



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

July 10, 2007

Honorable Mayor and Members of the
Board of Aldermen
City of Lexington
P. O. Box 1699
Lexington, TN 38351

Ladies and Gentlemen:

We have concluded our investigative audit of selected records of the Lexington Electric System (LES). The audit focused on the period July 1, 2006, through May 31, 2007. Officials with the system requested that the Division of Municipal Audit examine specific unusual transactions. The audit was primarily limited to an examination of records related to those transactions. However, when warranted we expanded the scope.

Our audit revealed the following:

1. We noted that LES cashiers cashed their personal and third-party checks through the system's cash drawers. In virtually all instances, the check cashing was in conjunction with a bill payment of some sort. However, the cashiers routinely applied only \$1 or \$2 to their electric accounts when they cashed their checks. In addition, we found that cashiers were cashing third-party checks for customers. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 5, states, "Collections should be deposited promptly and intact...." As a result, cashiers must deposit what they collect and are prohibited from cashing their checks or customers' checks through the cash drawers.

Honorable Mayor and Members of the
Board of Aldermen
City of Lexington
July 11, 2007
Page 2

2. Municipal personnel who received collections for LES in some cases failed to identify on each bill stub if the form of remittance was cash or check. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 2, requires municipal officials to ensure that "... Each bill stub should be stamped or marked "PAID," dated by the cashier, and marked to identify whether the form of remittance is cash or check."

LES officials should take immediate corrective action to resolve these issues. If you have any questions or need additional information, please contact me.

Very truly yours,

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

DFD/RAD