

INVESTIGATIVE AUDIT REPORT

CITY OF COLLINWOOD
JULY 1, 2008, THROUGH SEPTEMBER 30, 2010



State of Tennessee



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



STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Justin P. Wilson

Comptroller

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-9034

PHONE (615) 741-2501

February 6, 2012

Honorable Mayor and Members of the
Board of Commissioners
City of Collinwood
P. O. Box 98
Collinwood, TN 38450

Ladies and Gentlemen:

Presented herewith is the report on our investigative audit of selected records of the City of Collinwood. This investigative audit focused on the period July 1, 2008, through September 30, 2010. However, when the examination 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 municipalities, which is detailed in the *Internal Control and Compliance Manual for Tennessee Municipalities* combined with Chapters 1-7 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.

The investigation revealed that the city recorder apparently misappropriated at least \$84,178 of city collections from the City of Collinwood. Without the knowledge of city officials, the city recorder failed to deposit into a city bank account at least \$63,803 of utility customer payments and at least \$20,375 of other receipted collections, apparently retaining this money for her personal benefit. These matters were referred to the local district attorney general. On January 12, 2012, the Wayne County Grand Jury indicted Sherry Gallien on one count of Theft over \$60,000.

Honorable Mayor and Members of the
Board of Commissioners
City of Collinwood
February 6, 2012

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

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 www.comptroller1.state.tn.us.

Very truly yours,

A handwritten signature in black ink, appearing to read "Justin P. Wilson", with a stylized flourish at the end.

Justin P. Wilson
Comptroller of the Treasury



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

Justin P. Wilson
Comptroller of the Treasury

**BANK OF AMERICA PLAZA
414 UNION STREET, SUITE 1100
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 532-4460
FAX (615) 532-4499**

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

February 6, 2012

Mr. Justin P. Wilson
Comptroller of the Treasury
State Capitol
Nashville, TN 37243-9034

Dear Mr. Wilson:

As part of our ongoing process of examining the records of municipalities, we have completed our investigative audit of selected records of the City of Collinwood. This investigative audit focused on the period July 1, 2008, through September 30, 2010. However, when the examination 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 municipalities, which is detailed in the *Internal Control and Compliance Manual for Tennessee Municipalities* combined with Chapters 1-7 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.

The investigation revealed that the city recorder apparently misappropriated at least \$84,178 of city collections from the City of Collinwood. Without the knowledge of city officials, the city recorder failed to deposit into a city bank account at least \$63,803 of utility customer payments and at least \$20,375 of other receipted collections, apparently retaining this money for her personal benefit. These matters were referred to the local district attorney general. On January 12, 2012, the Wayne County Grand Jury indicted Sherry Gallien on one count of Theft over \$60,000.

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

1. Lack of separation of duties
2. Violation of three-day deposit rule and failure to make intact deposits
3. Failure to prepare daily collection records
4. Prenumbered receipts not accounted for

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 fluid and cursive, with a large initial "D" and "F".

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

**INVESTIGATIVE AUDIT OF SELECTED RECORDS
OF THE CITY OF COLLINWOOD
FOR THE PERIOD JULY 1, 2008, THROUGH SEPTEMBER 30, 2010**

CASE SUMMARY

The Comptroller's Division of Municipal Audit performed an investigative audit of selected records of the City of Collinwood. The audit focused primarily on the period July 1, 2008, through September 30, 2010. The investigation revealed that the city recorder apparently misappropriated at least \$84,178 of city collections from the City of Collinwood. Without the knowledge of city officials, the city recorder failed to deposit into a city bank account at least \$63,803 of utility customer payments and at least \$20,375 of other receipted collections, apparently retaining this money for her personal benefit.

City officials had failed to adequately separate the duties of employees. As a result, the recorder had virtually complete control over the collection process. In addition, the recorder failed to promptly deposit city collections, prepare daily cash reports, or account for all prenumbered receipts.

LEGAL ISSUES

1. **ISSUE: Apparent misappropriation of city utility collections totaling at least \$63,803**

During the period July 1, 2008, through September 30, 2010, the city recorder, Sherry Gallien, apparently misappropriated at least \$63,803 of city utility collections from the City of Collinwood. Ms. Gallien perpetrated this apparent misappropriation by recording some utility customer payments without depositing the equivalent amount of cash into a city bank account.

Ms. Gallien was responsible for recording customers' gas and water utility payments in the city's computer system. The payments were recorded in batches, or groups of payments entered into the computer system. However, auditors discovered that Ms. Gallien recorded more payments into the computer system than she deposited into the city's bank account. Auditors were able to identify customers Ms. Gallien recorded as having paid, but for which she had destroyed or discarded the city's paper record of the payment. Auditors also discovered that the amounts related to these missing records were equal to the cash shortages in Ms. Gallien's bank deposits. Since there was no longer any paper record of these collections in the city's files, Ms. Gallien was able to conceal the misappropriation of \$63,803 over a period of 27 months without detection.

2. **ISSUE:** **Apparent misappropriation of other receipted collections totaling at least \$20,375**

During the period July 1, 2008, through September 30, 2010, the city recorder, Sherry Gallien, failed to deposit into a city bank account at least \$20,375 in other receipted collections of the City of Collinwood including certain collections for water and gas meter deposits, traffic citations and building permits. Ms. Gallien’s responsibilities included accounting for and reconciling city collections and preparing the bank deposit.

Table of Misappropriation	
Category	Amount
Utility collections	\$63,803
Receipted collections	<u>20,375</u>
Total loss	<u>\$84,178</u>

3. **ISSUE:** **Destruction of government records**

In most instances, the recorder apparently attempted to conceal the scheme described in Issue 1 from management by discarding and/or destroying customer payment stubs.



These matters were referred to the local district attorney general. On January 12, 2012, the Wayne County Grand Jury indicted Sherry Gallien on one count of Theft over \$60,000.

FINDINGS AND RECOMMENDATIONS

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

City officials failed to adequately separate duties of employees. The city recorder posted all utility collections, had control and custody of virtually all city records and routinely prepared bank deposits. According to the *Internal Control and Compliance Manual for Tennessee Municipalities*, page 32:

Municipal officials should separate duties of employees so that no one person has control over a complete transaction from beginning to end. Work flow should be established so that one employee's work is automatically verified by another employee working independently. When possible, different persons should be responsible for the authorization, recordkeeping (posting), custodial (cash and materials handling), and review procedures, to prevent manipulation of records and minimize the possibility of collusion. When adequate segregation of duties is not possible, management/board oversight should be increased to provide reasonable assurance that errors, irregularities or fraud are prevented or detected and corrected in a timely manner. Such oversight would include, but not be limited to, the review of bank statements, cash receipts and cash disbursements summaries as well as the related supporting documentation, and analysis of monthly reports.

Page 80 of the manual also recommends mandatory vacations for all employees who handle cash. Another employee should perform all of the vacationing employee's job duties.

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:

Mayor and Members of the Board of Commissioners:

The City of Collinwood concurs with the above finding. The city agrees that we should have adequate policies, procedures, and controls in place to ensure that the duties of the city employees are adequately separated. The city has implemented the following policies, procedures, and controls:

- A) Bank deposits are prepared by one individual and then reviewed by another individual. The deposits are then taken to the bank by a third individual, utilizing the police department for this job when they are available.
- B) The city is in the process of purchasing a point of sale interface system that will be utilized for utility receivables, cash receivables, etc.
- C) On a monthly basis, the city manager will review all financial reports and will submit the same to the city commission.
- D) All city employees will be subject to a mandatory vacation requirement.

Manager:

Response is the same as that of the mayor and board of commissioners.

2. **FINDING: Violation of three-day deposit rule and failure to make intact deposits**

The city recorder failed to deposit collections within three days of receipt. In addition, employees used city money to cash personal checks. Section 6-56-111(a), *Tennessee Code Annotated*, states:

Every municipal official handling public funds shall be required to, as soon as practical, but no later than three (3) working days after the receipt by such municipal official of any public funds, deposit the funds to the credit of such municipality's official bank account, or bank accounts.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, pages 49-50, state:

Municipal officials should ensure that ... collections are deposited daily, if possible, but no more than three working days after the initial collection, as required by state law. The bank's night depository should be used, if necessary, to avoid large accumulations of currency overnight.... collections are deposited intact and only in designated depositories. Intact means that collections are deposited in the form and amount in which they are collected. Employee and third party checks must not be cashed through the cash drawers. No collections should be withheld from the deposit for any reason.

RECOMMENDATION:

To help prevent the misuse or loss of collections, officials should ensure that all collections are deposited intact within three working days into an official municipal bank account. Cash on hand should be safeguarded. To avoid the risk of loss and maintain the integrity of the bank deposit, city officials should prohibit cashing checks with city money.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Commissioners:

The city concurs with the above finding. The city will attempt to make deposits on a daily basis, but no later than three working days after receipt. Furthermore, the city will prohibit the cashing of personal checks with city funds.

Manager:

Response is the same as that of the mayor and board of commissioners.

3. **FINDING: Failure to prepare daily collection records**

The recorder failed to prepare daily collection reports. The *Internal Control and Compliance Manual for Tennessee Municipalities*, page 50, requires municipal officials to ensure that

... each day the cashier summarizes all cash collections by source on a daily collection 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 slip. The total on the corresponding deposit slip as well as the total of all applicable prenumbered receipts should agree with the total collections recorded on the daily collection 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:

Mayor and Members of the Board of Commissioners:

The city concurs with the above finding. The city has retained the services of MTAS to assist the city with the system to help ensure that the collection reports are prepared on a daily basis. Furthermore, Local Government has been retained by the city to assist with the training of city employees. Furthermore, prenumbered receipts will be verified against the daily collection report.

Manager:

Response is the same as that of the mayor and board of commissioners.

4. **FINDING:** **Prenumbered receipts not accounted for**

Our investigative audit revealed that all prenumbered receipts were not accounted for. City employees issued prenumbered receipts. However, when collections were prepared for deposit by the recorder, there was no accounting for the prenumbered receipts to ensure that each and every collection was deposited into a city bank account. The *Internal Control and Compliance Manual for Tennessee Municipalities*, page 49, requires that all prenumbered receipts be accounted for.

RECOMMENDATION:

To help promptly detect errors or irregularities, the recorder must ensure that each day’s prenumbered, duplicate receipts are reconciled with the daily collection report and daily collections before the collections are deposited. This reconciliation should be documented in the municipality’s records.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Commissioners:

The city concurs with the above finding. The city will reconcile the duplicate receipts with the collection report on a daily basis. Furthermore, the reconciliation will be documented in the city’s records. Refer to management’s response to Finding 3.

Manager:

Response is the same as that of the mayor and board of commissioners.