

**INVESTIGATIVE AUDIT OF THE RECORDS  
OF THE NEW MARKET UTILITY DISTRICT  
FOR THE PERIOD JANUARY 1, 2001, THROUGH FEBRUARY 28, 2002**

**LEGAL ISSUES**

1. **ISSUE:        Misappropriation of district collections**

Our examination revealed that, during the period April 12, 2001, through December 18, 2001, the former office manager of the New Market Utility District (district), Patrick Dorton, misappropriated at least \$10,308.10 in cash collections from the district. Mr. Dorton was responsible for receiving collections, recording collections on daily cash reports, preparing collections for deposit, and delivering deposits to the bank. Mr. Dorton concealed the misappropriation by using two schemes: short-posting daily cash reports and swapping checks for cash.

➤ **Short-posting daily cash reports**

District personnel prepared daily cash reports to summarize daily collections and indicate collection amounts to be deposited. Our examination revealed numerous instances in which Mr. Dorton falsified daily cash reports to reflect collection amounts that were lower than the actual collections. Mr. Dorton would then deposit the lower amounts and retain the difference for his own use. In all but one instance, daily cash reports that were short-posted were prepared by Mr. Dorton.

In the one remaining instance, another district employee prepared a daily cash report reflecting \$1,845.01 in collections. Mr. Dorton apparently altered the daily cash report to indicate the collections totaled \$1,745.01, prepared the related deposit, and retained the difference for his personal use.

➤ **Swapping checks for cash**

Our examination revealed numerous instances in which Patrick Dorton set aside both recorded and unrecorded checks payable to the district. He then exchanged these checks for cash through the district's cash drawer, falsified the related daily cash reports by failing to record the check collections, and kept the cash for his own use.

Patrick Dorton's control over the collection process allowed both schemes to remain undetected throughout the entire period of the misappropriation. District management's failure to ensure that deposits were made intact and that deposit slips be itemized also increased the risk that such a misappropriation could occur and remain undetected.

This matter was referred to the local district attorney general. As a result, the Jefferson County Grand Jury indicted Mr. Dorton on one count of theft, one count of official

misconduct, and one count of forgery. Subsequent to his indictment, Mr. Dorton stated that he had taken collections from the district for his personal use and described the methods he employed to misappropriate collections and avoid detection.

2. **ISSUE: Additional misappropriation of receipted collections**

In addition to the misappropriation noted in Legal Issue 1, during the period January 26, 2001, through November 30, 2001, receipted collections totaling at least \$1,055 were not deposited into any district bank account. Although we were unable to determine conclusively who was responsible for the misappropriation of these collections, we noted that during the remainder of our audit scope, all receipted collections received subsequent to Patrick Dorton's resignation were deposited into district bank accounts.

## GLOSSARY OF STATE STATUTES

Section 39-14-103, *Tennessee Code Annotated*

### **Theft of property.**

A person commits theft of property if, with intent to deprive the owner of property, the person knowingly obtains or exercises control over the property without the owner's effective consent.

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Section 39-14-105, *Tennessee Code Annotated*

### **Grading of theft.**

Theft of property or services is . . .

(4) A Class C felony if the value of the property or services obtained is ten thousand dollars (\$10,000) or more but less than sixty thousand dollars (\$60,000) . . .

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Section 39-16-402, *Tennessee Code Annotated*

### **Official misconduct.**

(a) A public servant commits an offense who, with intent to obtain a benefit or to harm another, intentionally or knowingly . . .

(4) Violates a law relating to the public servant's office or employment; or

(5) Receives any benefit not otherwise authorized by law.

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Section 39-14-114, *Tennessee Code Annotated*

### **Forgery.**

(a) A person commits an offense who forges a writing with intent to defraud or harm another.

(b) As used in this part, unless the context otherwise requires:

(1) "Forge" means to:

(A) Alter, make, complete, execute or authenticate any writing so that it purports to:

(i) Be the act of another who did not authorize that act . . .

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## **FINDINGS AND RECOMMENDATIONS**

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

Although the district had more than one office employee, the former office manager received collections, recorded collections, prepared deposits, and delivered deposits to the bank. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 2-6, states:

[T]he 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. Job responsibilities should be assigned so that an employee's work is automatically verified by another employee.

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

Utility district personnel did not deposit all collections intact. Instead, utility collections were routinely used to cash district checks payable to petty cash, district payroll and reimbursement checks, and third-party checks. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 3-1, states, "Receipts should be deposited promptly and intact and only in designated depositories."

**RECOMMENDATION:**

To adequately safeguard public money, management should ensure that all collections are deposited intact into the district's official bank accounts.

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

District personnel did not list each check included in deposits on the applicable deposit slips. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 3-1, requires deposit slips to be itemized.

**RECOMMENDATION:**

To decrease the risk of loss or misuse of district funds, and to document that all collections are deposited intact, management should require that deposit slips be itemized and that each check be listed separately.