

INVESTIGATIVE AUDIT REPORT

MINOR HILL UTILITY DISTRICT
JANUARY 1, 2006, THROUGH JULY 31, 2007



State of Tennessee



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



STATE OF TENNESSEE

John G. Morgan

COMPTROLLER OF THE TREASURY

Comptroller

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-0260

PHONE (615) 741-2501

October 20, 2008

Members of the Board of Commissioners
Minor Hill Utility District
12950 Minor Hill Highway
Minor Hill, TN 38473-5436

Gentlemen:

Presented herewith is the report on our investigative audit of selected records of the Minor Hill Utility District. This investigative audit focused on the period January 1, 2006, through July 31, 2007. However, when 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 utility districts, which is detailed in the *Uniform Accounting Manual for Tennessee Utility Districts* combined with Chapter 6 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 between January 1, 2006, and July 31, 2007, the former office manager failed to deposit at least \$12,183 in cash collections. During that same 19-month period, \$19,968 in additional recorded collections were not deposited into a district bank account. Additionally, at least one cash tap fee of \$1,050 was never deposited into a district bank account. This matter has been referred to the local district attorney general.

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

Members of the Board of Commissioners
Minor Hill Utility District
October 20, 2008

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 large initial "J" and a long horizontal stroke 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

October 20, 2008

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 utility districts, we have completed our investigative audit of selected records of the Minor Hill Utility District. This investigative audit focused on the period January 1, 2006, through July 31, 2007. However, when the audit 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 utility districts, which is detailed in the *Uniform Accounting Manual for Tennessee Utility Districts* combined with Chapter 6 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 between January 1, 2006, and July 31, 2007, the former office manager failed to deposit at least \$12,183 in cash collections. During that same 19-month period, \$19,968 in additional recorded collections were not deposited into a district bank account. Additionally, at least one cash tap fee of \$1,050 was never deposited into a district bank account. This matter has been referred to the local district attorney general.

Mr. John G. Morgan
Comptroller of the Treasury
October 20, 2008

Our investigative audit also resulted in findings and recommendations related to the following:

1. Inadequate separation of duties
2. Collections not deposited promptly or intact
3. Failure to require and account for prenumbered receipts
4. Failure to prepare daily cash reports
5. Deposit slips not itemized

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
MINOR HILL UTILITY DISTRICT
FOR THE PERIOD JANUARY 1, 2006, THROUGH JULY 31, 2007**

This investigative audit was initiated pursuant to a request by district management after district personnel discovered a discrepancy in cash collections.

LEGAL ISSUES

1. **ISSUE: Apparent misappropriation of district collections totaling \$12,183**

Our examination revealed that between January 1, 2006, and July 31, 2007, the former office manager failed to deposit at least \$12,183 in cash collections. In most instances, it appears that she deliberately manipulated the cash and check composition of district bank deposits in an attempt to conceal this scheme. The former office manager apparently diverted cash from her collection drawer for her own personal purposes. Checks from other collection dates were then used to replace those diverted cash collections. Since the former office manager controlled what collections were recorded in the district's records, she was able to hide this activity from management and other employees.

2. **ISSUE: Additional unaccounted for district collections**

During that same 19-month period, \$19,968 in additional recorded collections¹ were not deposited into a district bank account. Certain essential collection records either were never produced, or were produced and later discarded. As a result, auditors were unable to perform certain specialized audit procedures to determine conclusively who was responsible for these additional shortages. However, through analysis of collections records, auditors found that cash deposits more than doubled in the six months after the former office manager left employment.² Auditors also determined that all recorded collections were properly deposited into a district bank account during this subsequent period.

3. **ISSUE: Unaccounted for tap fees**

Auditors determined that at least one cash tap fee of \$1,050 was never deposited into a district bank account. District personnel told auditors that the former office manager told

¹ This is above and beyond the apparent misappropriation referenced in Legal Issue 1.

² This doubling is when compared with the previous six months in which the former office manager was employed.

them that she was taking that cash to the bank; however, bank records indicate that it was never deposited.

<u>Type</u>	<u>Amount</u>
Apparent misappropriation	\$12,183
Additional unaccounted for collections	19,968
Unaccounted for tap fee	<u>1,050</u>
Total unaccounted for collections	<u>\$33,201</u>

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

FINDINGS AND RECOMMENDATIONS

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

Management failed to adequately separate employees' responsibilities. One employee received collections, recorded collections, prepared deposits, delivered collections to the bank for deposit, and reconciled bank statements. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 2-6, states:

Ideally, the same individual should not be responsible for authorizing transactions, recording transactions, and maintaining custody of assets. Establish work flow so that an employee's work is automatically verified by another employee working independently. Such procedures will help to eliminate errors in accounting records and limit the possibility of fraud.

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. When necessary, management should assume additional oversight duties.

MANAGEMENT'S RESPONSE:

Members of the Board of Commissioners:

We concur with the finding and recommendation.

General Manager:

Response is the same as that of the board of commissioners.

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

Our investigative audit revealed that some collections were not deposited until more than 30 days after collection. In addition, as noted in Legal Issue 1, collections were not deposited in the form or amount in which they were collected. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 3-1, states, "Receipts should be deposited promptly and intact...."

RECOMMENDATION:

To help prevent the misuse, manipulation, or loss of collections, management should ensure that all collections are deposited intact within three working days into an official district bank account.

MANAGEMENT’S RESPONSE:

Members of the Board of Commissioners:

We concur with the finding and recommendation.

General Manager:

Response is the same as that of the board of commissioners.

3. **FINDING:** **Failure to require and account for prenumbered receipts**

System personnel did not ensure that all miscellaneous collections were documented on prenumbered receipts or that the proceeds were deposited into a district bank account. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 3-1, states, “Prenumbered receipt documents for each revenue source should be issued with required accounting for all unused or spoiled receipts.”

RECOMMENDATION:

Management should ensure that tap fees, meter deposits, or other miscellaneous collections are properly recorded on a duplicate, prenumbered receipt. Management should also ensure that each prenumbered receipt is accounted for and the proceeds are deposited into a district bank account.

MANAGEMENT’S RESPONSE:

Members of the Board of Commissioners:

We concur with the finding and recommendation.

General Manager:

Response is the same as that of the board of commissioners.

4. **FINDING:** **Failure to prepare daily cash reports**

District personnel did not summarize all collections on a daily cash summary report to ensure that all collections were properly accounted for and deposited into a district bank account. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 3-1, states:

The cashier should summarize all cash receipts by source on a daily cash summary 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 cashier should sign the daily cash summary report.

RECOMMENDATION:

To better account for collections, each day the cashier should prepare a detailed report of daily collections and the source of those collections. 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. The cashier should sign and date the report.

MANAGEMENT’S RESPONSE:

Members of the Board of Commissioners:

We concur with the finding and recommendation.

General Manager:

Response is the same as that of the board of commissioners.

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

District personnel did not list all checks on deposit slips or an attached list, as required by the *Uniform Accounting Manual for Tennessee Utility Districts*, Section 3-1.

RECOMMENDATION:

To decrease the risk of loss or theft of utility district money and to document that every collection has been deposited intact, each deposit slip should be itemized, including a separate entry for each check.

MANAGEMENT'S RESPONSE:

Members of the Board of Commissioners:

We concur with the finding and recommendation.

General Manager:

Response is the same as that of the board of commissioners.