

INVESTIGATIVE AUDIT REPORT

TOWN OF ENGLEWOOD
COLLECTION RECORDS

JULY 1, 2003, THROUGH DECEMBER 31, 2003



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

November 1, 2004

Honorable Mayor and Members of
the Board of Commissioners
Town of Englewood
P. O. Box 150
Englewood, TN 37329

Gentlemen:

Presented herewith is the report on our investigative audit of the collection records of the Town of Englewood. This examination focused on the period July 1, 2003, through December 31, 2003. 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 1-13 of *Governmental Accounting, Auditing and Financial Reporting*. The purpose of our examination was to determine the extent of the entity's compliance with certain laws and regulations, including those in the above-mentioned manuals.

On October 11, 2004, Kristie Nicholson, former court clerk, pled guilty to one count of Theft over \$1,000, and one count of Official Misconduct. She was placed on probation for a total of six years and ordered to pay restitution of \$53,000. In addition, the internal control weaknesses in this report relate to those conditions that we believe warrant your immediate attention.

Honorable Mayor and Members of the
Board of Commissioners
Town of Englewood
November 1, 2004

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,

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

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

November 1, 2004

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 the collection records of the Town of Englewood. This examination focused on the period July 1, 2003, through December 31, 2003. 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 1-13 of *Governmental Accounting, Auditing and Financial Reporting*. The purpose of our examination 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
November 1, 2004

If after your review, you have any questions, I will be happy to supply any additional information which you may request.

Sincerely,

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

**INVESTIGATIVE AUDIT OF THE RECORDS OF THE
TOWN OF ENGLEWOOD – COLLECTION RECORDS
FOR THE PERIOD JULY 1, 2003, THROUGH DECEMBER 31, 2003**

LEGAL ISSUE

1. **ISSUE: Cash shortage**

Our investigative audit revealed that during the period July 1, 2001, through November 30, 2003, the former court clerk set aside at least \$53,000 in unreceipted checks payable to the city for traffic fines. She apparently exchanged these checks for cash through the city's cash drawer, keeping the cash for her own use. To conceal this misappropriation, she recorded the ticket as paid in the ticket file and in the court docket; however, she reused receipt numbers that had previously been used for other properly deposited collections. In fact, she reused the same receipt numbers up to three times. In addition, our audit revealed an additional \$198 in receipted collections that were not deposited into a city bank account.

On October 11, 2004, Kristie Nicholson, former court clerk, pled guilty to one count of Theft over \$1,000, and one count of Official Misconduct. She was placed on probation for a total of six years and ordered to pay restitution of \$53,000.

INTERNAL CONTROL WEAKNESSES

1. Although the city had several employees, one employee opened mail, received collections, recorded collections and prepared deposits. As a result, the apparent theft discussed above was allowed to continue undetected. 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.

2. Municipal personnel used undeposited cash for unallowable purposes, such as cashing personal checks. Clerks apparently cashed personal and third-party checks for themselves, as well as other city employees and nonemployees, through the city cash drawer. As a result, bank deposits were not intact. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 5, states that “[c]ollections should be deposited promptly and intact and only in designated depositories.”
3. Municipal personnel did not deposit collections promptly and intact into the municipality’s bank account. The municipality’s cash receipt records indicated that municipal personnel did not deposit some collections until up to two weeks after receipt.

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.

The mayor and members of the board of commissioners should require and ensure corrective action regarding the above weaknesses.