

**SPECIAL PURPOSE EXAMINATION OF THE RECORDS
OF THE CITY OF KINGSTON
FOR THE PERIOD JULY 1, 1999, THROUGH DECEMBER 31, 2000**

LEGAL ISSUE

For the period October 1, 1999, through October 31, 2000, a city clerk apparently manipulated collection records and bank deposits in a scheme to embezzle at least \$17,776.77 from the City of Kingston's general government and utility department. The clerk admitted that she had taken a portion of the extracted cash without authority to pay for personal medical expenses.

The clerk apparently violated the following state statutes:

Section 39-14-103, *Tennessee Code Annotated*, Theft of property, states that "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 39-16-504 *Tennessee Code Annotated*, Destruction of and tampering with governmental records, states:

- (a) It is unlawful for any person to:
 - (1) Knowingly make a false entry in, or false alteration of, a governmental record;
 - (2) Make, present, or use any record, document or thing with knowledge of its falsity and with intent that it will be taken as a genuine governmental record; or
 - (3) Intentionally and unlawfully destroy, conceal, remove or otherwise impair the verity, legibility or availability of a governmental record.

Section 39-16-402, *Tennessee Code Annotated*, Official misconduct, states:

- (a) A public servant commits an offense who, with intent to obtain a benefit or to harm another, intentionally or knowingly . . .
 - (4) Violates a law relating to the public servant's office or employment; or
 - (5) Receives any benefit not otherwise authorized by law.

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

THIS PAGE WAS LEFT BLANK INTENTIONALLY.

The embezzlement was allowed to occur without detection due to weaknesses in the city's internal controls. These weaknesses and accompanying recommendations are presented below.

FINDINGS AND RECOMMENDATIONS

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

Although there were several collection clerks, one clerk opened mail, received collections, recorded collections, and prepared bank deposits. 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. . . .

RECOMMENDATION:

To decrease the risk of undetected errors and irregularities, the mayor and members of the council should review employees' responsibilities to ensure that no employee has control over a complete transaction. We have provided the city with detailed internal control recommendations to assist in this area.

MANAGEMENT'S RESPONSE:

Mayor and Members of the City Council:

We concur with your finding and have implemented your recommendations. We have already assigned different clerks different responsibilities so that no one has control over a complete transaction.

Manager:

Response is the same as that of the mayor and city council.

2. **FINDING: Collections not deposited intact**

The cash/check ratio of the bank deposits did not conform to the cash/check ratio for the related receipts. In addition, we noted that employees cashed personal checks through the cash drawer.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 5, states, “Collections should be deposited promptly and intact. . . .”

RECOMMENDATION:

To better account for city assets, the mayor and members of the council should ensure that collections are deposited intact into the appropriate bank account.

MANAGEMENT’S RESPONSE:

Mayor and Members of the City Council:

We concur with your finding and have implemented your recommendations. We now rotate deposits each day. One day one clerk makes the deposits and another clerk verifies the deposit. The next day, they switch so that no one makes deposits two days in a row. Each clerk signs the DCRs and the other clerk signs as verification is made. The mail collector now receives all checks and lists them on the deposit.

Manager:

Response is the same as that of the mayor and city council.

3. **FINDING: Deposit slips not itemized**

Collection clerks did not individually list each check on the bank deposit slip. As a result, one clerk was able to manipulate checks and bank deposits without detection. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 4, requires that each check deposited be listed separately on an itemized deposit slip.

RECOMMENDATION:

To properly document bank deposits, deposit slips should be itemized and should list each check separately.

MANAGEMENT'S RESPONSE:

Mayor and Members of the City Council:

We concur with your finding and have implemented your recommendations. We are now listing each check on each deposit. All DCRs are then forwarded to the finance director for additional verification and reconciliation with bank deposits and general ledger postings.

Manager:

Response is the same as that of the mayor and city council.