

**SPECIAL PURPOSE EXAMINATION OF THE RECORDS  
OF THE RECORDS OF THE CITY OF FRIENDSVILLE  
FOR THE PERIOD JULY 1, 1997, THROUGH JUNE 30, 2000**

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**LEGAL ISSUE**

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1. **ISSUE:            APPARENT EMBEZZLEMENT OF AT LEAST \$54,351.33**

During the period May 1, 1998, through April 30, 2000, utility billing collections totaling at least \$54,351.33 were not deposited into city bank accounts. During this period, the former recorder was responsible for collecting customer payments, recording collections in city records, preparing collections for bank deposit, and delivering deposits to the bank.

Section 39-14-103, *Tennessee Code Annotated*, states, "A person commits theft of property if, with intent to deprive the owner of property, the person knowingly obtains or exercises control over the property without the owner's effective consent." Section 39-14-105, *Tennessee Code Annotated*, states:

Theft of property or services is: . . .

(4) A Class C felony if the value of the property or services obtained is ten thousand dollars (\$10,000) or more but less than sixty thousand dollars (\$60,000) . . .

Several internal control weaknesses in the utility collection process allowed the shortage to occur and remain undetected by city officials. These weaknesses and our related recommendations are addressed in the Findings and Recommendations section in this report.

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

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## FINDINGS AND RECOMMENDATIONS

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1. **FINDING:**      **INADEQUATE SEPARATION OF DUTIES**

The recorder received and recorded collections, prepared collections for deposit, and delivered deposits to the bank. 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, the mayor and members of the board of commissioners should review employees' responsibilities to ensure that no employee has control over a complete transaction.

**MANAGEMENT’S RESPONSE:**

**MAYOR AND MEMBERS OF THE BOARD OF COMMISSIONERS:**

We concur that the recorder, water superintendent, and part-time help shall receive collections. The recorder and part-time help shall record collections. The water superintendent shall prepare deposits. The water superintendent shall make bank deposits, or the recorder shall make the bank deposits on her way home from work. The one not making the deposits shall verify the deposited amount is correct. Also, the recorder shall take a one-week vacation per calendar year.

2. **FINDING: UTILITY ACCOUNTS RECEIVABLE RECONCILIATION NOT PERFORMED**

The city’s records did not include documentation of a monthly reconciliation of utility accounts receivable as reflected in the utility billing register to the general ledger control account. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 3, Section 10, states, “Municipal officials should ensure that . . . the total amount of the unpaid individual accounts on the utility billing sheet is reconciled to the applicable general ledger control account total at the end of each month.”

**RECOMMENDATION:**

To detect errors or irregularities promptly, the mayor and members of the board of commissioners should ensure that a monthly reconciliation, of the detail listing of accounts receivable in the billing register to the general ledger control account, is performed and documented.

**MANAGEMENT’S RESPONSE:**

**MAYOR AND MEMBERS OF THE BOARD OF COMMISSIONERS:**

We concur that a month’s end printout from “Quick Books” showing all money brought in and sent out shall be presented to council at the following month’s meeting.



**AUDITOR'S CLARIFICATION:**

It appears that management has taken steps toward improving its oversight responsibility for collections. However, the mayor and members of the board of commissioners should also require a periodic reconciliation of the detail listing of accounts receivable in the billing register to the general ledger control account.

3. **FINDING:**      **COLLECTIONS NOT DEPOSITED PROMPTLY AND INTACT**

Utility collections were not deposited promptly and intact into the city's revenue account. City utility records indicated that utility collections were routinely deposited more than three days after being received by city personnel.

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, the mayor and members of the board of commissioners should ensure that all collections are deposited intact within three working days into an official city bank account.

**MANAGEMENT'S RESPONSE:**

**MAYOR AND MEMBERS OF THE BOARD OF COMMISSIONERS:**

We concur that deposits are being made every day, if not, every other day.

**AUDITOR'S CLARIFICATION:**

It appears that management has now taken appropriate action. However, the internal control weakness that existed and allowed the apparent embezzlement to continue undetected was that collections were not deposited intact and within three business days.

4. **FINDING:**      **DAILY COLLECTION REPORTS NOT PREPARED AND DEPOSIT SLIPS NOT ITEMIZED**

The recorder did not prepare daily collection reports summarizing the amount and source of cash collected each day. In addition, deposit slips often did not list each check included in deposits. 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. . . .

Section 4 requires that each check deposited be listed separately on an itemized deposit slip.

**RECOMMENDATION:**

To better account for collections, each day city employees 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. Deposit slips should be itemized and should list each check separately.

**MANAGEMENT'S RESPONSE:**

**MAYOR AND MEMBERS OF THE BOARD OF COMMISSIONERS:**

We concur that the recorder is filling out a daily cash report, with a computer printout attached, listing all water payments received. The water superintendent verifies and signs the report. Register tapes listing all checks separately are being attached to deposit slips.

**AUDITOR'S CLARIFICATION:**

It appears that management has now taken appropriate action. However, the internal control weakness that existed and allowed the apparent embezzlement to continue undetected was that daily summaries of collections were not prepared.

5. **FINDING:**      **APPARENT PERSONAL USE OF CITY CHARGE CARDS**

During the period May 1998 through April 2000, the former recorder apparently used two city charge cards, Visa and Staples, to make over \$9,000 in personal purchases. These charges were apparently later paid for

personally by the recorder. Article II, Section 29, of the *Constitution of the State of Tennessee*, provides:

But the credit of no County, City or Town shall be given or loaned to or in aid of any person, company, association or corporation, except upon an election to be first held by the qualified voters of such county, city or town, and the assent of three-fourths of the votes cast at said election.

Without the above election, the *Constitution of the State of Tennessee* does not provide for lending or giving the city's credit to individuals.

**RECOMMENDATION:**

To avoid an unconstitutional giving or lending of the city's credit, the mayor and members of the board of commissioners should prohibit the use of city charge cards to make personal purchases.

**MANAGEMENT'S RESPONSE:**

**MAYOR AND MEMBERS OF THE BOARD OF COMMISSIONERS:**

We concur that the use of the charge cards will be for city purchases only.