

# INVESTIGATIVE AUDIT REPORT

CALHOUN-CHARLESTON UTILITY DISTRICT

OCTOBER 1, 2002, THROUGH JANUARY 31, 2006



## State of Tennessee



**Comptroller of the Treasury  
Department of Audit  
Division of Municipal Audit**



STATE OF TENNESSEE

John G. Morgan  
Comptroller

C O M P T R O L L E R O F T H E T R E A S U R Y

STATE CAPITOL  
NASHVILLE, TENNESSEE 37243-0260  
PHONE (615) 741-2501

June 6, 2006

Members of the Board of Commissioners  
Calhoun-Charleston Utility District  
P. O. Box 93  
Calhoun, TN 37309

Commissioners:

Presented herewith is the report on our investigative audit of selected records of the Calhoun-Charleston Utility District. This investigative audit focused on the period October 1, 2002, through January 31, 2006. However, when warranted, this scope was expanded.

Section 9-2-102, *Tennessee Code Annotated*, requires that the Comptroller of the Treasury prescribe a uniform system of bookkeeping designating the character of books, reports, receipts and records, and the method of keeping same, in all state, county and municipal offices, including utility districts, which handle public funds. This code section also requires that all officials adopt and use the prescribed system. The Comptroller has prescribed a minimum system of recordkeeping for utility districts, which is detailed in the *Uniform Accounting Manual for Tennessee Utility Districts* combined with Chapter 6 of *Governmental Accounting, Auditing and Financial Reporting*. The purpose of our audit was to determine the extent of the entity's compliance with certain laws and regulations, including those in the above-mentioned manuals.

Our investigative audit revealed that, during the period October 1, 2002, through February 28, 2006, the district bookkeeper intercepted and set aside checks payable to the district totaling at least \$5,811. She then exchanged these checks for cash through the district's cash drawer, keeping the cash for her own use. On January 26, 2006, the district bookkeeper acknowledged to auditors that for several years, she had taken cash from the utility district to pay her personal bills.

This matter has been referred to the local district attorney general.

The findings and recommendations in this report relate to those conditions that we believe warrant your attention. All responses to each of the findings and recommendations are included in the report.

Members of the Board of Commissioners  
Calhoun-Charleston Utility District  
June 6, 2006

Copies of this report are being forwarded to Governor Phil Bredesen, 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.

Very truly yours,

A handwritten signature in black ink that reads "John G. Morgan". The signature is written in a cursive style with a large initial "J" and a long horizontal stroke at the end.

John G. Morgan  
Comptroller of the Treasury



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF MUNICIPAL AUDIT**

**John G. Morgan**  
Comptroller of the Treasury

SUITE 1600  
JAMES K. POLK STATE OFFICE BUILDING  
505 DEADERICK STREET  
NASHVILLE, TENNESSEE 37243-0271  
PHONE (615) 401-7871  
FAX (615) 741-1551

**Dennis F. Dycus, CPA, CFE, Director**  
Division of Municipal Audit

June 6, 2006

Mr. John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, TN 37243-0260

Dear Mr. Morgan:

As part of our on-going process of examining the records of utility districts, we have completed our investigative audit of selected records of the Calhoun-Charleston Utility District. This investigative audit focused on the period October 1, 2002, through January 31, 2006. However, when the audit warranted, this scope was expanded.

Section 9-2-102, *Tennessee Code Annotated*, requires that the Comptroller of the Treasury prescribe a uniform system of bookkeeping designating the character of books, reports, receipts and records, and the method of keeping same, in all state, county and municipal offices, including utility districts, which handle public funds. This code section also requires that all officials adopt and use the prescribed system. The Comptroller has prescribed a minimum system of recordkeeping for utility districts, which is detailed in the *Uniform Accounting Manual for Tennessee Utility Districts* combined with Chapter 6 of *Governmental Accounting, Auditing, and Financial Reporting*. The purpose of our audit was to determine the extent of the entity's compliance with certain laws and regulations, including those in the above-mentioned manuals.

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This matter has been referred to the local district attorney general.

Mr. John G. Morgan  
Comptroller of the Treasury  
June 6, 2006

Our investigative audit also resulted in findings and recommendations related to the following:

1. Inadequate separation of duties
2. Collections not deposited promptly or intact
3. Failure to account for prenumbered receipts
4. Failure to prepare daily cash reports

In addition to our findings and recommendations, we are also providing management's response. If after your review, you have any questions, I will be happy to supply any additional information which you may request.

Sincerely,

A handwritten signature in black ink, appearing to read "Dennis F. Dycus". The signature is written in a cursive style with a large initial "D".

Dennis F. Dycus, CPA, CFE, Director  
Division of Municipal Audit

**INVESTIGATIVE AUDIT OF SELECTED RECORDS OF THE  
CALHOUN-CHARLESTON UTILITY DISTRICT  
FOR THE PERIOD OCTOBER 1, 2002, THROUGH JANUARY 31, 2006**

**LEGAL ISSUE**

1. **ISSUE:**      **Apparent misappropriation of utility collections totaling \$6,145.29**

Our investigative audit revealed that, during the period October 1, 2002, through February 28, 2006, the district bookkeeper intercepted and set aside checks payable to the district totaling at least \$5,811. She then exchanged these checks for cash through the district's cash drawer, keeping the cash for her own use. On January 26, 2006, the district bookkeeper acknowledged to auditors that for several years, she had taken cash from the utility district to pay her personal bills. The checks she set aside were for tap fees, meter deposits, and other miscellaneous purposes. Since the bookkeeper was solely responsible for accounting for these miscellaneous collections, she was able to conceal this scheme from management.

When we initiated the investigative audit on January 26, 2006, our cash count revealed, in addition to the scheme noted above, an unexplained cash shortage of \$63.11. Almost a month later, on February 21, 2006, auditors performed a second cash count which revealed an additional unexplained cash shortage of \$271.18. The bookkeeper could not provide auditors with a reason for this additional cash shortage.

<b>Scheme</b>	<b>Amount</b>
Cash diverted using tap fee and meter deposit checks	\$5,811.00
January 26, 2006, cash count shortage	63.11
February 21, 2006, cash count shortage	<u>271.18</u>
<b>Total apparent misappropriation</b>	<b><u>\$6,145.29</u></b>

This matter was referred to the local district attorney general.

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**FINDINGS AND RECOMMENDATIONS:**

1. **FINDING:** Inadequate separation of duties

One employee opened mail, received collections, recorded collections, prepared deposits, delivered collections to the bank for deposit, and reconciled bank statements. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 2-6, states:

Ideally, the same individual should not be responsible for authorizing transactions, recording transactions, and maintaining custody of assets. Establish work flow so that an employee’s work is automatically verified by another employee working independently. Such procedures will help to eliminate errors in accounting records and limit the possibility of fraud.

**RECOMMENDATION:**

To decrease the risk of undetected errors and irregularities, management should review employees’ responsibilities to ensure that no employee has control over a complete transaction. When necessary, management should assume additional oversight duties.

**MANAGEMENT’S RESPONSE:**

**Members of the Board of Commissioners:**

We concur. The district will implement a manager report form to be signed by our technicians, which will include all receipts of the district for new meter installations (either from a tap fee or a deposit on a meter). This income will be verified and matched with deposit records monthly by the secretary/treasurer commissioner of the district. Additionally, the secretary/treasurer commissioner will review and reconcile bank statements and canceled checks monthly and the commission will review deposit and receipt records during monthly meetings.

2. **FINDING:** Collections not deposited promptly or intact

Our investigative audit revealed that the district bookkeeper cashed her personal checks through the district cash drawer. In addition, we noted that some collections were not deposited until more than three weeks after collection. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 3-1, states, “Receipts should be deposited promptly and intact...”

**RECOMMENDATION:**

To help prevent the misuse or loss of collections, management should ensure that all collections are deposited intact within three working days into an official district bank account.

**MANAGEMENT'S RESPONSE:**

**Members of the Board of Commissioners:**

We concur. The job description for the bookkeeper to be hired for the district will require daily deposits of all receipts. The commission will review deposit slips monthly to ensure money received is deposited promptly and intact.

3. **FINDING:**    **Failure to account for prenumbered receipts**

System personnel did not ensure that all collections documented on prenumbered receipts were accounted for and that the proceeds were deposited into a district bank account. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 3-1, states, "Prenumbered receipt documents for each revenue source should be issued with required accounting for all unused or spoiled receipts."

**RECOMMENDATION:**

Management should ensure that each tap fee, meter deposit, or other miscellaneous collection is properly recorded on a duplicate, prenumbered receipt. Management should also ensure that each prenumbered receipt is accounted for and the proceeds are deposited into a district bank account.

**MANAGEMENT'S RESPONSE:**

**Members of the Board of Commissioners:**

We concur. The commission will ensure that each tap fee, meter deposit, and other collection is properly recorded on sequentially numbered receipts by utilizing the newly implemented manager's report which is a list of new customers who had meters installed and customers who have had existing meters reactivated. The new manager's report form will provide a cross-reference to ensure that receipts from new customers are deposited timely and intact.

4. **FINDING:**    **Failure to prepare daily cash reports**

District personnel did not summarize all collections on a daily cash summary report to ensure that all collections were properly accounted for and deposited into a district bank account. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 3-1, states, in part:

The cashier should summarize all cash receipts by source on a daily cash summary report, clearly indicating the amount to be deposited, the amount retained for change, and the amount of cash over or short. Each report should be dated and the date should be recorded on the corresponding deposit slips. The cashier should sign the daily cash summary report.

**RECOMMENDATION:**

To better account for collections, each day the cashier should prepare a detailed report of that day's total collections and the source of those collections. To help document that all collections are deposited intact, the totals of each daily collection report, corresponding prenumbered receipts, and related bank deposit should agree. The cashier should sign and date the report.

**MANAGEMENT'S RESPONSE:**

**Members of the Board of Commissioners:**

We concur. The district will implement a daily cash summary report that includes water receipts, tap charges, meter deposits, deposit refunds, miscellaneous funds, and a cash drawer tally. The daily cash summary report will include a date and signature line to be completed by the bookkeeper for each day the district office is opened for business.