SHELBY COUNTY GOVERNMENT
SHELBY COUNTY BOARD OF COMMISSIONERS
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TO: Deidre Malone, Chairman

FROM: Mike Ritz, Commissioner

DATE: March 25, 2009

SUBJECT: DISCUSSION ITEM

Please schedule the following with the AUDIT Committee:

"Discussion – General Sessions Court Clerk –
Ongoing Audit and attached letter dated 9/7/07 with 12/23/08 Auditor's Management letter

Rec'd 2-4-09
MRG

WATKINS UIBERALL

Watkins Uiberall, PLLC
Certified Public Accountants & Financial Advisors
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BANKS, FINLEY, WHITE & CO.
CERTIFIED PUBLIC ACCOUNTANTS

December 23, 2008

To the Audit Committee of the
Shelby County Board of Commissioners and
the Mayor of Shelby County, Tennessee

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of Shelby County, Tennessee (the County) as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purposes of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. We previously reported on the County's internal control in our report dated December 23, 2008. This letter does not affect our report dated December 23, 2008, on the financial statements of the County.

The County's written response, if provided, to the comments identified has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various County personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Watkins Uiberall, PLLC
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Management Letter Points

Circuit Court Clerk

Duties are not adequately segregated among officials and employees in the office. Officials and employees responsible for maintaining the accounting records in the office are also involved in receipting and depositing funds, reconciling bank statements, and/or disbursing funds. Due to limited personnel and resources, management may not always be able to properly segregate duties among employees; however, we are required to bring this matter to your attention.

Response: The Circuit Court Clerk does have limited personnel and resources; therefore, management may not always be able to properly segregate duties among employees. However, we believe our audit controls are sufficient to protect this office and the Clerk of Court, Jimmy Moore.

Chancery Court Clerk

1. Bonds and investments held for others are not being reconciled to the general ledger. Without reconciliation, there could be unknown errors in the records or in the general ledger as a whole.

   We recommend that these accounts be reconciled and that the individual records of the funds held for others be reconciled to the general ledger on a monthly basis.

   Response: Chancery Court is in the process of updating its accounting process from a manual general ledger system to a computerized general ledger system. Once the computerized general ledger system is brought on line, this process will save the department sufficient time necessary to reconcile the individual records of the funds held for others to the general ledger on a regular basis.

2. Duties are not adequately segregated among officials and employees in the office. Officials and employees responsible for maintaining the accounting records in the office are also involved in receipting and depositing funds, reconciling bank statements, and/or disbursing funds. Due to limited personnel and resources, management may not always be able to properly segregate duties among employees, however, we are required to bring this matter to your attention.

   Response: During the past year, Chancery Court has hired an accountant. Part of his responsibility will be to review the accounting policies and procedures of the accounting department and make necessary changes to ensure that appropriate controls are in place to properly segregate duties among employees.

In addition, the duties of the employees and officials will be reviewed, and changes made to make certain of the adherence to the internal controls designed to segregate the duties within the department will occur.`

General Sessions Court Clerk – Civil

1. The General Sessions Court Clerk, Civil division uses a general ledger system and other software packages to perform various accounting functions for the Clerks' office. The cycle of transactions through each software program causes overstated balances in various accounts. The volume of transactions has created difficulty in reconciling general ledger accounts. As a result of these issues, certain accounts are more likely to contain incorrect balances and could potentially conceal fraud.

   We recommend that the Clerk's office evaluate its entire accounting software system and make necessary changes to ensure a system that is established, reliable, and maintains proper safeguards.

2. Accounts Payable - Clearing and Judgments accounts are not being reconciled to the subsidiary ledgers. The subsidiary ledger is a listing of individuals and the related amounts held. Management is unable to reconcile these ledgers to the general ledger.

   We recommend that the subsidiary ledgers be reconciled to the general ledger. If adjustments must be made, then make the necessary adjustments.

   Response: Since the implementation of the ACS Courts application, there has been a tireless effort to correct errors that have been made. We are analyzing in the general ledger entries and making either the entries the system did not make or the entries that employees did not make. The correction of these errors will head to the correct subordinate ledger to general ledge balancing and ultimately the correct information on the bank reconciliation. The volume of our general ledger transactions does create difficulty in the expediency in which each analysis can be performed.

3. The Clerk maintains undeliverable funds which have not been remitted to the recipient. According to *Tennessee Code Annotated* 66-29-110, property that has remained unclaimed by the owner for more than one (1) year is presumed to be abandoned, except property in the custody or control of any state or federal court in any pending action. *Tennessee Code Annotated* 66-29-113 requires a report on abandoned property to be filed with the State and *Tennessee Code Annotated* 66-29-115 requires payment or delivery of the abandoned property to the State Treasurer.

We recommend that the *Tennessee Code Annotated* be followed and funds properly remitted to the State Treasurer.

Response: Not all funds that remain on our books over one year would fall within this statute (T.C.A. 66-29-110). Pending actions occur frequently on cases in General Sessions up to the point where a case is considered judgment satisfied. A recent County Attorney opinion on judicial attachments stated the clerk was absent authority to pay over funds to anyone without a court order and would not be subject to the unclaimed funds statute.

4. Bank statements have not been reconciled to the appropriate general ledger accounts since November 2007. Not reconciling the accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis. Also, it is generally easier and less time-consuming to reconcile accounts while transactions are fresh in mind. We recommend that all bank accounts be reconciled each month prior to preparation of the monthly financial statements.

   Response: Will assign an individual independent from the bookkeeping department to prepare the bank reconciliation on a monthly basis.

General Sessions Court Clerk – Criminal

Duties are not adequately segregated among officials and employees in the office. Officials and employees responsible for maintaining the accounting records in the office are also involved in receipting and depositing funds, reconciling bank statements, and/or disbursing funds. Due to limited personnel and resources, management may not always be able to properly segregate duties among employees; however, we are required to bring this matter to your attention.

Shelby County Register

Duties are not adequately segregated among officials and employees in the office. The employee responsible for preparing checks is also given the signed checks to mail. Controls over disbursements would be improved if all signed checks were given to an employee who does not have access to the accounts payable subsidiary ledger. This reduces the risk of writing checks to phony vendors. Due to limited personnel and resources, management may not always be able to properly segregate duties among employees; however, we are required to bring this matter to your attention.

Response: We feel that due to limited personnel the segregation of this duty is not possible at this time. We feel there are adequate safeguards already in place that add an additional layer of controls to this task.

Probate Court Clerk

1. The checking account does not reconcile to the general ledger. At June 30, 2008, the checking account reconciliation shows over $3,600 more cash on hand than the general ledger. Without reconciliation, there could be unknown errors in the records or in the general ledger as a whole.

   We recommend that the account be reconciled to the general ledger on a monthly basis with adjustments made monthly as needed.

   Response: Discussed with Information Technology and will work together to make the adjustment so the general ledger will be in balance.

2. The funds held for others liability account which totals approximately $737,000 is not being reconciled to the Trustee statements. The discrepancy between the account and the Trustee statements is approximately $43,000. Funds held for others should be reconciled to the Trustee statements on a monthly basis. .

   We recommend that the account be reconciled and that the individual records of the funds held for others be reconciled to the general ledger on a monthly basis.

   Response: Will reconcile the Fund Account on a monthly basis backing it up to the Investment Account Summary & Agency Total from the Financial Report Menu. We will correct the general ledger to match the totals.

Juvenile Court Clerk

As noted in previous years, the Clerk maintains undeliverable funds which technically should be remitted to the State Treasurer in accordance with Tennessee unclaimed property statutes. Undeliverable funds held in the Clerk's office represent an accumulation of child support checks returned by the postal service indicating "incorrect or insufficient address" over at least a 29 year time frame. The Clerk believes that it is in a better position to locate individuals who are owed undeliverable funds and has demonstrated the ability to successfully locate many of these individuals and deliver the appropriate funds. While the Clerk and the State apparently have an understanding about this issue, this comment serves to note the noncompliance with the unclaimed property statutes.

According to *Tennessee Code Annotated* 66-29-110, property that has remained unclaimed by the owner for more than one (1) year is presumed to be abandoned, except property in the custody or control of any state or federal court in any pending action. *Tennessee Code Annotated* 66-29-113 requires a report on abandoned property to be filed with the state and *Tennessee Code Annotated* 66-29-115 requires payment or delivery of the abandoned property to the State Treasurer. In addition, *Tennessee Code Annotated* 66-29-115(d) states that property paid or delivered to the

State Treasurer shall include all interest earned on the account through the day the property is paid or delivered to the State Treasurer.

Response – As addressed in the previous year's management letter, all courts throughout the State involved in administering child support have the same type of undeliverable funds. It was agreed between the Clerk and State Treasurer that this office was in a better position to locate and disburse these unclaimed funds to the proper recipient. Utilizing TCSES (statewide child support system) and a contract with Accurint, a locater service, the office has been able to research, locate, notify and ultimately disburse these funds. To date the office has located approximately 1,140 accounts and disbursed $872,914. Existing staff are utilized on this project as time allows which represents no additional costs to the taxpayer.

Shelby County Trustee

As noted in previous years, the State of Tennessee Division of County Audit has asserted that operating expenditures paid from the Trustee's commission account are in violation of State statute according to provisions of Section 8-22-104(a)(3), *Tennessee Code Annotated* (*TCA*). The State has also asserted that a Shelby County Commission resolution passed on June 3, 1991 provides that the Trustee's purchases should be made through Shelby County's centralized purchasing system.

The Shelby County Trustee has responded that the Trustee is permitted under Section 8-22-107 of the *TCA* and Shelby County Home Rule Charter to perform his purchasing function and remit excess fees to Shelby County. Furthermore, the Trustee asserts that Section 8-22-104(a)(2) of the *TCA* states the Trustee shall remit fees, commissions, and charges collected in excess of salaries and expenses of the office to the County by the 10th of the following month.

Please refer to the State of Tennessee Limited Review of the Office of County Trustee, Shelby County, Tennessee for the period July 1, 2001 through January 31, 2003 for more information.

We recommend the Trustee, County officials, and State authorities work together with attorneys to resolve these issues.

Response – The Shelby County Trustee continues to believe that the Trustee is permitted under Section 8-22-107 of the TCA and the Shelby County Home Rule Charter to perform the purchasing function and remit excess fees to Shelby County. Furthermore, the Trustee asserts that Section 8-22-104(a)(2) of the TCA states that the Trustee shall remit fees, commissions, and charges collected in excess of salaries and expenses of the office to the County by the 10th of the following month.