

INVESTIGATIVE AUDIT REPORT

MT. PLEASANT POWER SYSTEM

JULY 1, 2001, THROUGH FEBRUARY 29, 2004



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
Department of Audit
Division of Municipal Audit



STATE OF TENNESSEE

John G. Morgan
Comptroller

C O M P T R O L L E R O F T H E T R E A S U R Y

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-0260

PHONE (615) 741-2501

August 10, 2004

Members of the Power Board
Mt. Pleasant Power System
P. O. Box 186
Mt. Pleasant, TN 38474

Gentlemen:

Presented herewith is the report on our investigative audit of the records of the Mt. Pleasant Power System. This examination focused on the period July 1, 2001, through February 29, 2004. 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 1-13 of *Governmental Accounting, Auditing and Financial Reporting*. The purpose of our examination was to determine the extent of the entity's compliance with certain laws and regulations, including those in the above-mentioned manuals.

Our audit revealed that \$138,551 in recorded collections were not deposited into a system bank account. There was also an unexplained shortage of \$50,148 in the heat pump program. In July 2004, the Maury County Grand Jury indicted the former office manager and a former cashier on one count of Theft over \$60,000 each.

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.

Members of the Power Board
Mt. Pleasant Power System
August 10, 2004

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,

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

August 10, 2004

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

Dear Mr. Morgan:

As part of our on-going process of examining the records of municipalities, we have completed our investigative audit of the records of the Mt. Pleasant Power System. This examination focused on the period July 1, 2001, through February 29, 2004. 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 1-13 of *Governmental Accounting, Auditing and Financial Reporting*. The purpose of our examination was to determine the extent of the entity's compliance with certain laws and regulations, including those in the above-mentioned manuals.

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Mr. John G. Morgan
Comptroller of the Treasury
August 10, 2004

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

1. Inadequate separation of duties
2. Utility accounts receivable reconciliation not performed
3. Form of remittance not noted on utility billing stubs
4. Deposit slips not itemized
5. Several checks issued with only one signature

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,

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

**INVESTIGATIVE AUDIT OF THE RECORDS OF THE
MOUNT PLEASANT POWER SYSTEM
FOR THE PERIOD JULY 1, 2001, THROUGH FEBRUARY 29, 2004**

LEGAL ISSUES

1. **ISSUE: Apparent cash shortage**

During the system's annual audit for the fiscal year ended June 30, 2003, the system's auditor was unable to resolve discrepancies in the accounts receivable. As a result of these discrepancies, our office initiated an investigative audit. Our investigative audit revealed that, over a 21-month period ending September 30, 2003, \$138,550.81 in recorded collections were not deposited into a system bank account.

2. **ISSUE: Heat pump program discrepancy**

Customers can obtain loans from a local bank for the purchase of an electric heat pump. The system then takes responsibility for the loan, bills the customer with their monthly utility bill, and remits the payment to the local bank. The program is simply a pass-through transaction; there should be no profit or loss for the system. However, system personnel did not maintain adequate, complete, and accurate records for these transactions. As of April 2004, system records indicated that the participating customers owed the system \$90,596.57, while the bank records indicated that the system owed \$140,744.42. Therefore, the discrepancy between system records and bank records created an unexplained shortage of \$50,147.85.

3. **ISSUE: Missing records**

Certain records for the fiscal year ended June 30, 2003, were unavailable for audit. The former office manager indicated that they were inadvertently destroyed during the routine cleaning out of obsolete records. However, auditors determined that the last time obsolete records were destroyed was in the fall of 2000, more than two years before the missing records had been created.

In July 2004, the Maury County Grand Jury indicted the former office manager and a former cashier on one count of Theft over \$60,000 each.

FINDINGS AND RECOMMENDATIONS

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

The former office manager opened mail, received collections, recorded collections, and reconciled bank statements. 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.

MANAGEMENT'S RESPONSE:

Power Board:

We concur with the general manager's assessment.

General Manager:

I concur that the office manager **occasionally** opened mail containing bill payments, received collection of bill payments, and posted and recorded the bill payments; **but** these were exceptions to his normal duties. I concur that the office manager **did** reconcile bank statements containing checks that he cosigned with me. All irregularities have been addressed and corrected as much as possible with limited staff in MPPS' new Internal Control Policy.

2. **FINDING: Utility accounts receivable reconciliation not performed**

The municipality's records did not include documentation of a monthly reconciliation of utility accounts receivable as reflected in the utility billing register to the general ledger control account. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 3, Section 10, states, "Municipal officials should ensure that . . . the total amount of the unpaid individual accounts on the utility billing sheet is reconciled to the applicable general ledger control account total at the end of each month."

RECOMMENDATION:

To detect errors or irregularities promptly, municipal officials should ensure that a monthly reconciliation, of the detail listing of accounts receivable in the billing register to the general ledger control account, is performed and documented.

MANAGEMENT'S RESPONSE:

Power Board:

We concur with the general manager's assessment.

General Manager:

I concur that to my knowledge the reconciling of the accounts receivable and the general ledger was not taking place. However, the office manager did reveal to the auditors the estimated amount of the outage at the audit's beginning. The method of performing this "balance check" was not revealed to me until after the excessive outage was disclosed. Only general managers with an accounting background would be privy to this "checkpoint." This procedure has been included as a new internal control procedure to be checked by the office manager on a daily basis, by the general manager on a monthly basis, and by the independent auditor on a quarterly regular basis, with documentation of findings required.

3. **FINDING: Form of remittance not noted on utility billing stubs**

Our review of billing stubs revealed that the method of payment was not marked on the billing stubs. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 2, states, "Each bill stub should be . . . marked to identify whether the form of remittance is cash or check."

RECOMMENDATION:

To ensure proper control over utility collections, the general manager should require employees who receive utility collections to indicate the form of remittance on all paid utility stubs.

MANAGEMENT'S RESPONSE:

Power Board:

We concur with the general manager's assessment.

General Manager:

I concur that the method of payment was not revealed (cash, check, etc.) on the stubs. As corrective measures, however, MPPS' new billing system will print a complete cash register receipt revealing the above deficiency seen as lacking in the prior system.

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

Deposit slips did not list 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 each check deposited be listed separately on an itemized deposit slip.

RECOMMENDATION:

To better account for collections, deposit slips should be itemized and should list each check separately.

MANAGEMENT'S RESPONSE:

Power Board:

We concur with the general manager's assessment.

General Manager:

I concur that MPPS has never itemized all checks to be deposited, and I have never talked with a utility that has revealed this process. However, our new computer system has this capability (not available on the old system), and this process will be utilized to insert with each package of deposit tickets thereby complying with state requirements.

5. **FINDING:** Several checks issued with only one signature

Cashiers maintained a bank account that required only one signature on the checks. 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.”

RECOMMENDATION:

To decrease the risk of unauthorized disbursements, municipal officials should require that two of the people that officials have authorized on the bank signature card sign every issued check.

MANAGEMENT’S RESPONSE:

Power Board:

We concur with the general manager’s assessment.

General Manager:

I concur that MPPS has one account for cashiers’ use that has only required one signature. This is used for refunding customer deposits and other miscellaneous expenses with all fully documented. MPPS has ordered checks and completed required paperwork to make this a two-signature account. This account will be reconciled by the office manager who will not be on the signature card. The main account will be reconciled by the chief cashier who will not be on its signature card. More details are laid out in the new MPPS Internal Controls Policy.