

# INVESTIGATIVE AUDIT REPORT

TOWN OF OAKLAND  
JULY 1, 2006, THROUGH JUNE 30, 2007



## 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

December 11, 2007

Honorable Mayor and Members of the  
Board of Aldermen  
Town of Oakland  
P. O. Box 56  
Oakland, TN 38012

Gentlemen:

Presented herewith is the report on our investigative audit of selected records of the Town of Oakland for the period July 1, 2006, through June 30, 2007. However, when the examination warranted, this scope was expanded. The audit was limited to an examination of disbursement records. The purpose of the investigative audit was to assist the Tennessee Bureau of Investigation in their inquiry. Our review consisted primarily of making inquiries, examining selected documents and financial records, and performing tests and other procedures as deemed necessary.

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 audit revealed that between November 2006 and July 2007, the former accounts payable clerk issued 57 fraudulent checks, totaling \$42,165, to legitimate town vendors. The former clerk did not deliver the checks to the vendors, but instead, apparently cashed the checks at a local bank and diverted the proceeds to her personal benefit. In some instances, the former accounts payable clerk created a fictitious debt in the town's accounting records. As a result, she was able to prepare town checks in payment of these fictitious debts.

Honorable Mayor and Members of the  
Board of Aldermen  
Town of Oakland  
December 11, 2007

This matter was referred to the local district attorney general. During the November 2007 term of the Fayette County Grand Jury, Julie Cole was indicted on one count of Theft over \$10,000 and one count of Official Misconduct.

The finding and recommendation in this report also relate to a condition that we believe warrant your attention.

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 cursive script that reads "John G. Morgan".

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

December 11, 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 Town of Oakland. This investigative audit focused on the period July 1, 2006, through June 30, 2007. However, when the examination warranted, this scope was expanded. The audit was limited to an examination of disbursement records. The purpose of the investigative audit was to assist the Tennessee Bureau of Investigation in their inquiry. Our review consisted primarily of making inquiries, examining selected documents and financial records, and performing tests and other procedures as deemed necessary.

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Our audit revealed that between November 2006 and July 2007, the former accounts payable clerk issued 57 fraudulent checks, totaling \$42,165, to legitimate town vendors. The former clerk did not deliver the checks to the vendors, but instead, apparently cashed the checks at a local bank and diverted the proceeds to her personal benefit. In some instances, the former

Mr. John G. Morgan  
Comptroller of the Treasury  
December 11, 2007

accounts payable clerk created a fictitious debt in the town's accounting records. As a result, she was able to prepare town checks in payment of these fictitious debts.

This matter was referred to the local district attorney general. During the November 2007 term of the Fayette County Grand Jury, Julie Cole was indicted on one count of Theft over \$10,000 and one count of Official Misconduct.

Our examination also resulted in a finding and recommendation related to the following:

1. Lack of separation of duties

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 TOWN OF OAKLAND  
FOR THE PERIOD JULY 1, 2006, THROUGH JUNE 30, 2007**

**LEGAL ISSUES**

1. **ISSUE:        Diverted and cashed town checks**

While performing her town duties, an employee observed apparent discrepancies in the town's vendor files. The recorder's office made further inquiries and was able to determine that town checks had apparently been issued but not delivered to the person or company they were payable to. Town officials referred this matter to the Tennessee Bureau of Investigation and the Comptroller of the Treasury for further investigation.

Our subsequent investigative audit revealed that between November 2006 and July 2007, the former accounts payable clerk issued 57 fraudulent checks, totaling \$42,165, to legitimate town vendors. The former clerk did not deliver the checks to the vendors, but instead, apparently cashed the checks at a local bank and diverted the proceeds to her personal benefit.

2. **ISSUE:        Falsification of government records**

In some instances, the former accounts payable clerk created a fictitious debt in the town's accounting records. As a result, she was able to prepare town checks in payment of these fictitious debts. She was also able to conceal her scheme from management in some cases by altering slightly the vendor's name as it appeared in the town's files.

This matter was referred to the local district attorney general. During the November 2007 term of the Fayette County Grand Jury, Julie Cole was indicted on one count of Theft over \$10,000 and one count of Official Misconduct.

## **FINDING AND RECOMMENDATION**

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

The 57 city checks noted in Issue 1 all contained only the mayor's signature. In addition, the signature appeared to be from a signature stamp. During the period under investigation, the mayor's signature stamp was maintained in the offices of the town finance department and was accessible to the former accounts payable clerk. As a result, she had the capability of not only creating a fictitious debt in the town's accounting records, preparing and printing a check for that fictitious debt, but also making the check appear to be authorized by applying the mayor's signature with the signature stamp.

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:**

Town officials should take immediate corrective action to ensure that one employee does not have complete control of a transaction from beginning to end. In addition, town officials should ensure that all checks are issued with two authorized signatures. Finally, signature stamps should be safeguarded.

**EXHIBITS**

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FOR SECURITY PURPOSES THE FACE OF THIS DOCUMENT CONTAINS A COLORED BACKGROUND AND MICROPRINTING

TOWN OF OAKLAND SANITATION  
P.O. BOX 56  
OAKLAND, TN 38060

THE OAKLAND DEPOSIT BANK  
OAKLAND, TN 38060  
87-442/843

DATE  
04/02/2007

004515

CHECK NO.  
4515

AMOUNT  
\$\*\*\*\*\*1,350.00

PAY  
One Thousand Three Hundred Fifty And No/100\*\*\*\*\* DOLLARS

TO THE ORDER OF  
W.E. MILLICAN  
OAKLAND, TN 38060

04/02/2007 17:13 0001-0001-018-00100  
CskChk DBA-0000000  
*William Cal...*  
04/03/2007  
AUTHORIZED SIGNATURE

THE BACK OF THIS DOCUMENT CONTAINS AN ARTIFICIAL WATERMARK

004515 08430442

Check was cashed

Single signature with signature stamp

Check # 4515 for \$1,350.00 04/04/2007

30 U.S. DEPARTMENT OF THE TREASURY

DO NOT WRITE STAMP OR SIGN BELOW THIS LINE

Town accounts payable clerk cosigned

*William Cal...*

*W.E. Millican*

Vendor's signature not authentic

Check # 4515 for \$1,350.00 04/04/2007

