

# **INVESTIGATIVE AUDIT REPORT**

**Town of Cornersville  
July 1, 2004, through July 31, 2005**



## **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

February 21, 2006

Honorable Mayor and Members of the  
Board of Aldermen  
Town of Cornersville  
P. O. Box 128  
Cornersville, TN 37074

Ladies and Gentlemen:

Presented herewith is the report on our investigative audit of selected records of the Town of Cornersville. This examination focused on the period July 1, 2004, through July 31, 2005. The audit focused on disbursements. 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 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.

Our investigative audit revealed that Eric Brangenberg, former town administrator, apparently diverted from the Town of Cornersville at least \$85,351 to which he was not entitled. This matter was referred to the local district attorney general for his consideration. In January 2006, the Marshall County Grand Jury indicted former city administrator, Eric Brangenberg, on 29 counts, including Theft over \$60,000.

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.

Honorable Mayor and Members of the  
Board of Aldermen  
Town of Cornersville  
February 21, 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 long horizontal flourish 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

February 21, 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 municipalities, we have completed our investigative audit of selected records of the Town of Cornersville. This investigative audit focused on the period July 1, 2004, through July 31, 2005. The audit focused on disbursements. 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.

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Mr. John G. Morgan  
Comptroller of the Treasury  
February 21, 2006

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

1. Inadequate separation of duties
2. Lack of adequate supporting documentation
3. Checks issued with only one authorized signature
4. Closing drug fund account
5. Collections not deposited promptly and intact
6. Daily collections reports not properly completed

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 TOWN OF CORNERSVILLE  
FOR THE PERIOD JULY 1, 2004, THROUGH JULY 31, 2005**

On July 18, 2005, the former town administrator Eric Brangenberg, deposited a \$7,080 insurance reimbursement check payable to the town into his personal bank account. Bank personnel alerted town officials of this apparent impropriety. When confronted with this by town officials, Mr. Brangenberg repaid the town for the apparently misappropriated money. This matter was referred to the Division of Municipal Audit. Our investigative audit revealed that Eric Brangenberg apparently diverted from the Town of Cornersville at least \$85,351 to which he was not entitled.

**LEGAL ISSUES**

1. **ISSUE:      Unauthorized loans**

In November 2004, Mr. Brangenberg obtained a \$35,000 loan in the name of the town without the mayor and board of aldermen's consent. He deposited that money into a bank account he had opened in the name of the town at the Bank of Frankewing. That account had been opened without board consent and with Mr. Brangenberg as the only authorized signatory. The loan resolution submitted to the bank indicated that the loan proceeds were to be used for a town sidewalk project. However, our audit could not determine that any funds from this account were used for a town sidewalk project. Instead, it appears that Mr. Brangenberg used the entirety of the proceeds of this loan, as well as another town collection he diverted to this bank account, for his personal benefit.

In January 2005, Mr. Brangenberg obtained a \$60,000 loan in the name of the town without the mayor and board of aldermen's consent. Documents indicated that the loan was obtained to retire a previous loan and to purchase police cars. The proceeds were used to retire a previous loan and to purchase one police car. However, the proceeds were also used to help pay for a water tank project.

In June 2005, Mr. Brangenberg obtained an \$112,000 loan in the name of the town without the mayor and board of aldermen's consent. He indicated on the loan documents that the proceeds of the loan were to be used for town paving projects. However, the loan was actually used to retire previously obtained loans and to fund current operations of the town. It appears that town revenue was not adequate to finance both town operations and Mr. Brangenberg's apparent misappropriation. None of these loans were approved by the state director of local finance, as required by state statutes.

2. **ISSUE: Unauthorized checks issued for the former town administrator's personal benefit**

Our investigative audit revealed Mr. Brangenberg prepared unauthorized town checks totaling \$65,710 for his personal benefit. For instance, he prepared and issued a town check in the amount of \$13,496 payable to First Commerce Bank to pay a personal debt. In addition, he prepared and issued a town check in the amount of \$8,923 made payable to Transouth, which held the lien on his personal vehicle. He also prepared and issued town checks payable to himself or to "cash" for which he could provide no legitimate town purpose. Mr. Brangenberg was responsible for issuing all town checks and reconciling all bank statements.

3. **ISSUE: Unauthorized payroll checks**

Mr. Brangenberg was responsible for preparing and approving all payroll payments. Our investigative audit revealed that Mr. Brangenberg prepared and issued to himself additional payroll checks totaling at least \$7,992.

4. **ISSUE: Diverted town collections**

As noted previously, Mr. Brangenberg deposited a check payable to the town into his own personal bank account. Our investigative audit also revealed that Mr. Brangenberg diverted an insurance claim check payable to the town into the unauthorized bank account he had opened with the Bank of Frankewing. In the course of making that deposit, Mr. Brangenberg apparently withdrew \$3,000 in cash. Our audit confirmed that the cash was not used for a lawful municipal purpose nor was it deposited back into a town bank account.

5. **ISSUE: Unauthorized personal purchases and charges**

Mr. Brangenberg apparently made personal purchases using the town's charge account with Lowe's. Although Mr. Brangenberg had apparently obtained, in the name of the town, a charge card from Lowe's in July 2004, there was no supporting documentation in town files for any charges to the card. Town officials were able to obtain statement summaries for the Lowe's charge account. Auditors identified several items, totaling \$1,569 that had been charged to the town account, including several vinyl windows, that did not appear to be for a legitimate municipal purpose and which could not be located on town property. Auditors also noted five town checks totaling \$3,681 that Mr. Brangenberg prepared and took to several Lowe's stores. There was no supporting documentation for any of these purchases in town files.

**Summary of Loss**

<b>Scheme</b>	<b>Amount</b>
Unauthorized checks for Eric Brangenberg's benefit	\$65,710
Unauthorized payroll payments	7,992
Diverted town collections	10,080
Lowe's purchases	<u>1,569</u>
<b>Total</b>	<b><u>\$85,351</u></b>

6. **ISSUE:      Apparently fraudulent payments to vendor**

Our investigative audit revealed that Mr. Brangenberg prepared and issued a check to Custom Controls totaling \$21,965, for which town files contained no supporting documentation. The check, which contained only the signature of Mr. Brangenberg and was not approved by the mayor and board of aldermen, had the notation "sewer" written in the memo line. According to Mr. Brangenberg, this was in payment for the repair of damage to the pump station and sewer plant following storm damage. However, auditors determined that Mr. Brangenberg did not submit this payment to the town's insurance carrier, the Tennessee Municipal League Insurance Pool (TML). Mr. Brangenberg claimed that he did not turn in this expense because TML was reluctant to pay other claims he had submitted and that he feared that the town coverage would be dropped.

However, auditors contacted a TML representative and learned that they were not contemplating dropping coverage for the town. In addition, documentation indicated that the insurance provider was willing and prepared to settle the claim. Auditors discovered that a documented claim on the sewer plant resulting from the same storm was processed and paid promptly by TML. That payment, which included reimbursement of \$866.60 for work done by Custom Controls, apparently completed all covered and necessary repairs on the sewer plant. Therefore, there did not appear to be a valid municipal purpose for the \$21,965 payment to Custom Controls.

Mr. Brangenberg made two additional payments to Custom Controls, also unapproved and displaying only his signature, totaling \$10,500 for which there was no documented town purpose.

Auditors contacted the owner of Custom Controls, Jimmy Mitchell, and requested invoices and documentation supporting these checks. Although he insisted that the payments to him were for valid work performed, he failed to provide any documentation for at least \$32,645.

These matters had been referred to the local district attorney general for his consideration. In January 2006, the Marshall County Grand Jury indicted former city administrator, Eric Brangenberg, on 29 counts, including Theft over \$60,000. Our investigative audit also revealed the following weaknesses in the internal controls of the town, some of which apparently allowed Mr. Brangenberg to make these apparent misappropriations without detection.

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**FINDINGS AND RECOMMENDATIONS**

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

Although the town had several employees, one employee was responsible for all cash disbursements and bank reconciliations. 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 ... perform routine duties of other employees ... for at least one vacation period per year.

**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. In addition, elected officials should exert increased oversight, where necessary.

**MANAGEMENT’S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur. No one employee is solely responsible for collecting and depositing funds. All cash and checks are totaled by the city recorder and separately totaled by the city administrator, who initials all deposits. To comply with Title 1, Chapter 2, Section 4 of the *Internal Control and Compliance Manual for Tennessee Municipalities*, two of our alderpeople will reconcile bank accounts monthly and balance daily cash receipts.

2. **FINDING: Lack of adequate supporting documentation**

The municipality's files did not include adequate supporting documentation for each disbursement. For many disbursements, the files contained no documentation. 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.)

Section 3 requires that the related documentation accompany checks presented for approval and signing.

**RECOMMENDATION:**

To document that each disbursement was 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*. Before signing a check, authorized individuals should review adequate supporting documentation to determine that the disbursement is for a valid municipal purpose and that the charge has not previously been paid.

**MANAGEMENT'S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur. All invoices paid after January 2006 are filed by vendor with checks stubs attached.

3. **FINDING: Checks issued with only one authorized signature**

The former town administrator issued several checks on which his was the only signature. 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."

**RECOMMENDATION:**

To decrease the risk of unauthorized disbursements, municipal officials should require that every issued check be signed by two of the people which officials have authorized on

the bank signature card. In addition, municipal officials should make arrangements with the bank so that checks will not be processed unless they include two of the authorized signatures listed with the bank.

**MANAGEMENT'S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur. All invoices paid after January 2006 are signed by Gaye Wilson, Mayor, and Taylor Brandon, City Administrator.

4. **FINDING: Closing drug fund account**

The former town administrator improperly closed the special drug account without the permission or knowledge of the mayor and board of aldermen or the police chief. There was no documentation in town files justifying this transfer. Section 53-11-415, *Tennessee Code Annotated*, mandates that municipality's account for drug-related fines and the proceeds from drug-related forfeitures in a special revenue account. Section 39-17-420, *Tennessee Code Annotated*, mandates that funds in this account be used only for local drug enforcement, local drug education, local drug treatment or nonrecurring general law enforcement expenditures.

**RECOMMENDATION:**

To comply with state statutes, money from the special drug account should be used only for authorized purposes. Town officials must maintain adequate supporting documentation to justify all disbursements or transfers from that account.

**MANAGEMENT'S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur. Any drug fund disbursements by town officials will be properly authorized and supported by adequate documentation.

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

Various collections were not deposited promptly and intact into the municipality's bank account. The municipality's cash receipt records indicated that many collections were not deposited until five or more days after being received by municipal personnel. In addition, collections were not deposited into a municipal bank account using a logical or

methodical approach. As a result, auditors were unable to determine that all collections were properly accounted for.

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.

**MANAGEMENT'S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur. Collections after January 2, 2006, have been deposited into the municipality's bank intact and within three working days.

6. **FINDING: Daily collection reports not properly completed**

Municipal personnel did not prepare daily collection reports that included the total amount to be deposited or the cashier's signature. 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 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 Aldermen:**

We concur. Daily collection reports were started February 2006. Report dates match deposit slip dates; the cashier signs daily collection report.