

**INVESTIGATIVE AUDIT OF THE RECORDS
OF THE TOWN OF CORNERSVILLE
FOR THE PERIOD JULY 1, 2000, THROUGH JUNE 30, 2001**

During the period of our examination, James Johnston, who retired in January 2002, was police chief. Jerry Campbell, who has been asked to respond to applicable findings in this report, was appointed police chief on February 7, 2002.

FINDINGS AND RECOMMENDATIONS

1. **FINDING: Collections apparently not deposited, but used for petty cash**

Utility collections totaling at least \$1,302.85 apparently were not deposited into a municipality bank account. Our analysis of documented petty cash transactions revealed that municipal personnel apparently used the undeposited cash collections for unallowable purposes, such as travel expenses and making cash purchases.

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*, Title 3, Chapter 1, Section 5, states:

Collections should be deposited promptly and intact and only in designated depositories. The bank's night depository should be used, if necessary, to avoid large accumulations of currency overnight. . . . The municipality should make daily deposits when large amounts of money are involved.

RECOMMENDATION:

To adequately account for all collections and 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. Undeposited collections should **never** be used for expenditures.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. All collections will be deposited within three working days and a separate petty cash fund will be set up.

Administrator:

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

2. **FINDING: Daily collection reports not prepared**

Daily collection reports were not prepared summarizing the amount and source of cash collected each day and deposited. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 6, 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 slips. The total on the daily collection report should agree with the total of the corresponding deposit slips as well as the total of all applicable receipts. The cashier should sign the daily collection report. . . .

RECOMMENDATION:

To better account for collections, each day the clerk 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.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board Aldermen:

We concur. We have followed the recommendations that the auditors showed us at the time they were here and we use the collection report they gave to us.

Administrator:

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

3. **FINDING: Lack of controls over petty cash**

A petty cash fund maintained for miscellaneous purchases was also used to make change for collections. In addition, a set amount for the fund was not established, and the fund was always replenished with \$100, regardless of the difference between the amount of cash on hand and the total amount of petty cash disbursements made. As discussed in Finding 1, additional miscellaneous disbursements were made from collections. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 4, establishes guidelines for establishing and using a petty cash fund.

RECOMMENDATION:

To adequately account for petty cash funds, the administrator should set aside a fixed sum of money for the purpose of making miscellaneous purchases. When the cash has been reduced below a predetermined amount, a check should be issued to replenish the cash for the difference. Adequate supporting documentation for each petty cash disbursement should be maintained. Collections should **never** be used for disbursements.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. We will set aside a fixed amount of money for petty cash.

Administrator:

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

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

The clerk opened the mail, prepared utility bills, received collections, recorded collections, prepared deposits, and made utility adjustments. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 2, Section 2, states:

Municipal officials should enforce division of duties to provide a system of checks and balances 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. . . .

Title 1, Chapter 2, Section 4, of the manual further states:

Municipal officials should ensure that automatic proof techniques are applied whenever possible. These techniques include the use of an employee without prior access to the records to . . . reconcile bank accounts . . . periodically test . . . daily balancing of cash receipts . . . open mail and prelist mail receipts

RECOMMENDATION:

To decrease the risk of undetected errors and irregularities, management should implement compensating controls to review employee's work. We provided the administrator with detailed internal control recommendations.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. We will follow the recommendations given to us in Finding 4.

Administrator:

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

5. **FINDING: Collections not deposited promptly**

At least 38 collections were not deposited promptly into the municipality's bank account. 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*, Title 3, Chapter 1, Section 5, states:

Collections should be deposited promptly and intact and only in designated depositories. The bank's night depository should be used, if necessary, to avoid large accumulations of currency overnight. . . . The municipality should make daily deposits when large amounts of money are involved.

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.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. All deposits will be made that day or the next morning.

Administrator:

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

6. **FINDING:** **Failure to use prenumbered purchase orders**

The administrator rarely used prenumbered purchase orders to initiate purchases. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 1, outlines recommended purchasing policies which require the use of prenumbered purchase orders. The town's purchasing policy adopted July 3, 1997, states, "All purchases for all departments in excess of \$25.00 . . . will be submitted for approval to the town administrator's office. When purchase is approved a purchase order will be issued through the administrator's office."

RECOMMENDATION:

To indicate sufficient balances and appropriateness of disbursements, the administrator should complete and approve prenumbered purchase orders for all purchases over \$25 as required by the town's purchasing policy. Purchase orders should be approved before obligations for purchases are made.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board Aldermen:

We concur. In the near future, we will adopt a new purchasing guideline for the town.

Administrator:

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

7. **FINDING: Inadequate documentation for disbursements**

The town’s files did not include adequate supporting documentation for some disbursements. For several disbursements the files contained no documentation, other disbursements were supported only by summarized statements, and some documentation was incomplete because employees had not completed travel claims as required by the board’s policy. In addition, at least four invoices were paid twice. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, Section 4, states:

Municipal officials should ensure . . . that supporting documentation is filed alphabetically by vendor or by date paid. . . . All disbursements, regardless of the accounting procedures, must be supported by invoices, cash tickets or other adequate supporting documentation. (Statements are NOT adequate supporting documentation.)

Ordinance No. 93-02, the town’s travel policy, states, “Prior authorization for travel and reimbursement of travel expenses shall be on a Travel Authorization Form. . . . Claims for travel expenses shall be filed on a ‘Travel Reimbursement Report’. . . .”

RECOMMENDATION:

To document that each disbursement is for a valid municipal purpose, officials should ensure that adequate supporting documents are maintained in the municipality’s files in accordance with the *Internal Control and Compliance Manual for Tennessee Municipalities*. Officials should also ensure that the town complies with the board’s travel policy.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. We will follow the recommendations in Finding 7.

Administrator:

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

8. **FINDING: Prenumbered checks not always used and several checks issued with only one signature**

Municipal officials used counter checks, instead of consecutively prenumbered checks, for many disbursements. Section 6-56-111(c), *Tennessee Code Annotated*, states:

Every municipal official authorized to disburse public funds shall be required to make disbursements of such public funds by consecutively prenumbered checks, warrants or other generally accepted negotiable instruments drawn on the municipality's official bank account or accounts. Disbursements may also be made by electronic transfer, if such transfer is properly documented and recorded.

In addition, the administrator issued several checks that were signed by only one person. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, Section 2, states, "Municipal officials should require two signatures on all checks." Section 25 of the town's charter states, "The funds of the Town shall be disbursed only on warrants . . . signed by the Mayor and Administrator. . . ."

RECOMMENDATION:

To account for all disbursements and to decrease the risk of unauthorized disbursements, municipal officials should require that consecutively prenumbered checks be used for all disbursements and that checks are signed by the mayor and the administrator as required by the charter.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. All checks will be signed by both the mayor and the administrator with proper documentation attached.

Administrator:

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

9. **FINDING: Invoices not correctly canceled and not signed to document goods and services received**

Although the administrator noted the date paid on the invoices, he did not record the corresponding check number. In addition, many invoices on file to support disbursements for goods and services were not signed or initialed to document that the goods and services were received as ordered. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, Section 3, states, "Municipal officials should ensure . . . that personnel cancel invoices, writing on each one the check number, amount, payment date, and account to be charged before the checks and documentation are submitted for approval and signing." Title 1, Chapter 4, Section 1, of the same manual states:

Municipal officials should adopt policies and procedures that provide safeguards for inventories of materials and supplies. These policies and procedures should, at a minimum, include the following:

- (a) a requirement to inspect and count each incoming materials delivery, with the receiver signing each invoice as received. . . .

RECOMMENDATION:

To decrease the risk of unauthorized and duplicate payments, the administrator should cancel all invoices when paid, noting check number, amount, payment date, and the account to be charged. In addition, the mayor and members of the board of aldermen should require each employee who receives goods or services on behalf of the municipality to inspect each delivery and sign the related invoice to document that the goods or services have been received as ordered.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. All invoices will be signed by the person making the purchase or accepting the items, and all invoices paid will have a check stub attached.

Administrator:

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

10. **FINDING:** **Apparent direct conflict of interest**

A board member was paid for electrical work performed for the town. Section 12-4-101(a)(1), *Tennessee Code Annotated*, states:

It is unlawful for any officer, committee member, director, or other person whose duty it is to vote for, let out, overlook, or in any manner to superintend any work or any contract in which any municipal corporation, county, state, development district, utility district, human resource agency, or other political subdivision created by statute shall or may be interested, to be directly interested in any such contract. "Directly interested" means any contract with the official personally or with any business in which the official is the sole proprietor, a partner, or the person having the controlling interest. . . .

Section 12-4-102, *Tennessee Code Annotated*, states:

Should any person, acting as officer, committee person, director, or other person referred to in § 12-4-101, be or become directly or unlawfully indirectly interested in any such contract, such person shall forfeit all pay and compensation therefor. Such officer shall be dismissed from such office the officer then occupies, and be ineligible for the same or a similar position for ten (10) years.

RECOMMENDATION:

To provide impartial decisions regarding the municipality's contracts, officials should ensure that unlawful conflicts of interest, as defined by Section 12-4-101, *Tennessee Code Annotated*, are avoided.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. We will follow the recommendation indicated in Finding 10.

Administrator:

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

11. **FINDING:** **Failure to document that bids were obtained for applicable purchases**

There was no documentation in the town's files that bids were requested for applicable purchases or reasons noted why bids were not required. Sections 6-56-301 to 6-56-306, *Tennessee Code Annotated*, requires that all applicable purchases of \$2,500 or more (\$10,000 if the municipality chooses to increase the limit by ordinance) be let out for bid. Title 2, Chapter 1, Section 7, of the *Internal Control and Compliance Manual for Tennessee Municipalities* requires that personnel retain sufficient documentation to substantiate that competitive bids were requested when applicable.

RECOMMENDATION:

To obtain the best price and comply with *Tennessee Code Annotated*, the board should ensure that required bidding procedures are followed for all purchases or contracts over \$2,500. Adequate documentation should be maintained as evidence of correct bidding procedures. Applicable invoices which have not been bid should be rejected, and the official or employee who is responsible for the purchase should be held liable.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. We will pass an ordinance requiring all bids over \$10,000 to be bid out.

Administrator:

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

12. **FINDING:** **Private organization's account included with town bank accounts**

Bank records listed an account titled "Reserve Police Officers Association" as a town account. According to officials, the town's reserve officers established the account to fund its charitable activities. However, the account was not included in the town's financial records, and town officials did not consider its account transactions subject to the controls applicable to town account transactions. Nevertheless, because the bank account was established using the town's federal identification number, the guidelines of the *Internal Control and Compliance Manual for Tennessee Municipalities* must apply to all deposit and disbursement transactions. In particular, a review of disbursements from the account revealed several expenditures which did not adhere to the strict municipal donation requirements.

RECOMMENDATION:

To ensure that deposits and disbursements from accounts listed as belonging to the town are consistently subjected to the internal control requirements of the manual cited above, the board should request that the account in question be removed as a town account if the organization's account objectives do not make compliance with the manual cited above feasible.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. The Reserve Police Officer's account has been closed and is no longer part of the town's accounts.

Administrator:

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

13. **FINDING: Failure to file required forms**

The municipality paid \$600 or more to several noncorporate recipients within a calendar year, but did not report those payments to the Internal Revenue Service on the required federal Form 1099. Section 6041A, *Federal Tax Code*, requires anyone in business who pays one or more noncorporate recipients \$600 or more in a calendar year to report those payments to the Internal Revenue Service.

In addition, municipal personnel did not file an annual unclaimed property report with the state treasurer. Although the town requires a nonrefundable meter deposit, the state treasurer has instructed that an annual unclaimed property report be filed for municipal utility departments whether or not unclaimed property is being held. The "Uniform Disposition of Unclaimed Property Act," as presented in Sections 66-29-101-66-29-152, *Tennessee Code Annotated*, authorizes the state treasurer to make necessary rules and regulations to carry out the provisions of the act.

RECOMMENDATION:

To comply with federal and state laws, a federal Form 1099 should be filed with the Internal Revenue Service for all noncorporate recipients to whom the town paid \$600 or more, and an unclaimed property report for the municipality's utility department must be filed annually with the state treasurer. The town should contact the Internal Revenue Service for additional information. To obtain reporting forms and additional information regarding unclaimed property, municipal personnel should contact the Treasury

Department, Unclaimed Property Division, 9th Floor, Andrew Jackson Building, Nashville, Tennessee 37243-0242. (615)741-6499.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. We will follow the recommendation in Finding 13.

Administrator:

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

14. **FINDING: Failure to maintain written documentation of accounting records and bank reconciliations**

The municipality's records did not include bank reconciliations to document that monthly bank balances were in agreement with the municipality's books. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 2, Section 3, states, "Municipal officials should provide constant, close supervision to ensure . . . (d) bank accounts and control accounts are being reconciled systematically and the reconciliation is documented and retained." Section 4 of the same manual states:

Municipal officials should ensure that automatic proof techniques are applied whenever possible. These techniques include the use of an employee without prior access to the records to . . . reconcile bank accounts and match reconciled amount to the general ledger cash account balance. . . .

In addition, although the administrator maintained the town's accounting records on the computer, he did not print monthly reports. Since the town did not have a policy requiring backup and off-site storage of copies of the town's computer files, the failure to produce and maintain a hard copy of interim information could hamper town operations in an emergency. Section 9-2-102, *Tennessee Code Annotated*, requires the Comptroller of the Treasury to 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 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*. The administrator has been provided a copy of this manual.

RECOMMENDATION:

To provide information for determining the town's financial position and to help detect errors or irregularities, municipal officials should ensure that adequate accounting records and other documentation of town business transactions are prepared and maintained each month.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. We will provide information showing the town's financial position and documentation of the town's business transactions will be prepared and kept up to date.

Administrator:

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

15. **FINDING: Lack of contract for cable television franchise fee**

The municipality did not have a contract with STC Cable Partners, the current owner of the local cable television franchise. As a result, the town did not have documentation of such details as the amount of the franchise fee which the cable television company is required to pay to the municipality, the basis for determining the amount of the fee, the date the fee will be paid, or the municipality's right to independently verify the accuracy of the amount of fee received. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 1, Section 4, states that officials must obtain a written contract for all agreements with other entities or individuals for services received or provided.

RECOMMENDATION:

To prevent any misunderstanding about the operation of the cable television franchise and to help ensure that the town receives all money due in timely manner, officials should require the cable television company to sign a detailed written agreement. The agreement should specify the amount of the fee, the basis for determining the fee, the date the fee will be paid, and the municipality's right to inspect the company's records or to receive its independently audited financial statements.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. The town will ask our cable company to sign a contract with us specifying the fee and basis for determining it, the due date of the fee, and the municipality's right to inspect the company's records or to receive its independently audited financial statements.

Administrator:

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

16. **FINDING: Yield on money in excess of normal operational needs not maximized**

The town maintained balances in some checking accounts in excess of the amount necessary for current needs. In addition, the town had other bank accounts which were inactive. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 3, Section 7, states:

Municipal officials should ensure that . . . the forecasting system works effectively to minimize idle checking account balances and that the investment program yields a maximum return considering all available legal investments with adequate liquidity and security.

RECOMMENDATION:

To efficiently manage the town's excess cash, the mayor and members of the board of aldermen should require the administrator to maintain checking account balances at the minimum necessary to meet current obligations. Excess idle cash should be invested to achieve the maximum return, taking into account the town's security and liquidity needs. In addition, to increase efficiency, unused accounts should be closed and accounts with minimal balances in nonrequired accounts should be consolidated. Officials may consider contacting a representative of the State Treasurer's office regarding investment opportunities offered by the Local Government Investment Pool.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. The town administrator will maintain checking account balances at the minimum necessary to meet current obligations and that excess idle cash will be invested to achieve the maximum return. Unused accounts will be closed and nonrequired accounts will be consolidated.

Administrator:

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

17. **FINDING: Property tax and utility accounts receivable not periodically reconciled**

The municipality's records did not include documentation that the property tax receivable balance in the general ledger was periodically reconciled to both the total amount of property tax not marked as paid on the tax roll, and to the total of the unpaid property tax receipts. Similarly, there was no documentation that the town's utility accounts were reconciled monthly. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 4, Section 4, and Title 3, Chapter 3, Section 10, requires periodic reconciliation of property tax and utility accounts.

RECOMMENDATION:

To help detect errors or irregularities promptly, municipal officials should ensure that the administrator periodically perform and document a reconciliation of property tax and utility accounts.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. The town administrator will periodically perform and document reconciliations of property tax and utility accounts to help to detect errors or irregularities.

Administrator:

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

18. **FINDING: Collection of delinquent property tax not in compliance with Tennessee Code Annotated**

The board failed to ensure that legal action was taken against citizens whose property tax was delinquent. Although in the fall of 2001 town personnel delivered to the town's attorney a list of delinquent property tax for 2000 and earlier years, at the end of January 2002, no legal action had been taken to collect delinquent tax. Section 28 of the

municipality's charter states, "The Town Attorney is designated the delinquent tax attorney for the Town." Section 6-55-201(a), *Tennessee Code Annotated*, states:

If taxes assessed upon real estate in the corporation, according to its ordinances, are not paid by the owner of the property within the year for which they were assessed, the collector shall report the facts to the recorder or other officer, and the recorder or other officer shall cause the real estate to be sold in the manner prescribed for sale of real estate for state and county taxes.

Sections 6-55-201–206, *Tennessee Code Annotated*, address a municipality's collection, suit in chancery court, and sale of property related to delinquent property tax.

In addition, according to current practice in the town, property taxes are delinquent May 1. However, except for the reference cited above designating the town attorney as the delinquent tax attorney, there was no documentation in the town's charter or ordinances addressing delinquent property tax. Although the town is empowered by its charter to collect its own property tax, it appears that unless the board establishes alternate dates by ordinance, the town should use the delinquent date of March 1 specified in Section 67-5-2010, *Tennessee Code Annotated*.

RECOMMENDATION:

To ensure that the municipality receives all property tax due, the board should ensure that collection of delinquent property tax is pursued in compliance with *Tennessee Code Annotated*. In addition, the board should establish by ordinance delinquent tax procedures, including the date tax becomes delinquent, or adhere to the dates specified in state law.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. The board of mayor and aldermen will establish an ordinance concerning delinquent tax procedures, including the date the taxes become delinquent. We also concur that the board will pursue the collection of delinquent property taxes in compliance with *Tennessee Code Annotated*.

Administrator:

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

19. **FINDING: Lack of controls over building permits**

Although prenumbered forms were used, building permits were not accounted for. Some permits were issued out of order while others were missing. In addition, adequate information was not maintained by town personnel of individuals who acquired permits or how the fee was calculated. As a result, we could not determine if the correct fee was charged. Section 9-2-102, *Tennessee Code Annotated*, requires the department of audit to prescribe a uniform accounting system for use by all municipal officials. An accounting system has been defined as “the methods and records established to identify, assemble, analyze, classify, record and report a government’s transactions and to maintain accountability for the related assets and liabilities.” The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 2, Section 3, states, “collections of . . . permit fees are recorded on prenumbered forms designed for the specific purpose, using similar internal control procedures as for other cash receipts.”

RECOMMENDATION:

To help ensure that all permit fees due the town are received, all building permits should be accounted for. Voided permits should be maintained. In addition, adequate information to identify individuals receiving permits and to allow the recalculation of permit fees should be maintained.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. All building permits will be accounted for and voided permits will be maintained. Adequate information identifying the permit holder and the steps used to calculate the fee will also be maintained.

Administrator:

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

20. **FINDING: No written authorization for salary amounts, wage rates, or other benefits provided to employees by the town**

The mayor and members of the board of aldermen did not include in the approved budget a detailed list of salaries and rates of pay of employees. Similarly, although the minutes of the mayor and members of the board of aldermen approved a Christmas bonus for employees, the amount or percentage rate of the bonus was not documented. In addition, authorization of several other current pay and benefit practices, some of which were not uniformly applied to all employees, was not documented in the minutes of the board of aldermen or established in written policies issued by the board. These included paid lunch

hours for at least one nonsalaried employee, as well as paid long-distance phone calls to personal numbers for **at least** one employee, and commuting use of the town's vehicles discussed in Finding 21. In addition, there was no written documentation addressing the percentage of insurance premiums the town paid for employees, which was 75 percent for all covered employees except the administrator, for whom the town paid all insurance premiums. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 3, Section 4, requires that payroll records include an authorized rate of pay, cross-referenced to the statutory and budgeted authorization, for each employee. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 1, Section 1, requires a municipality to include policies as part of its written record.

RECOMMENDATION:

To help ensure proper authorization of employee pay rates, the mayor and members of the board of aldermen should ensure that a detailed pay schedule for all classes of employees is prepared as part of the annual approved budget and that all employees' pay is computed using only approved rates. In addition, the board should establish a written policy authorizing any other benefits the board provides any employee, including the percentage of the employee's insurance premiums to be paid by the town. Town officials should consult the Internal Revenue Service to determine the value of any benefits provided by the town which must be included in the employee's income.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. The board of mayor and aldermen will prepare a detailed pay schedule for all classes of employees as part of the annual approved budget and that all employees' pay rates are calculated using only the approved rates. The board will also authorize a written policy listing the benefits to be provided to any employees, including the percentage of health insurance to be paid by the town. The Internal Revenue Service will be contacted in order to determine the value of any benefits provided by the town which must be included in the employees' income.

21. **FINDING: Authorization for personal commuting use of city-owned vehicles not documented, and value not included in income**

At least two employees used city-owned vehicles to commute to and from work, but no written documentation was located authorizing this benefit. In addition, neither the value of the vehicle's commuting use nor the value of the commuter's gasoline, which was paid for by the town, was included in the employee's income as a fringe benefit as required by the *Internal Revenue Code*, Reg. § 1.61-21. It appears that in neither case could the commuting value qualify as exempt from taxation. In one case the vehicle, a nonspecialized pickup truck, did not qualify for exemption, and in the other case, the

vehicle(s), clearly marked for police use, could qualify, but the commuter's use does not appear to be exempt.

RECOMMENDATION:

To avoid misunderstandings and to help ensure accountability for the town's assets, authorization of all employee benefits, including the commuting use of town vehicles, should be documented and the documentation maintained. To properly report all employee income and to avoid possible liabilities, penalties and interest, the mayor and members of the board of aldermen should also ensure that all compensation to employees, including the value of personal use of vehicles, is included as part of the employee's gross income. It should be noted that in such cases, strict recordkeeping requirements are imposed on employees receiving such benefits unless the municipality adopts a detailed written policy incorporating IRS rules. The board's passing such a policy may enable the employee using the pickup truck to include only a commuting value of \$1.50 each way in income. However, the other employee appears to lack a bona fide noncompensatory business reason for commuting in the town's vehicle and may be required to employ a method using the value of the vehicle and the percentage of personal use to calculate the commuting benefit included in income. The town should contact the Internal Revenue Service for additional information.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. Authorization of all employee benefits will be documented and maintained, including the commuting use of town vehicles. The board will also take steps to ensure that all compensation to employees is included as part of the employee's gross income. Strict records will be kept on employees receiving such benefits.

22. **FINDING: Inadequate personnel files, leave records, and time cards**

Employee personnel files were incomplete. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 3, lists various information required to be included in personnel files. Leave records were also not maintained. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 3, Section 5, states, ". . . a cumulative employee leave record is maintained for each employee. The record should clearly show all leave of any type earned and taken for each pay period, all paid and unpaid absences, and the current leave balance." Furthermore, some time cards were not completed or signed by employees, and time cards were not approved by supervisors. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 3, Section 7, states, "Time cards . . . (approved by department heads) should be maintained for all employees in order to eliminate unauthorized pay. . . ."

RECOMMENDATION:

To eliminate unauthorized pay, employee personnel files should contain all the necessary information as required by the manual. In addition, adequate leave records and complete time cards signed by supervisors should be maintained.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. Employee personnel files will contain all the necessary information as required by the manual. Also, adequate leave records and complete signed time cards will be maintained.

Administrator:

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

23. **FINDING: Inadequate controls over traffic citations**

Police officers were not required to sign for each book of prenumbered traffic citations issued to them. Although the clerk attempted to account for ticket numbers, she could not because she did not receive copies of tickets heard in general sessions court. Copies of the issued tickets were not filed numerically. In addition, tickets and arrests remanded to the county courts, including drug offenses and driving under the influence (DUI) cases, were not followed up to determine that the municipality received all fines due from the county courts. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 5, describes the proper procedures for traffic citations and court collections. Those procedures include physically controlling unissued citations, accounting for all issued and voided citations, filing citations numerically, and establishing efforts to collect all outstanding fines. Attorney General's Opinion 91-85 states that all or part of the fines collected from drug and DUI cases should go to the jurisdiction initiating the arrest.

RECOMMENDATION:

To decrease the risk of loss of revenue, municipal officials should establish and require employees to adhere to the internal control policies presented in the *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 5. Officials should ensure that all citations are accounted for and a copy of all citations is filed numerically. In addition, to help ensure that all money due from cases referred to the county courts is received, officials should require an employee to periodically compare a list of those referred cases to the monthly reports and fines received from the county and follow up by contacting the county to determine the status of unreported cases.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. Employees will adhere to the internal control policies presented in the *Internal Control and Compliance Manual for Tennessee Municipalities* and that all citations will be accounted for and copies filed numerically. We will also perform a periodic comparison of the cases referred to the county court to the monthly report and fines received from the county. A follow-up call to the county will be placed to determine the status on any unreported cases.

Administrator:

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

Police Chief:

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

24. **FINDING: Required information not recorded in court docket**

In several instances, a fine was paid but the related disposition was not recorded in the court docket. In addition, the docket did not include the numbers of the receipts issued for fine payments or other related information, such as a notation that a defendant failed to appear. Furthermore, the judge did not sign the record of all dispositions

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 5, provides guidance on the information to be included in the court docket and requires the judge to sign the record of all dispositions and the clerk to post payment receipt numbers to the court docket.

RECOMMENDATION:

To maintain adequate control over court cases, including the collection of fines, the court clerk should record detailed information in the court docket, and the judge should sign to document his authorization of all case dispositions in accordance with the *Internal Control and Compliance Manual for Tennessee Municipalities*.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. The court clerk will prepare and maintain a court record (docket), and the judge will sign to document his authorization of all case dispositions.

Administrator:

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

25. **FINDING: Confiscated drugs not properly accounted for or inventoried annually**

The police department did not maintain a complete, updated inventory of applicable confiscated property. As a result, for one case police department personnel were unable to provide confiscated drugs or disposition information for those drugs for inspection by auditors. There was no documentation that the police department followed the procedures set forth in state statutes for the disposal of confiscated items when the related cases were concluded, and auditors observed some confiscated property from cases initiated six years ago. In addition, in some instances, confiscated drugs, which along with other confiscated items are property for which the town is responsible, were not properly safeguarded but were maintained in the related arrest folder in an unlocked file cabinet. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 4, Section 3, states, "Municipal officials should . . . require that a record of moveable, high-risk, sensitive property . . . be established and maintained . . ." Section 53-11-451, *Tennessee Code Annotated*, sets forth the following procedures relating to the disposal of seized controlled substances and drug paraphernalia which have been held as evidence or exhibits for cases which have been concluded:

- (1) The clerk of the court having custody of the property to be disposed of shall, no less than once annually, inventory the same and prepare a list of the property proposed to be destroyed with references to the cases involved and the name of the case, the case number and date when such property was used;
- (2) The clerk shall submit the inventory list with a filed petition to the court and shall serve a copy of the petition upon the district attorney general. After determining that the listed property is not needed as evidence in any pending or potential judicial proceeding, the court shall order the property to be destroyed; and
- (3) The clerk, or such deputy clerk as the clerk may designate, shall completely destroy each item by cutting, crushing, burning or melting and shall file, together with the petition and order relating to the destroyed property, an affidavit concerning such destruction, showing a description of each item, the method of destruction, the date and place of destruction, and the names and addresses of all witnesses to the destruction.

RECOMMENDATION:

To help ensure that controlled substances and other evidence are accounted for, the police chief should require department personnel to record all such property in an evidence/property log. The log should include sufficient information to identify the case related to the evidence and should provide a record of all transactions related to the evidence. In addition, the police chief should ensure that all confiscated property is properly safeguarded. To eliminate the department's responsibility to safeguard high-risk property and controlled substances not needed as evidence, the procedures set forth in Section 53-11-451, *Tennessee Code Annotated*, should be followed no less than once annually.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. The majority of confiscated drugs have been destroyed by court order on May 13, 2002. Since the audit, we have set up a log to keep up with property, and property is stored in a locked area without easy access.

Administrator:

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

Police Chief:

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

26. **FINDING: Drug fines not set aside for purchase of electronic fingerprinting system**

The town's police department does not use or have access to an electronic fingerprint imaging system. Section 39-17-420, *Tennessee Code Annotated*, sets forth the lawful uses of the special drug account, including a requirement that municipalities set aside 20 percent of the applicable portion of all drug fines for the purchase, installation, and maintenance of an electronic fingerprint imaging system that is compatible with the federal bureau of investigation's integrated automated fingerprint identification system. As an alternative, municipalities may enter into agreements with other law enforcement agencies that possess such equipment for the use of that equipment.

RECOMMENDATION:

To comply with state statutes, the municipality should either enter into an agreement with another law enforcement agency that possesses an electronic fingerprint imaging system for the use of such equipment, or set aside 20 percent of the applicable portion of drug fines for the purchase of an electronic fingerprint imaging system.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. We met with Sheriff Les Helton on May 9, 2002, and discussed access to a fingerprinting machine. Sheriff Helton has advised he has entered in his budget for July 2002 to purchase an electronic fingerprinting machine and will work out a contract with all the towns in the county to use such machine.

Administrator:

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

Police Chief:

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

27. **FINDING: Utility department policies not enforced**

Although the board had adopted written adjustment and cut-off policies, these policies were not uniformly followed, and adjustment calculations were not adequately documented. In addition, the clerk did not generate a monthly computerized report of all adjustments made to customers' water and sewer accounts. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 3, Section 3, states:

Municipal officials should ensure that . . . charges disputed by customers are investigated and adjustments are approved, in accordance with the municipality's policy, by someone other than the bookkeeper handling receipt and payment records.

Section 9 of the manual states, "if accounts remain unpaid on the municipality's cutoff date, service is discontinued in compliance with the municipality's policy."

Section 4 of the manual also requires municipal officials to ensure that

. . . documentation of each adjustment is required and retained. Adjustments to billings for meter reading and other errors should

be recorded in the billing register. All adjustments to customers' bills should be approved by the governing body or its designee.

RECOMMENDATION:

To help minimize loss of revenue, and to help ensure that all customers are treated fairly, officials should insist that the municipality's adjustment and cutoff policies are strictly enforced. To ensure accountability for all changes to customer account balances, complete documentation, including the calculations necessary to determine each adjustment, should be retained. Each adjustment should be approved by the governing body or its designee.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. The town's cutoff and adjustment policies will be strictly enforced in order to be lawful and fair to all customers and to reduce loss of revenue. In order to ensure accountability and fairness for any changes to customer account balances, an adjustment form will be prepared and maintained and document the reason for the change and the calculations used. All adjustments will be approved by the town administrator or by the governing body.

Administrator:

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

28. **FINDING: Waiver of utility tap fees not authorized**

In at least two instances, for situations not covered in the town's policy, the board apparently allowed a tap fee waiver or assessed a unique tap fee amount, but did not document its authorization in the minutes of the meetings. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 1, Section 4, requires municipal officials to ensure that "complete minutes of actions taken by the legislative body are maintained. The minutes should include the following: (a) copies of all ordinances and resolutions adopted"

RECOMMENDATION:

To ensure fairness, the mayor and members of the board of aldermen should clarify its written policies, clearly describing the purpose of the tap fee and clearly outlining the requirements for the fee to be waived. In addition, when circumstances are not addressed in the town's policy, the board should document in the minutes its authorization for the amount of each fee assessed.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. The board of mayor and aldermen will clarify policies describing the purpose of the tap fee and outlining requirements for the fee to be waived. Also, if a situation arises that is not addressed in the town’s policy, the board will document its authorization in the minutes.

29. **FINDING:** **Utility payments not properly documented**

Although utility payments were posted to customers’ accounts, the clerk failed to maintain a record of utility postings for each deposit. In addition, utility stubs were not filed by deposit date. As a result, total collections for the day were not reconciled to the total amount posted to customer accounts. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 6, states “. . . The total on the daily collection report should agree with the total of the corresponding deposit slips as well as with the total of all applicable receipts.” Section 8 of the manual states, “. . . billing stubs are filed according to the deposit to which they correspond.”

RECOMMENDATION:

To provide better control over utility collections, a report of the utility payments posted which corresponds to the amount deposited should be printed and maintained. In addition, utility stubs should be filed by deposit date.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. A report will be printed and maintained showing the utility payments posted corresponding to the amount deposited. The utility stubs will be filed by deposit date.

Administrator:

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

30. **FINDING: Reconciliation of gallons of water purchased to gallons of water sold not performed**

Town employees did not perform a periodic reconciliation of gallons of water purchased to gallons of water sold. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 3, Section 2, states:

Municipal officials should ensure that . . . the total number of gallons of water pumped through the master meter (and listed on the bill, if water is purchased) is compared with the total number of gallons sold and the number of gallons estimated to be in storage, to identify any loss in transit. Unexplained fluctuations should be investigated to ensure that users are billed for total consumption and that malfunctioning meters and leaks in lines and mains are located promptly and repaired.

RECOMMENDATION:

To provide accountability and help prevent undetected water loss, the mayor and members of the board of aldermen should ensure that a periodic reconciliation of gallons of water purchased to gallons of water sold is performed and documented. Unexplained fluctuations should be investigated so that malfunctioning meters and leaks in lines may be promptly located and repaired.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. A periodic reconciliation of gallons of water purchased to gallons of water sold will be performed and documented. Unexplained fluctuations will be looked into in order to repair damaged lines, leaks and malfunctioning meters in a prompt manner.

Administrator:

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

31. **FINDING: Inadequate control over fixed assets and other property**

Officials did not require adequate internal control over the municipality's fixed assets and high-risk, moveable property. The administrator did not maintain complete, updated records of such items. Many of these items were not permanently marked to indicate the municipality's ownership. Generally accepted accounting principles and the *Internal Control and Compliance Manual for Tennessee Municipalities* require that fixed asset records be maintained. Title 1, Chapter 4, of the manual states:

Municipal officials should require that all fixed assets are located, identified (tagged or marked), and recorded using a separate card for each property item or group of similar items, such as chairs, purchased at the same time. The record should be retained at the municipality and should include up-to-date purchase and disposal information. An annual inventory should be performed and documented . . . a record of moveable, high-risk, sensitive property, such as TVs, VCRs, and small office machines, as well as furnishings and works of art, be established and maintained and an annual inventory be performed.

RECOMMENDATION:

To better control and account for individual fixed assets and high-risk, moveable property, the administrator should maintain complete, updated records of those items in accordance with the *Internal Control and Compliance Manual for Tennessee Municipalities*. Officials should require that each of the items is permanently marked or tagged to indicate the municipality's ownership.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. The town administrator will maintain complete, updated records of fixed assets and other property in accordance with the *Internal Control and Compliance Manual for Tennessee Municipalities*. These items will be marked, permanently, to indicate the municipality's ownership.

Administrator:

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