

INVESTIGATIVE AUDIT REPORT

CITY OF MAYNARDVILLE

JULY 1, 2005, THROUGH DECEMBER 31, 2006



State of Tennessee



**Comptroller of the Treasury
Department of Audit
Division of Municipal Audit**



STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

John G. Morgan

Comptroller

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-0260

PHONE (615) 741-2501

November 27, 2007

Honorable Mayor and Members of the
Board of Commissioners
City of Maynardville
P. O. Box 217
Maynardville, TN 37807-0217

Gentlemen:

Presented herewith is the report on our investigative audit of selected records of the City of Maynardville for the period July 1, 2005, through December 31, 2006. However, when the examination warranted, this scope was expanded.

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 same, in all state, county and municipal offices, including utility districts, which handle public funds. This code section also requires that all 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 *Governmental Accounting, Auditing, and Financial Reporting*. The purpose of our audit was to determine the extent of the entity's compliance with certain laws and regulations, including those in the above-mentioned manuals.

Our investigative audit revealed that during the period March 1, 2005, through January 31, 2007, the former city recorder took at least \$20,361.98 in city collections without authority. The former recorder acknowledged to auditors that she had taken city cash for her own personal use. Our investigative audit also revealed several weaknesses in the system's collection process, some of which directly contributed to the undetected misappropriations.

This matter was referred to the local district attorney. In November 2007, the Union County Grand Jury indicted Hazel Gillenwater, former city recorder for Maynardville, on one count of Theft over \$10,000 and one count of Official Misconduct.

Honorable Mayor and Members of the
City Council
City of Maynardville
November 27, 2007

The findings and recommendations in this report relate to those conditions that we believe warrant your attention. All responses to each of the findings and recommendations are included in the report.

Copies of this report are being forwarded to Governor Phil Bredesen, the State Attorney General, the District Attorney General, certain state legislators, and various other interested parties. A copy is available for public inspection in our office.

Very truly yours,

A handwritten signature in black ink that reads "John G. Morgan". The signature is written in a cursive style with a long horizontal flourish at the end.

John G. Morgan
Comptroller of the Treasury



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

John G. Morgan
Comptroller of the Treasury

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Dennis F. Dycus, CPA, CFE, Director
Division of Municipal Audit

November 27, 2007

Mr. John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, TN 37243-0260

Dear Mr. Morgan:

As part of our ongoing process of examining the records of municipalities, we have completed our investigative audit of selected records of the City of Maynardville. This investigative audit focused on the period July 1, 2005, through December 31, 2006. However, when the examination warranted, this scope was expanded. The audit was limited to an examination of collection records.

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 same, in all state, county and municipal offices, including utility districts, which handle public funds. This code section also requires that all 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 *Governmental Accounting, Auditing, and Financial Reporting*. The purpose of our audit was to determine the extent of the entity's compliance with certain laws and regulations, including those in the above-mentioned manuals.

Our investigative audit revealed that during the period March 1, 2005, through January 31, 2007, the former city recorder took at least \$20,361.98 in city collections without authority. The former recorder acknowledged to auditors that she had taken city cash for her own personal use.

Mr. John G. Morgan
Comptroller of the Treasury
November 27, 2007

This matter was referred to the local district attorney. In November 2007, the Union County Grand Jury indicted Hazel Gillenwater, former city recorder for Maynardville, on one count of Theft over \$10,000 and one count of Official Misconduct.

Our investigative audit also revealed several weaknesses in the system's collection process, some of which directly contributed to the undetected misappropriations which resulted in the following findings and recommendations:

1. Inadequate separation of duties
2. Failure to account for all prenumbered receipts on daily collection reports and discarding checks payable to the city
3. Collections not deposited promptly
4. Deposit slips not itemized
5. Failure to indicate if cash or check was received on each receipt issued
6. Personal use of vehicle as a fringe benefit not reflected on employee's Form W-2
7. Inadequate accounting for traffic citations and fines
8. Required information not recorded in court docket

In addition to our findings and recommendations, we are also providing management's response. If after your review, you have any questions, I will be happy to supply any additional information which you may request.

Sincerely,

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

**INVESTIGATIVE AUDIT OF SELECTED RECORDS
OF THE CITY OF MAYNARDVILLE
FOR THE PERIOD JULY 1, 2005, THROUGH DECEMBER 31, 2006**

LEGAL ISSUE

1. **ISSUE: Apparent misappropriation**

Our investigative audit revealed that during the period March 1, 2005, through January 31, 2007, the former city recorder took at least \$20,361.98 in city collections without authority. The former recorder acknowledged to auditors that she had taken town cash for her own personal use.

This matter was referred to the local district attorney. In November 2007, the Union County Grand Jury indicted Hazel Gillenwater, former city recorder for Maynardville, on one count of Theft over \$10,000 and one count of Official Misconduct.

Our investigative audit also revealed several weaknesses in the system's collection process, some of which directly contributed to the undetected misappropriations.

FINDINGS AND RECOMMENDATIONS

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

The employees responsible for collecting payments from customers and taxpayers all used the same cash drawer. In addition, individual computer passwords identifying the employee that made each collection were not properly used. Finally, the former recorder who was responsible for preparing bank deposits and delivering them to the bank was also responsible for receiving and recording collections. 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, management should review employees' responsibilities to ensure that no employee has control over a complete transaction. In addition, elected officials should exert increased oversight, where necessary.

MANAGEMENT'S RESPONSE:

Honorable Mayor and Members of the Board of Commissioners:

We concur. The city has divided the duties of city personnel to provide for a system of checks and balances so that no one person has control over a complete transaction from beginning to end and that each employee's work is automatically verified by another employee working independently. The city will use an employee without prior access to the records to reconcile bank accounts, periodically test balancing of daily cash receipts, open the mail and prelist mail receipts, perform routine duties of other employees for at least one vacation period per year in accordance with the *Internal Control and Compliance Manual for Tennessee Municipalities*. Review for compliance of these steps will be taken periodically.

City Manager:

Response is the same as that of the mayor and members of the board of commissioners.

2. **FINDING:** **Failure to account for all prenumbered receipts on daily collection reports and discarding checks payable to the city**

The former recorder did not ensure that all receipted collections were included on the daily collection reports. Auditors identified numerous receipted collections that were not deposited into a city bank account. Since there was no systematic process to ensure that all issued prenumbered receipts were accounted for, these irregularities were not detected. In addition, after the former recorder retired, city personnel found numerous checks payable to the city in her trash basket. The checks had never been properly

deposited into a city bank account, and some dated back to the year 2004. 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....

RECOMMENDATION:

To better account for collections, the recorder must ensure that all prenumbered receipts are accounted for on a daily collection report. A systematic process to account for all prenumbered receipts should be established. 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. Checks payable to the city should be promptly deposited into the appropriate city bank account so that the city will receive the benefit of the funds. Checks payable to the city, or any other government record, should not be discarded unless it is in accordance with the city's record retention policy.

MANAGEMENT'S RESPONSE:

Honorable Mayor and Members of the Board of Commissioners:

We concur. The city has adopted and will continue to adopt policies and processes to properly account for all money received by the city by developing a systematic process to ensure that all issued prenumbered receipts are accounted for and that all funds due to the city are properly deposited in the appropriate bank account of the city.

City Manager:

Response is the same as that of the mayor and members of the board of commissioners.

Recorder:

Response is the same as that of the mayor and members of the board of commissioners.

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

The former recorder failed to deposit collections promptly into the municipality's bank account. The municipality's cash receipt records indicated that many collections were not deposited until five or more days 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.

MANAGEMENT'S RESPONSE:

Honorable Mayor and Members of the Board of Commissioners:

We concur. In accordance with Section 6-56-111(a), *Tennessee Code Annotated*, and the *Internal Control and Compliance Manual for Tennessee Municipalities*, all collections and receipts for funds shall be deposited daily, if possible, and in any event not later than three days following the receipt of such funds.

City Manager:

Response is the same as that of the mayor and members of the board of commissioners.

Recorder:

Response is the same as that of the mayor and members of the board of commissioners.

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

The former recorder failed to ensure that deposit slips listed each check included in the deposit. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 4, requires municipal officials to ensure that municipal personnel list each check deposited separately on an itemized deposit slip.

RECOMMENDATION:

To better account for collections, the recorder should ensure that municipal personnel itemize deposit slips and list each check separately.

MANAGEMENT’S RESPONSE:

Honorable Mayor and Members of the Board of Commissioners:

We concur. In accordance with the *Internal Control and Compliance Manual for Tennessee Municipalities*, those persons responsible for preparing deposit slips shall list each check deposited separately on an itemized deposit slip.

City Manager:

Response is the same as that of the mayor and members of the board of commissioners.

Recorder:

Response is the same as that of the mayor and members of the board of commissioners.

5. **FINDING:** **Failure to indicate if cash or check was received on each receipt issued**

Municipal personnel who received collections for the city failed to identify on each receipt issued 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 “... [e]ach 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.”

RECOMMENDATION:

To better account for all revenue, city employees or officials who receive collections should indicate whether the form of remittance was cash or check.

MANAGEMENT’S RESPONSE:

Honorable Mayor and Members of the Board of Commissioners:

We concur. Every employee receiving collections for or on behalf of the city shall, in accordance with the *Internal Control and Compliance Manual for Tennessee Municipalities*, indicate whether the form of remittance was by cash or check.

City Manager:

Response is the same as that of the mayor and members of the board of commissioners.

Recorder:

Response is the same as that of the mayor and members of the board of commissioners.

6. **FINDING:** **Personal use of vehicle as a fringe benefit not reflected on employee’s Form W-2**

Several employees used city-owned vehicles to commute to and from work. However, this fringe benefit was not properly reported on the employee’s Form W-2. Furthermore, the city had no written personnel policy specifically prohibiting personal use of a city vehicle. The Internal Revenue Service (IRS) considers use of an employer-provided vehicle to be taxable as personal use of the vehicle unless personnel policies specifically prohibit such use. If a policy strictly prohibits personal use of an employer-provided vehicle, and the employee has a bona fide noncompensatory business reason for commuting in the city vehicle, then only a commuting value need be included as a fringe benefit. IRS Publication 15-B includes information for valuing the fringe benefit.

RECOMMENDATION:

The mayor and members of the board of commissioners should require that all employees’ compensation is accurately and properly reported on IRS Form W-2. In addition, they should adopt a comprehensive vehicle use policy to formalize the use of city vehicles.

MANAGEMENT’S RESPONSE:

Honorable Mayor and Members of the Board of Commissioners:

We concur. The City of Maynardville, acting through its board of commissioners, has adopted a vehicle use policy for the City of Maynardville by Ordinance O-2007-14, which was adopted on final reading on August 14, 2007.

City Manager:

Response is the same as that of the mayor and members of the board of commissioners.

7. **FINDING: Inadequate accounting for traffic citations and fines**

Our audit revealed several deficiencies related to the accounting for traffic citations and the related collection of fines by the former traffic court clerk, as follows:

- Many receipts did not indicate whether the method of payment was in cash or in the form of a check.
- The city's copies of traffic citations were not filed numerically by citation number.
- Collections for many traffic citations were not posted as paid in the city's accounting records.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 2, states that receipts should be marked to identify whether the form of remittance is cash or check. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 5, describes the proper procedures for traffic citations and court collections. Those procedures include physically controlling unissued citations, accounting for all issued and voided citations, filing citations numerically, issuing prenumbered receipts for fines, maintaining a court docket, recording dispositions of all citations, and establishing efforts to collect all outstanding fines.

RECOMMENDATION:

To decrease the risk of loss of revenue, municipal officials should establish and require strict adherence with good internal control policies, in accordance with the *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 5. Officials should ensure that all citations are accounted for, a court docket is maintained, and the court clerk's copies of citations are marked with the disposition and signed by the judge.

MANAGEMENT'S RESPONSE:

Honorable Mayor and Members of the Board of Commissioners:

We concur. The city will, to the extent not previously instituted, institute policies and procedures to ensure that all citations are accounted for, a court docket is maintained and the court clerk's copies of citations are marked with the disposition of each case and signed by the city judge.

City Manager:

Response is the same as that of the mayor and members of the board of commissioners.

Recorder:

Response is the same as that of the mayor and members of the board of commissioners.

8. **FINDING:** **Required information not recorded in court docket**

The city court docket did not include the numbers of the receipts issued for fine payments or other related information, such as a notation that a defendant failed to appear. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 5, provides guidance on the information to be included in the court docket and requires that the court clerk post payment receipt numbers to the docket.

RECOMMENDATION:

To maintain adequate control over court cases, including the collection of fines, the court clerk should record detailed information in the court docket in accordance with the *Internal Control and Compliance Manual for Tennessee Municipalities*.

MANAGEMENT’S RESPONSE:

Honorable Mayor and Members of the Board of Commissioners:

We concur. The city will institute, to the extent it has not already done so, policies and procedures in accordance with the *Internal Control and Compliance Manual for Tennessee Municipalities* to ensure adequate control over court cases, including the collection of fines and other related matters required to be shown on the court’s docket.

City Manager:

Response is the same as that of the mayor and members of the board of commissioners.

Recorder:

Response is the same as that of the mayor and members of the board of commissioners.