

**SPECIAL PURPOSE EXAMINATION OF THE RECORDS
OF THE TOWN OF MASON
FOR THE PERIOD JUNE 1, 2000, THROUGH MAY 31, 2001**

The current recorder was hired in January 2001. Because she will be required to implement those recommendations relating to her position, we have asked her to respond.

FINDINGS AND RECOMMENDATIONS

1. **FINDING: Daily collection reports not prepared**

Daily reports, summarizing collections and accounting for all receipts issued and stubs collected each day, were not prepared. The lack of adequate controls contributed to a shortage of at least \$524 in the general fund during the period August through December 2000. 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 8 of the manual requires that property tax receipts and billing stubs be filed according to the deposit to which they correspond.

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. The totals of each daily collection report, corresponding prenumbered receipts, and related bank deposit should agree. Property tax receipts and utility stubs should be bundled by date paid to support the corresponding entry on the daily collection report.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur with the recorder’s response.

Recorder:

I concur. As of July 1, 2001, a daily cash report is done on a daily basis and receipts are reconciled to cash report.

2. **FINDING:** **Comprehensive written purchasing policy not adopted**

The mayor and members of the board of aldermen failed to adopt a comprehensive written purchasing policy. The failure to adopt, record, and enforce a purchasing policy requiring the use of prenumbered purchase orders contributed to an office environment in which one former employee was able to charge personal items of at least \$1,388 to a town account and conceal those charges for some time and another former employee charged a single personal purchase to the town. In addition, it appeared that the town paid for flower arrangements sent to hospitals and funerals for community members and failed to follow the requirements of state law for charitable donations by a municipality. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 1, states that municipalities should adopt a written purchasing policy that includes designating persons authorized to make purchases, **requiring the use of prenumbered purchase orders**, outlining procedures for emergency and small-item purchases without prior approval, requiring approval by the finance officer, and requiring bids for purchases over a stated amount. The policy should also address the required purpose of all municipal disbursements. Section 6-56-112, *Tennessee Code Annotated*, states, “All expenditures of money made by a municipality must be made for a lawful municipal purpose.” Section 6-54-111, *Tennessee Code Annotated*, lists the requirements for contributions by a municipality.

RECOMMENDATION:

To ensure that the municipality purchases items at the best price and in the most advantageous manner and that all purchases are for a lawful municipal purpose, the mayor and members of the board of aldermen should adopt and enforce compliance with a comprehensive written purchasing policy which includes the use of prenumbered purchase orders. Officials should also ensure that the town complies with all state statutes regarding donations.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. A purchasing policy is being formed and will be followed.

3. **FINDING:** **Prenumbered receipts not issued for some collections**

The recorder did not issue duplicate, prenumbered receipts for some miscellaneous collections, including money received from the state and the general sessions court. The recorder, who opens the mail, should issue receipts for these collections before remitting them to the cashier. In addition, receipts were not always issued to the person from whom the collection was received. Further, although general and police fine receipts were usually marked indicating the method of payment, utility stubs and property tax receipts were not marked to indicate whether the payment was made by cash or check. In addition, stubs representing several months of gas fee collections were not on file. Sections 9-2-103--104, *Tennessee Code Annotated*, require that municipal officials issue duplicate, prenumbered receipts for all collections. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 2, states that each bill stub should be marked to identify whether the form of remittance is cash or check and filed according to the deposit to which they correspond.

RECOMMENDATION:

To document and account for money paid to the municipality, officials and employees should issue duplicate, prenumbered receipts for all money they receive in their official capacity. The recorder should issue receipts for all miscellaneous revenue received in the mail. The method of payment, cash or check, should be marked on all receipts, including utility stubs and property tax receipts. Receipts should be issued to the person making the payment with information linking the payment to the town’s records (ticket number and violator name if the fine is paid by someone else) recorded elsewhere on the receipt.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur with the recorder’s response.

Recorder:

I concur. This is being done on a daily basis as of July 1, 2001.

4. **FINDING: Collections not deposited promptly**

Various collections were not deposited promptly into the municipality's bank account. The municipality's cash receipt records indicated that some collections were not deposited until a month after being received by municipal 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, officials should ensure that all collections are deposited intact within three working days into an official municipal bank account. To further help prevent loss of collections and to help ensure that collections are accurately recorded and receipts are correctly issued, payments should only be received by the cashier at town hall.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur with the recorder's response.

Recorder:

I concur. Deposits are made each morning and if we have a large sum, we will make a night deposit as needed. All money is collected at town hall by the cashier.

5. **FINDING:** **Failure to require and review complete supporting documentation prior to signing checks**

Designated check signers failed to always require that supporting documentation for disbursements was presented before they signed the related checks. In some instances checks were signed, and the amount was later completed by the individual making the purchase. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, Section 2, states, “Both the checks and attached documentation should be submitted to the designated officials for examination and signature.”

RECOMMENDATION:

To help reduce the risk of undetected errors and irregularities and to help ensure that disbursements comply with the town’s to-be-developed purchasing policy and accurately reflect management’s decisions, the officials designated to sign checks should request and review all supporting documentation prior to signing. Incomplete checks should not be signed.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur with the recorder’s response.

Recorder:

I concur. Documentation is being supplied with each check to be signed.

6. **FINDING:** **Inadequate documentation for disbursements**

The municipality’s files did not include adequate supporting documentation for some disbursements. For several disbursements the files contained no documentation, other disbursements were supported only by summarized statements, and some documentation was incomplete because employees had not signed or initialed the invoice to indicate that goods or services were received as ordered. In addition, supporting documentation was not canceled as “PAID” before it was submitted with the checks for approval. Apparently, as noted in Finding 5, authorized check signers did not require adequate supporting documentation before they signed checks.

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 of the manual cited above requires that all supporting documentation be canceled before it is submitted with the checks to be approved and signed. Title 1, Chapter 4, Section 1, of the same manual requires that the receiver sign each invoice to document that goods or service results were inspected and found to be as ordered.

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 with the recorder's response.

Recorder:

I concur. Supporting documentation is filed by date and stamped paid to keep from paying a bill twice.

7. **FINDING: Property tax and utility receivables not periodically reconciled**

The municipality's records did not include documentation that the property tax receivable balance in the general ledger was periodically reconciled to the total amount of property tax not marked as paid on the respective year's tax roll and property tax receipts. Similarly, the municipality's records did not include documentation that the utility accounts receivable balance in the general ledger was reconciled monthly to the total amount of utility billings not marked as paid on the utility billing register. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 4,

Section 4, and Title 3, Chapter 3, Section 10, requires periodic reconciliation of property tax and utility receivables.

RECOMMENDATION:

To detect errors or irregularities promptly, municipal officials should ensure that the recorder periodically perform and document a reconciliation of property tax and utility receivables.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur with the recorder's response.

Recorder:

I concur. I have spoken with our new accountant and he will help me to set this policy in place.

8. **FINDING: Failure to perform and document loss detection procedures for utilities and gasoline supplies**

Town employees did not document a periodic reconciliation of gallons of water pumped through the master meter to gallons of water sold. Similarly, the amount of natural gas purchased was not reconciled to the amount of natural gas sold and the amount of gasoline purchased for official use was not reconciled to the amount of gasoline pumped into town vehicles. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, Section 7 and Title 3, Chapter 3, Section 2 requires reconciliation of these products to determine any loss.

In connection with water and gas sales, the *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 3, also requires that the board should establish and enforce a written policy regarding cutoffs and bill adjustments, including approval authority where required.

RECOMMENDATION:

To provide accountability and prevent undetected losses, the mayor and members of the board of aldermen should ensure that periodic reconciliations of water pumped and natural gas and gasoline purchased to the related amounts of these products used or sold is performed and documented. Unexplained fluctuations should be investigated. To help avoid misunderstandings and minimize loss of revenue, officials should adopt and enforce a written cutoff and adjustment policy for the utilities. Each adjustment should be

approved by the governing body or its designee. The approval should be adequately documented and maintained in the municipality's records

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. The recorder will have a monthly reconciliation on file with reports from police and utility department. We will pass a written adjustment policy for the utility bills and we do have a cutoff policy in place.

9. **FINDING: Failure to maintain a complete record of court transactions in official court docket**

The court docket did not constitute a complete, official record of all transactions related to the court because the judge had not signed off on each case disposition, and the date and amount of each payment was not recorded individually. In addition, the court clerk failed to ensure the docket's completeness by recording tickets when received by the court rather than when paid. Similarly by not accounting for all blank citations issued to officers, town personnel failed to ensure that all charges were on the court docket and all applicable fines were received by the town. Section 18-1-105(a), *Tennessee Code Annotated*, states:

It is the duty of the clerk of each of the courts to: . . . (4) Keep an execution docket, in which shall be entered, within the time after the adjournment of each court prescribed for issuing executions, all judgments or decrees, in the order of their rendition, with the names of all the plaintiffs and defendants in full, the day and year of rendition, the amount of the recovery and the amount of costs, the character and number of the execution, the date of its issuance and to what county issued, the person to whom delivered and the date of delivery, the date and substance of the return, and the dates and amounts of money paid into and paid out of the clerk's office.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 5, provides guidance on the information to be recorded in the court docket including the requirement that the judge sign all dispositions. This chapter also requires that responsible police officers be held responsible for missing citations.

RECOMMENDATION:

To maintain adequate control over court cases, including the collection of fines, the municipality's judge or court clerk should record detailed information in the court docket, in accordance with *Tennessee Code Annotated* and the *Internal Control and Compliance*

Manual for Tennessee Municipalities. To ensure that the docket is complete and to ensure that all issued citations are entered in the docket, blank citations issued to officers should be accounted for, and the responsible officer held accountable for those missing.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

W concur with the court clerk's response.

Court Clerk:

I concur. The court docket is updated before court and the police officers sign ticket books out and sign in returned tickets.

Police Chief:

I concur. All officers know of their responsibility of blank citations.