund fees in a timely manner.

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CONTROLS OVER CASH RECEIPTS ARE WEAK

3. FINDING:

The Department of Environment and Conservation does not have adequate controls over cash-receipting procedures. The following weaknesses were noted:

**Division of Underground Storage Tanks**

- The individual opening the mail does not prepare a receipt listing or issue cash receipts.

**Division of Hazardous Waste Management**

- A comparison is not made between the receipt listings and the cash receipt records or deposits by someone independent of these activities.
- Because the same person writes the receipts and enters the information into the internal accounting system, there is inadequate segregation of duties.

**Division of Solid Waste Management**

- Because the same individual writes the receipts, prepares the deposit, makes the deposit, and posts to the internal accounting records, there is inadequate segregation of duties.
- The individual opening the mail does not prepare a receipt listing or issue cash receipts.

**Division of Water Pollution Control**

- The individual opening the mail does not always restrictively endorse checks, prepare receipt listings, or issue cash receipts.

#### **Division of Groundwater Protection**

- When the auditor observed the cash-receipting process, the same person opened the mail, entered the check information into the accounting records, prepared the deposit, and made the deposit.
- A comparison is not made between the receipt listings and the cash receipts records or deposits by someone independent of these activities.
- The accounts receivable ledger is not reconciled with the invoices. Also, invoices, permit letters, and receipts are not prenumbered, and receipts are not reconciled with permits.

#### **Division of Air Pollution Control**

- The same individual writes the receipts, prepares the deposit, and posts to the internal accounting records.
- A comparison is not made between the receipt listings and the cash receipt records or deposits by someone independent of these activities.

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

#### **RECOMMENDATION:**

The directors of the divisions mentioned above 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:

We concur. The division directors will implement the recommended procedures if practical. The procedures are not always possible due to staffing levels. In these instances, management will implement compensating controls such as supervisory review.

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## DUTIES ARE NOT ADEQUATELY SEGREGATED IN THE CASH COLLECTION AND RECEIPTING PROCESS AT THE STATE PARKS

### 4. FINDING:

During the audit, a review was performed of the cash-receipting activities at the following state parks: Chickasaw, Edgar Evins, Henry Horton, and Pickwick Landing. The review revealed a lack of segregation of duties in the cash collection and receipting process at four parks visited. The following weaknesses were noted:

#### **Chickasaw State Park**

- The custodian of the petty cash fund also performs the petty cash bank reconciliation.
- The same individual at the park office counts the cash from the operations and prepares the daily sales report, the monthly sales report, and the certificate of deposit.

#### **Edgar Evins State Park**

- Only one park employee is responsible for removing the money from the vending machines.
- Because duties are rotated, the individual responsible for additions to and deductions from the escrow accounts could also be the person who receives and receipts the escrow monies.

#### **Henry Horton State Park**

- Only one park employee is responsible for removing the money from the vending machines.
- The custodian of the petty cash fund also performs the petty cash bank reconciliation.

- At the park office and inn office, the same individual restrictively endorses the checks, prepares the deposit, prepares the daily retail operational report, makes changes to the report, and is responsible for the accounts receivable and billing processes.
- Receipts were not adequately safeguarded. Receipts could be accessed by any office staff at the inn and park offices.

### **Pickwick Landing State Park**

- A park employee does not accompany the vending machine representative when the money is removed from the machines.
- The individual who receives the escrow monies is also heavily involved in the escrow functions.

The *Department of Conservation Fiscal Procedure Manual*, Section 208.01, states:

Duties related to petty cash funds should be properly separated to the extent possible with available staff. The duties of approving vouchers, signing checks, reconciling bank statements, and requesting reimbursement *must not* be performed by the same person.

Section 504.01 states, “When vending machines are stocked by a company representative there must be an employee of the park present to verify that the money and inventory are counted accurately.”

Segregation of duties is essential to detect possible misuse of funds and clerical errors.

### **RECOMMENDATION:**

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

### **MANAGEMENT’S COMMENT:**

We concur. Park managers at all state parks will implement procedures to strengthen control over cash receipts and monitor compliance with their procedures.

REQUIREMENTS IN THE AGREEMENTS FOR LEASED OPERATIONS  
SHOULD BE ENFORCED

5. FINDING:

The department leases operations, such as marinas, gift shops, and restaurants, at certain state parks to private individuals. During visits to four state parks, it was noted that three did not enforce all requirements of the lease agreements for leased operations: Chickasaw, Edgar Evins, and Pickwick Landing. The following discrepancies were noted:

**Chickasaw State Park**

For seven of the eight lease payments tested (88%), the payment was not made on time as required by the applicable lease agreement. The lease payments were received between two and 14 days late. Also, the lease agreement for the restaurant was not on hand at the park office.

**Edgar Evins State Park**

Lease payments are computed as a percentage of gross sales. However, the park office has not required the lessee to submit the documentation required by the lease to support the amount of gross sales. Daily activity reports were not submitted to the park office with the monthly commission checks for the marina operations. Also, monthly sales tax reports which are compared to retail sales reports have not been submitted to the park since June 1994.

**Pickwick Landing State Park**

Lease payments are paid on a pro-rata basis when the leased operation is not open for the entire month. However, the park office does not require documentation indicating the actual number of days per month the leased operation was open. Also, for 12 of the 19 lease payments tested (63%), the payment was not made on time. The payments were received between one and 13 days late.

One leased operation did not pay for utilities during the audit period as required by the lease agreement. This discrepancy was also noted in the Department of Environment and Conservation's *Internal Audit Report* for the period July 1, 1994, through August 31, 1995.

The department's *Fiscal Procedures Manual*, section 412.01, requires the following:

For each leased operation . . . , an approved copy of the current lease agreement [should be maintained]. All payments of revenue are to be made to the park at the time specified in the lease agreement. Retail sales reports will be compared to sales tax reports and all differences explained and verified. Financial reports (retail operational report, sales tax form, and receipts) are to be received within the time established in the lease and should be reviewed and audited as provided for in the lease.

By not enforcing lease requirements for leased operations and not adhering to fiscal procedure 412.01, the State of Tennessee risks the loss of revenue. Also, if the lease agreement is not retained by the park office, it is difficult for park employees to ensure that lease payments are paid in accordance with the lease agreement.

RECOMMENDATION:

The managers at all state parks should ensure that adequate documentation supporting the amount of gross sales is obtained from the lessee. Also, an independent park employee should physically observe and maintain a record of the number of days the leased operations are open. The park managers should comply with fiscal procedure 412.01 and take the appropriate action to enforce the terms of the lease agreements.

MANAGEMENT'S COMMENT:

We concur. Management will obtain adequate documentation supporting the amount of the lessee's gross sales and the number of days the operation is open. We will be looking at each park's leased operations to improve this.

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GASOLINE INVENTORY PROCEDURES ARE NOT FOLLOWED

6. FINDING:

As stated in the four prior audits, the Department of Environment and Conservation's procedures for recording and safeguarding gasoline inventory are not always followed at the state parks. The following problems were noted during visits to four state parks:

## **Pickwick Landing State Park**

### Golf Course

- At the time of auditor observation, the diesel pump, the diesel tank, and the gasoline tank were not locked.
- The indicated inventory for the gasoline fuel tank was 342 gallons less than the actual inventory, indicating an overage. The indicated inventory for the diesel fuel tank was 138 gallons less than the actual inventory, indicating an overage. (Indicated inventory is the beginning inventory, plus purchases, less fuel issued per the issue tickets.) Overages indicate that purchases and issues have not been properly recorded.
- Two golf course fuel reports prepared by two individuals showed different amounts for gallons pumped per issue tickets. Differences were noted for seven of the nine months examined.
- Because employees did not always record fuel pumped in the log book or on issue tickets on the day that the fuel was obtained, employees estimated the amount of fuel issued.

### Maintenance Building

- Three maintenance fuel reports prepared by two individuals showed different amounts for gallons pumped per issue tickets. Differences were noted for six of the nine months examined.

### Marina

- The diesel tank, the gasoline tank, and the premix tank were not properly secured.
- Fuel issue tickets were not used; therefore, the only record of gallons pumped was the pump readings.
- Fuel tanks were not always measured daily.

## **Edgar Evins State Park**

- At the time of auditor observation, the diesel pump was not locked.
- Even though the gasoline and diesel pumps and tanks are surrounded by a locked fence, several individuals have keys to the fence and the maintenance building and thus have access to the pumps and tanks.

- The indicated inventory for the diesel fuel tank was 55 gallons less than the actual inventory, indicating an overage.

## **Henry Horton State Park**

### Golf Course

- Fuel issue tickets were not always issued when fuel was pumped.
- Perpetual inventory records for fuel were not kept.
- The switches to operate the fuel tanks were not secured to prevent unauthorized use.
- Fuel tanks were not always measured daily, and meter readings were not always recorded daily.

## **Chickasaw State Park**

- The meter on the diesel fuel tank has not been working properly since May 1995.
- Diesel fuel tanks were not always measured daily.

Section 706.01 of the department's *Fiscal Procedures Manual* requires each facility to measure the amount of fuel in the tanks daily and reconcile that amount with perpetual records and to reconcile fuel issue tickets with the actual gallons pumped. The manual also requires that pumps be locked when not in use.

If all fuel issues are not documented and posted to perpetual inventory records, tanks are not measured daily, accurate records are not maintained, and tanks and pumps are not properly secured, the department may not detect or prevent shortages or losses.

Management concurred with the prior finding and stated that they would take additional steps to ensure compliance in accounting for fuels as directed in the department's *Fiscal Procedures Manual*. However, further action is needed.

RECOMMENDATION:

The park managers should ensure that the department's fiscal guidelines are followed to ensure complete and accurate fuel inventory records. Upper management should consider having park managers periodically review compliance with fuel inventory guidelines. Fuel tanks should be measured daily, perpetual records should be reconciled with measurement readings, fuel issue tickets should be reconciled with the actual gallons pumped, and fuel pumps should be locked and secured when not in use.

MANAGEMENT'S COMMENT:

We concur. The park managers will work to improve compliance with the department's fiscal guidelines to ensure that complete and accurate fuel inventory records are maintained.

## Compliance Report

May 31, 1996

The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have applied procedures to test the department's compliance with the provisions of certain laws, regulations, contracts, or grants for the years ended June 30, 1995, and June 30, 1994. We performed the procedures in accordance with generally accepted government auditing standards.

Compliance with laws, regulations, contracts, or grants applicable to the Department of Environment and Conservation is the responsibility of the department's management. Our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that the Department of Environment and Conservation complied with the provisions referred to in the preceding paragraph, except for certain instances of noncompliance included in the Findings and Recommendations section of this report. We also noted other less significant instances of noncompliance that we have reported to the department's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/cr