



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF MUNICIPAL AUDIT

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August 1, 2008

Honorable William E. Gentner, Mayor  
City of Columbia  
707 North Main Street  
Columbia, TN 38401

and

Honorable James L. Bailey, Jr. County Mayor  
Maury County  
Courthouse  
Columbia, TN 38401

and

Sonjalyn Rine, President  
Maury County Animal Shelter Association  
1926 Victorian Road  
Columbia, TN 38401

Ladies and Gentlemen:

We have concluded our investigative audit of selected records of the Maury County/City of Columbia Animal Services Facility [facility]. The investigative audit was initiated by an August 20, 2007, letter from the mayor of the City of Columbia to the Division of Municipal Audit. The mayor expressed concerns about the appropriateness of certain payments made by the facility. He also indicated that the facility had become delinquent on its utility payments and that its bank account was overdrawn. This investigative audit focused on the period July 1, 2006, through September 30, 2007. However, when warranted, this scope was expanded.

### **Background Information**

The basis for the operation of the facility throughout the scope of our examination was a joint venture agreement signed on August 5, 2004, by Maury County, the City of Columbia, and the Maury County Animal Shelter Association, a nonprofit, tax-exempt organization. According to the agreement, the nonprofit funded about 25 percent of the operating budget and the remaining 75 percent was supported by Maury County and the City of Columbia. For the fiscal year ended June 30, 2006, Maury County and the City of Columbia contributed \$121,282 and \$141,358, respectively, to the facility. The joint venture agreement was dissolved on February 19, 2008.

During the scope of our examination, the facility was operated in accordance with an interlocal agreement, formed pursuant to Section 12-9-104, *Tennessee Code Annotated*. That statute states that “No agreement made pursuant to this chapter shall relieve any public agency of any obligation or responsibility imposed upon it by law...” Both counties and cities in Tennessee are required by statute to institute and use a minimum system of recordkeeping. In accordance with Section 12-9-104(e)(1), *Tennessee Code Annotated*, the facility would ordinarily be required to follow whichever government had the strictest policies. However, for the sake of uniformity, our investigative audit applied the standards set forth for municipalities<sup>1</sup>. The purpose of our audit was to determine the extent of the entity’s compliance with certain laws and regulations, including those manuals mentioned in the footnote. However, our review revealed that the facility had significant recordkeeping deficiencies. Specifically, our investigative audit revealed the following weaknesses:

### **Inadequate separation of duties**

There was an inadequate segregation of duties regarding the various functions performed by the bookkeeper, including: preparing deposits, signing checks, and maintaining adequate documentation of disbursements. Checks were issued that were signed by only one person. Many financial records, including bank statements, were maintained at the home of the bookkeeper. For some types of collections, such as donations, both the collections and the records of those collections were turned over to the bookkeeper. As a result, facility personnel did not maintain adequate documentation to allow verification that bank deposits were correct.

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....

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<sup>1</sup> 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 the same, in all state county and municipal offices, including utility districts, which handle public funds. This code section also requires that 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 1-7 of *Government Accounting, Auditing, and Financial Reporting*. Standards for county governments are similar and, therefore the application of those standards would have resulted in similar findings.

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.

Officials should ensure 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. Each individual making collections should have a secure cash drawer/change fund and be responsible for accounting for those funds daily.

### **Inadequate collection records**

Duplicate, prenumbered receipts were not issued for some collections, including the sale of items from the gift shop. In other instances, duplicate receipts were issued, however, they were not prenumbered. Finally, personnel did not prepare daily cash reports, summarizing collections from all sources for each day. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, describes the required procedures for handling and recording cash collections. Section 9-2-103, *Tennessee Code Annotated*, states, "Each ... municipal official who receives any sum or sums in such official's capacity shall issue to the payer thereof a receipt and shall retain a duplicate thereof in the office of such official...." The lack of collection records created several unacceptable conditions:

- Our investigative audit revealed that some receipted collections for adoptions and return-to-owner fees did not agree with the bookkeeper's records for the related bank deposit. For the six-month period of April 1, 2007, through September 30, 2007, we were unable to trace receipted collections totaling \$671 to a bank deposit. All but \$46 of those collections were apparently made in cash. However, auditors also determined that facility records were insufficient to determine responsibility for the shortage.
- Receipts for some collections, such as fees received from veterinary clinics, were not maintained in a manner that would facilitate review.
- Because collections for spay/neuter deposits were recorded on cards that were not prenumbered prior to November 1, 2006, we were unable to determine if all collections for spay/neuter deposits were deposited into the corresponding bank account. Based on

our analysis of collections for spay/neuter deposits made after November 1, 2006, it appeared that some collection cards for spay neuter deposits had been misplaced.

To help prevent the misuse or loss of collections, we recommend that officials should ensure that

- Duplicate, prenumbered receipts are written for all collections. Each receipt should identify the source of collection, revenue category, and whether the collection was made by cash or by check.
- The number of receipt books in use at one time is limited. Completed receipt books should be maintained by the office manager in a secure location for at least three years.
- Receipts and cash are turned over to the office manager every day. Whenever custody of money changes from one employee to another, the money is counted by both employees at the time of the exchange, a receipt should be issued by the recipient of the funds identifying the source of funds, and both employees should sign the document indicating concurrence with the amount transferred.
- A daily cash report is prepared identifying each category of collections and the amount of cash and checks collected for each category. Receipts corresponding to each daily cash report are identified by receipt number. These daily cash reports are stored in a secure location by the office manager, filed by date, and maintained for at least three years.
- Each check is listed on the deposit slip.
- Deposit slips and collections are turned over to another individual who does not collect money or maintain financial records. That individual should make the actual bank deposit.
- Mail is opened by a separate individual who does not collect money or maintain financial records. That individual prepares a duplicate, prenumbered receipt for every collection coming through the mail. This individual also prepares a deposit slip. The deposit slip and collections are turned over to the office manager who prepares the daily cash report. The actual bank deposit is made by an individual who does not collect money or maintain financial records.

We also recommend that officials consider a computerized recordkeeping system to issue receipts and to track animals from the time they are admitted to the facility until the time they leave.

### **Comprehensive written purchasing policy not adopted**

We were unable to obtain documentation of a written purchasing policy in effect during the scope of our examination. 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. In addition, the manual requires that all disbursements have adequate supporting documentation.

Our investigative audit revealed the following issues:

- We noted monthly expenditures for human food items apparently unrelated to the feeding or care of animals totaling at least \$818 over a four-month period. We were told these food items were used to feed inmates working at the facility. We recommend that these food purchases be reviewed by and subject to the approval of the appropriate oversight board.
- We noted a \$600 check written payable to cash from the operations account of the nonprofit organization. According to the bookkeeper, the funds were used to give Christmas bonuses to facility employees. Although several employees stated they had received the bonus, we were unable to find adequate supporting documentation.

To ensure that the facility purchases items at the best price and in the most advantageous manner, the governing body of the organization should adopt and enforce compliance with a comprehensive written purchasing policy. The policy should designate persons authorized to make purchases and address purchasing procedures including the use of prenumbered purchase orders, approval of purchases over a designated amount, and the requirement of bids for purchases over a designated amount. All purchases should be supported by adequate documentation and should be in compliance with the organization's purchasing policy.

### **Facility checks signed by only one official**

Our investigative audit noted that facility personnel issued checks that were signed by only one authorized person. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, Section 2, states, "Municipal officials should require two signatures on all checks."

To help ensure that all facility disbursements are for a legitimate, appropriate purpose, officials should require that each check be signed by two authorized people.

**Failure to promptly deposit collections**

Collections were not always promptly deposited into an authorized facility bank account. In July 2007, only one bank deposit was made into the facility's operating bank account. In August 2007, that same bank account was overdrawn by more than \$1,000.

Section 6-56-111(a), *Tennessee Code Annotated*, states:

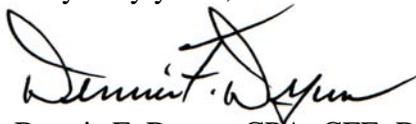
Every municipal official handling public funds shall be required to, as soon as practical, but no later than three (3) working days after the receipt by such municipal official of any public funds, deposit the funds to the credit of such municipality's official bank account, or bank accounts.

Officials should ensure that all collections are deposited within three working days or more frequently.

Auditors noted that several of these deficiencies have already been addressed by facility management. However, the governing body of the facility should take immediate action to correct any unresolved deficiencies.

City council members, county commissioners and the animal shelter executive director and board members, as well as other interested parties, were either notified by US mail or electronic mail of this report's release. If you have any questions concerning the above, please contact me.

Very truly yours,



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Division of Municipal Audit

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