

AUDIT COMMITTEE

2018 MEETING

Margaret Moses, CPA, welcomed the Audit Committee members and stated the purpose of this meeting was to review the full State's Investigative report that came out in December, 2017, for the Elizabethton Carter County Animal Shelter.

She introduced Margaret Pate, Associate VP of Budget and Financial Planning at ETSU, Lynn Anderson, CPA and Associate Professor for the County and State and Christa Byrd, County Financial Director. She asked the other members to introduce themselves as follows: Shannon Posada, Elizabethton Carter County Animal Shelter Director; JoLynn Covington, shelter medical manager; Buford Peters, Commissioner from the 1st District, member of the Animal Shelter Board and Shelter supervisor; Abby Frye, Elizabethton Star; John Thompson, J. C. Press; Robert Acuff, Commissioner from the 1st District and Chairman of the Carter County Commission; and Michael Barnett, member of the Animal Shelter Board.

Ms. Moses stated the purpose of this meeting was to go through the audit findings and recommendations from the Comptroller and make sure there were policies and procedures in place to assure things were handled properly in the future.

Ms. Moses questioned an addition at the end of the minutes of the last Audit Committee meeting which stated the County Commission had voted on June 19, 2017, to outsource the shelter's management to a 501-C organization. Commissioner Peters explained that was only a suggestion and a Transitional Board was actually approved. The newly formed Animal Shelter Board exists of three (3) members of the County Commission, (3) members of City Council and one (1) member at large. He stated that Board was now in control of the shelter. Mr. Peters said he had been authorized to handle internal controls, going between the shelter and the board.

As background history, Ms. Moses stated the Animal Shelter is a department of the County and its General Fund. Shelter receipts should go to the county, be deposited to the county and its expenditures be part of the budget process of the county.

FINDING 1: A cash shortage of \$9,516 existed in the ECCAS as of June 2017

In an effort to explain the main audit concern, a matter in the amount of \$9,516 cash shortage existing in the ECCAS, the committee was addressed by Mike Barnette. Mr. Barnette stated when the new animal shelter was opened in 2014, there were a lack of funds needed for cages, outside kennels, medicine, etc. necessary for its operations. The Friends Group (FG), a non-profit organization supporting the ECCAS, gave money to the shelter for the items necessary for their opening. He said the FG had supplied money on several occasions for ECCAS needs and projects. He noted one time where the FG supplied vaccine for a shot clinic the ECCAS sponsored. When this event was held, the proceeds were deposited into a FG account. He stated the ECCAS was unaware this procedure was not proper, but felt it was responsible for much of the discrepancies in the audit. Christa Byrd, Financial Director, stated if funds were given to the shelter from FG they would be considered a donation and should be receipted and turned over to the county to be disbursed by the county back to the shelter. This would be done by submitting a request to the full Commission and approved by them. Mr. Barnette agreed the shelter most likely did owe the county funds and would diligently research the records once the last three (3) years of records were returned to the shelter.

FINDING 2: The Elizabethton-Carter County Advisory Board had operating deficiencies

Buford Peters stated the shelter had drawn up a new set of policies and procedures and they had been forwarded to the County Attorney for review. He said the Advisory Board in the future would be made up of three (3) County Commissioners, three (3) City Council members and one (1) member at large. He stated the Advisory Board would be solely in control of the shelter decision making and would no longer be intertwined with any other group.

FINDING 3: The ECCAS had administrative deficiencies

Shannon Posada explained that all check and cash donations were being receipted and a list of in-kind donations would be turned over to Christa Byrd each month. For the sake of internal control, she stated there was now an office, medical, kennel and maintenance manager, each solely responsible for the duties delegated to them. Buford Peters stated he now felt there was adequate monitoring of daily operations with the resources available.

Ms. Posada stated that the Sheltermanager software was being kept up to date. She explained when an animal comes in it is logged into sheltermanager and followed their entire shelter stay. When they are adopted, information on the new owners is also entered.

Buford Peters stated a safe had been purchased and as well as lockable cash drawer for the employees. The cash drawers were locked in the safe at night and the office manager made a deposit the next day.

Director Posada informed the committee the Medical Manager had cleaned out the medicine closet and recorded all medicines used by the shelter. She also recorded when these medicines were used in an effort to keep a paper trail for all medications given and ordered.

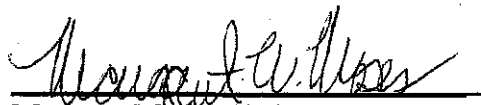
Dr. Ashley, veterinarian for the shelter, stated she was really pleased with the way the medical records were now being kept.

After much discussion, Ms. Moses felt every attempt to rectify all the investigative findings and recommendations was being made by the ECCAS and its Advisory Board. The ECCAS officials stated they would take every step possible to determine whether the \$9,516 in unaccounted funds could be recovered.

Respectfully submitted,

Suzi Wallace

Approved for entry:


Margaret Moses, Chairwoman

INVESTIGATIVE FINDINGS AND RECOMMENDATIONS

FINDING 1 A cash shortage of \$9,516 existed in the Elizabethton-Carter County Animal Shelter as of June 2, 2017

We reviewed the Elizabethton-Carter County Animal Shelter's (ECCAS) accounting records, bank statements, and supporting documentation for the period of December 1, 2015, through August 31, 2016, plus disbursement records through June 2, 2017, and noted a cash shortage of \$9,516 as of June 2, 2017, details of which are noted below:

- A. ECCAS occasionally "showcases" animals at the Petsense retail store to encourage adoptions. Applicable adoption fees collected at Petsense totaling \$280 were not received by ECCAS. Once an ECCAS animal is adopted, a Petsense employee notes on a perpetual log the date, name, amount collected, and who picked up the payments for ECCAS. In some instances, the perpetual log noted that an ECCAS employee or volunteer retrieved the payments from Petsense; however, in many instances the perpetual log failed to note who retrieved the payments from Petsense. Since multiple ECCAS personnel and volunteers had access to the payments, and a lack of internal controls existed over collections, we were unable to determine who may have taken the funds.
- B. Rescue fees totaling at least \$6,682 were not paid to ECCAS or otherwise accounted for properly. Rescue organizations received animals from ECCAS and were supposed to issue payments to ECCAS to cover the veterinary services performed on the animals. However, the former ECCAS director diverted these payments to the FG Paypal (\$5,323) and bank (\$1,359) accounts. The former ECCAS director stated that she gave the fees received from the rescue organizations to FG because the charity group paid for the veterinary services that were performed on the animals prior to them being rescued. In some instances, rescue contracts were incorrectly filled out by omitting dates, names, signatures, and some documents were missing; nevertheless, we could determine that ECCAS paid for the majority of the veterinary services for the animals given to rescue organizations. The diversion of the rescue fees to the FG's Paypal and bank accounts by the former ECCAS director was done without authorization of the ECCAS Advisory Board or the Carter County legislative body. In addition, the Carter County Humane Society incurred an undetermined loss for their contributions to ECCAS since they only agreed to pay for spay and neuter of adopted animals. Furthermore, due to missing records and receipts, we were unable to determine if additional rescue fees were ever paid by the rescue organizations or collected by ECCAS personnel.
- C. In April and July 2016, ECCAS offered an open house and low-cost shot and microchip clinic to pet owners of Carter County at the shelter. Fees for services provided by ECCAS personnel and volunteers at the shot clinics totaled \$2,009 and were receipted in the ECCAS office; however, the proceeds were given to the FG for deposit into FG's bank account. The former ECCAS director stated the proceeds were given to FG because the charity group paid for the veterinary services; however, we could determine ECCAS paid for the microchips administered. Cash only payments were noted on the vaccination clinic release forms. The shelter veterinarian stated the vaccines and microchips used at the shot

clinics were purchased by Carter County. We question whether these events benefited the ECCAS. In addition, cash refunds were issued to some of the pet owners that participated in the July 2016 shot clinic because of potential concerns related to the medicine due to an overnight power failure and its impact on the proper temperature storage of the medicines. Due to the lack of supporting documentation, we could not determine if the use of some of the cash was for legitimate ECCAS purposes.

- D. Checks written to ECCAS totaling \$545 were deposited into the FG bank account. Citizens issued checks noting "ECCAS" to the facility for donations and memorials; however, the checks were forwarded to the FG for deposit into their bank account.

The following table summarizes the cash shortage:

Item	Description	Amount
A.	Petsense adoption fees unaccounted for	\$ 280
B.	Vet service fees diverted to FG	6,682
C.	Shot clinic fees diverted to FG	2,009
D.	Donation checks diverted to FG	<u>545</u>
	Total cash shortage	<u>\$9,516</u>

RECOMMENDATION

ECCAS officials should take steps to determine whether the \$9,516 in unaccounted funds can be recovered. ECCAS should evaluate all their processes, which involve the collection of fees, deposit of funds, disbursement of funds, and their financial relationships with other related organizations.

FINDING 2 The Elizabethton-Carter County Advisory Board had operating deficiencies

Our investigation identified the following operating deficiencies related to the ECCAS Advisory Board. These deficiencies can be attributed to the failure of the board to adequately monitor its operations.

- A. The advisory board did not provide sufficient oversight and did not establish written policies and procedures for the organization's overall operations.
- B. The officers for the ECCAS Advisory Board and the FG Board are the same individuals. Advisory board meetings were commingled with FG-related business. The ECCAS Advisory Board and the FG Board did not conduct separate meetings or maintain separate minutes of the meetings. In most instances, the ECCAS Advisory Board only discussed the FG's financials.
- C. According to the advisory board bylaws, the members of the board shall be composed of seven members: two permanent members and five members with two-year terms; however, the term of the nonpermanent members was extended beyond two years in some instances. The permanent members include the Carter County Mayor and the Mayor of the City of

Elizabethton, or their designee. The other five members are composed of one member of the Elizabethton City Council, as appointed by the Elizabethton mayor; one member of the Carter County Commission, as appointed by the Carter County Mayor; one member of the Carter County Humane Society; and two members of the Carter County Animal Shelter Building Committee/Friends of the Animal Shelter Organization.

RECOMMENDATION

The advisory board should provide sufficient oversight of ECCAS operations and provide adequate written policies and procedures. The ECCAS Advisory Board and the FG Board should conduct separate meetings and maintain separate minutes. The advisory board should follow its own bylaws concerning term limits.

FINDING 3 The Elizabethton-Carter County Animal Shelter had administrative deficiencies

Our investigation identified the following deficiencies related to the administration of the ECCAS. These deficiencies can be attributed to the failure of management to adequately monitor daily operations.

- A. In some instances, it appears that pet owners were allowed to surrender their pets and then adopt their personal pets to take advantage of the low-cost spay and neuter fees of \$35 and \$45, respectively, and be given free vaccines resulting in taxpayers and the Carter County Humane Society absorbing the costs. The former ECCAS director stated this was only allowed for pet owners who could not afford to have their pets spayed or neutered to prevent the pet from having numerous litters. Typically, the cost for a pet owner to have a private veterinarian spay or neuter their pet ranges from \$150 to \$200.
- B. The former ECCAS director had a "boutique" set up at the ECCAS office to sell animal supplies such as beds, leashes, etc., and customers were required to pay with cash. The former director stated the proceeds from the sales went to the FG since the FG purchased the items sold. Due to the lack of inventory and donation records, we were unable to determine whether the proceeds from the supplies sold belonged to ECCAS, FG, or if sales proceeds were taken for personal gain.
- C. The former ECCAS director had a "donation jar" for the FG in the ECCAS office. She stated occasionally citizens would walk in with donations and would specify whether the donation was for ECCAS or the FG. We were unable to determine if the donations were accounted for properly because official receipts were not written.
- D. In-kind donations of cat and dog food, supplies, and cash donations were not always recorded in the ECCAS accounting system. The former director solicited and received numerous donations of food, supplies, and money for the shelter. Since there were no donation records, we were unable to determine whether the donations had been used in the shelter or misappropriated. It was noted during interviews, that donated food was

sometimes stored at off-site locations not affiliated with ECCAS. Without in-kind donations and related expenses recorded in the accounting system, the ECCAS Advisory Board, the Carter County Commission, and other users of the financial statements are unable to get an accurate picture of the true costs to run the animal shelter.

- E. Duties were not segregated adequately in the ECCAS. ECCAS personnel who were responsible for maintaining accounting records were also involved in receipting and depositing funds.
- F. Multiple employees operated from the same cash drawer in the ECCAS office. Good internal controls dictate that each employee have their own cash drawer, start the day with a standard amount of cash, and remove all but the beginning amount at the end of the day. This amount should be verified to the employee's receipts at the end of the day. Failure to adhere to this internal control regimen greatly increases the risk that a cash shortage may not be detected in a timely manner. Furthermore, in the event of a cash shortage, the office would not be able to determine who was responsible for the shortage because multiple employees were working from one cash drawer. In some instances, volunteers were allowed to collect and receipt ECCAS funds.
- G. The ECCAS manually issues official prenumbered receipts for fees and other collections. Receipt books were provided to us for the months of August 2015 through August 2016. However, receipts could not be located from February 14, 2016, through April 6, 2016. In addition, we noted several occasions where receipts were not issued for collections, and some original receipts were missing on voided receipts. Therefore, we were unable to determine if all funds received by the ECCAS were properly receipted and deposited with the county trustee. Section 9-2-103, *Tennessee Code Annotated (TCA)*, requires official prenumbered receipts be issued for all collections.
- H. ECCAS has Sheltermanager software available for employees to maintain its accounting transactions; however, the former and current director advised us the office rarely uses the office computer due to time constraints and the lack of internet service. Sheltermanager software offers tools to track and report on animals passing through the care of an organization, their welfare and medical requirements, and publicizes adoptable animals online for the public to view. Both directors advised us their preference for manual records.
- I. The FG purchased and donated items for the ECCAS, thus bypassing the county's budgetary and purchasing procedures. This deficiency could cause the county and city to operate the shelter with an erroneous budget.
- J. A cash drawer labeled "Friends Group" was found in a desk inside the ECCAS office containing approximately \$139.
- K. Medical records were lacking at the ECCAS. In many instances, the shelter was not able to share intake forms, adoption and rescue contracts, or euthanasia records. Additionally, some of these records on file lacked pertinent information concerning animal vaccinations or were filled out incorrectly by failing to include names, dates, signatures, and

dispositions. Lack of adequate records could lead to animals being misidentified which could lead to animals being mistakenly euthanized or other serious mistakes. Additionally, failure to keep complete records prevents the shelter from having a true picture of activities of the shelter, which could ultimately hinder the reporting of data to county officials and those making management decisions.

- L. ECCAS officials did not maintain a perpetual inventory of noncontrolled substances and medical supplies that would allow officials to monitor, in real time, the use rate of all supplies in stock.
- M. The ECCAS established a foster program offering all citizens who foster an animal from the shelter, free veterinarian services, food, and supplies; however, this practice was not approved by the county legislative body nor did it have an approved budget. Fostering animals is not considered an adoption, rescue placement, sale, or transfer ownership to the foster provider. A foster provider only assumes the care of the animal for a specific period.
- N. ECCAS had no written policies addressing controls over cash or any other financial aspect of the shelter's operations. Sound business practices dictate that written policies and procedures should be in place over the collection and deposit of cash receipts. This deficiency is a result of lack of management oversight. Without formal policies and procedures, employees have no guidance.

RECOMMENDATION

- A. Citizens should not be allowed to circumvent the system by surrendering and then adopting their personal pet to take advantage of the low-cost spay and neuter fees. Written policies should be in place for pet owners who cannot afford to have their pets spayed or neutered.
- B. Only ECCAS sale transactions should be administered at the ECCAS, and sale proceeds should be deposited with the county trustee.
- C. Written policies and procedures should be on file to address donations received for ECCAS and other organizations. Official prenumbered receipts should be issued to identify donations between the ECCAS and FG.
- D. In-kind donations and their uses should be recorded in the accounting system. Inventory records should address storage at off-site locations.
- E. Duties should be segregated to the extent possible using available resources.
- F. Officials should assign each employee their own cash drawer.
- G. Official prenumbered receipts should be issued for all collections and be available for audit inspection. Receipts should contain all the required information.

- H. Since ECCAS has purchased Sheltermanager software, they should utilize its capabilities to track, report, and publicize adoptable animals.
- I. Items purchased by FG and donated to the ECCAS should be recorded in the accounting system properly.
- J. ECCAS does not need to maintain both a donation jar (Item C) and a cash drawer for FG collections. Written policies should address the donation process.
- K. Medical records should be accurately maintained for data accumulation and reporting purposes.
- L. ECCAS should maintain a perpetual inventory of non-controlled substances and medical supplies.
- M. ECCAS should have its foster program approved by the county legislative body.
- N. Written policies and procedures over cash and other financial transactions should be on file.



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January 30, 2017

NOTIFICATION OF AUDIT RELEASE

Carter County Official:

The Division of Local Government Audit will release the Annual Financial Report of Carter County, Tennessee, for the year ended June 30, 2016, at 9:00 A.M. on February 1, 2017. A PDF file containing this report has been provided to the county mayor, road superintendent, director of schools, and the county's finance director. Interested officials and citizens may obtain a copy of the PDF file from one of the officials noted above. Also, this report will be available for inspection at www.comptroller.tn.gov.

Auditors are available to meet with the county's Audit Committee to discuss all aspects of the audit upon the request of that committee. Requests should be made to the East Tennessee audit manager for available dates and times:

East Tennessee Audit Manager – Mark Treece 865-594-6134 or mark.treece@cot.tn.gov

Included with this notice is a copy of the Summary of Audit Findings.

Very truly yours,

James R. Arnette, Director

Media Contact:

John Dunn, Public Information Officer, john.dunn@cot.tn.gov 615-401-7755



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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East Tennessee Audit Manager – Mark Treece 865-594-6134 or mark.treece@cot.tn.gov

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Very truly yours,

James R. Arnette, Director

Media Contact:

John Dunn, Public Information Officer, john.dunn@cot.tn.gov 615-401-7755

Summary of Audit Findings

Annual Financial Report
Carter County, Tennessee
For the Year Ended June 30, 2016

Scope

We have audited the basic financial statements of Carter County as of and for the year ended June 30, 2016.

Results

Our report on Carter County's financial statements is unmodified.

Our audit resulted in ten findings and recommendations, which we have reviewed with Carter County management. Detailed findings, recommendations, and management's responses are included in the Single Audit section of this report.

Findings

The following are summaries of the audit findings:

OFFICE OF COUNTY MAYOR

- ◆ The Elizabethton-Carter County Animal Shelter is currently under review for alleged discrepancies in operations.

OFFICES OF COUNTY MAYOR, DIRECTOR OF SCHOOLS, HIGHWAY SUPERINTENDENT, AND FINANCE DIRECTOR

- ◆ The accounting records for various funds had not been properly maintained.
- ◆ The county had deficiencies in budget operations.
- ◆ Other postemployment benefits disclosures were not available on a timely basis.

OFFICES OF DIRECTOR OF SCHOOLS AND FINANCE DIRECTOR

- ◆ The Other Education Special Revenue Fund had a deficit in unassigned fund balance.
 - ◆ Amounts withheld from contractor payments were not deposited into an escrow account.
-

OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK

- ◆ The office did not prepare adequate trial balances of the execution dockets.
 - ◆ The court software did not generate a report of outside direct payments.
 - ◆ The office did not review its software audit logs.
-

OFFICE OF ASSESSOR OF PROPERTY

- ◆ New owners of use value properties were not required to file a new application for agricultural property, forest property, or designated open space usage.



**ELIZABETHTON-CARTER COUNTY
ANIMAL SHELTER**

Comptroller's Investigative Report
December 7, 2017

Justin P. Wilson, Comptroller





**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DIVISION OF INVESTIGATIONS**

Justin P. Wilson
Comptroller of the Treasury

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December 7, 2017

Members of the Board
Elizabethton-Carter County Animal Shelter
135 Sycamore Shoals Drive
Elizabethton, TN 37643

Board Members:

The Office of the Comptroller of the Treasury conducted an investigation of pertinent records of the Elizabethton-Carter County Animal Shelter and the results are presented herein. Also, these findings and recommendations have been reviewed with the district attorney general for the 1st Judicial District.

Copies of this report are being forwarded to Governor Bill Haslam, the State Attorney General, the District Attorney General, certain state legislators, and various other interested parties. A copy is available for public inspection in our office and may be viewed at <http://www.comptroller.tn.gov/ia/>.

Sincerely,

Comptroller of the Treasury

JPW/RAD

ELIZABETHTON-CARTER COUNTY ANIMAL SHELTER

FINDING 2017-008

A CASH SHORTAGE OF \$9,516 AND OPERATIONAL DEFICIENCIES EXISTED AT THE ELIZABETHTON-CARTER COUNTY ANIMAL SHELTER
(Noncompliance Under *Government Auditing Standards*)

An investigation by the Comptroller's Division of Investigations resulted in the identification of a cash shortage of \$9,516 at the Elizabethton-Carter County Animal Shelter at June 2, 2017. The investigation also reported findings related to various operational and administrative deficiencies of the shelter. Details of the findings and recommendations related to the investigation can be found in a report dated December 7, 2017, released by the Division of Investigations of the Comptroller's Office at www.comptroller.tn.gov.

MANAGEMENT'S RESPONSE – DIRECTOR OF FINANCE

Management agrees that there was a cash shortage at the Animal Shelter. Attempts will be made by the County to recover the missing funds. A new Animal Shelter Board has been created to oversee the Animal Shelter and implement the needed changes.