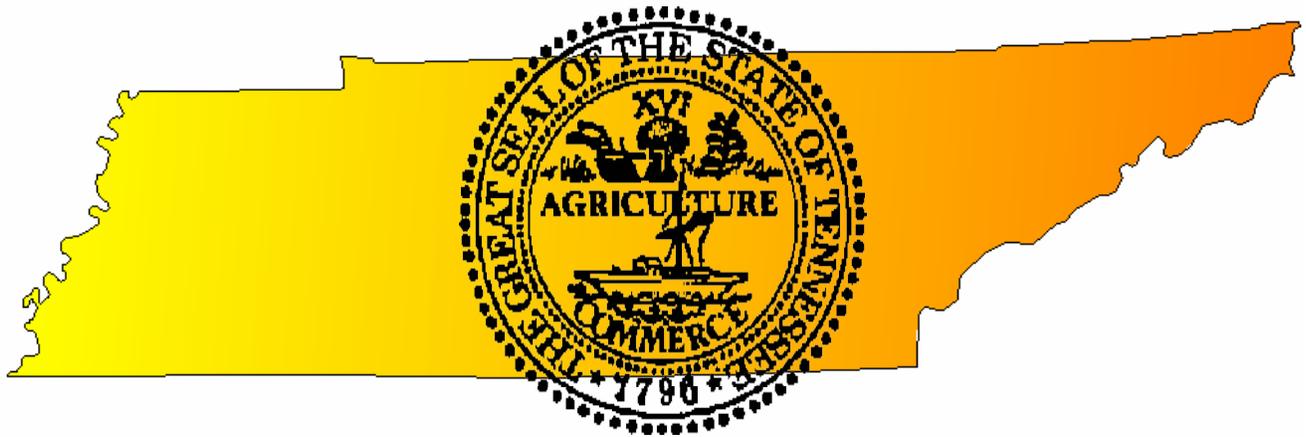


INVESTIGATIVE AUDIT REPORT

TOWN OF PETERSBURG

JULY 1, 2005, THROUGH JULY 31, 2006



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

September 5, 2007

Honorable Mayor and Members of the
Board of Aldermen
Town of Petersburg
P. O. Box 215
Petersburg, TN 37144

Ladies and Gentlemen:

Presented herewith is the report on our investigative audit of selected records of the Town of Petersburg for the period July 1, 2005, through July 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.

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.

Honorable Mayor and Members of the
Board of Aldermen
Town of Petersburg
September 5, 2007

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

September 5, 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 Petersburg. This investigative audit focused on the period July 1, 2005, through July 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 examination resulted in findings and recommendations related to the following:

1. Unexplained variances between payroll documents and inadequate documentation of time worked
2. Collections apparently not deposited, collections not deposited promptly and intact, and collections used to make cash purchases

Mr. John G. Morgan
Comptroller of the Treasury
September 5, 2007

3. Inadequate supporting documentation for disbursements
4. Numerous checks apparently signed without review of adequate supporting documentation; some issued without required second signature
5. No comprehensive written purchasing policy
6. Daily collection reports not completed; records not reconciled prior to deposits

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 TOWN OF PETERSBURG
FOR THE PERIOD JULY 1, 2005, THROUGH JULY 31, 2006**

FINDINGS AND RECOMMENDATIONS

1. **FINDING: Unexplained variances between payroll documents and inadequate documentation of time worked**

The audit revealed several unexplained variances between time records and the amount of wages paid, as well as inadequate timekeeping and payroll records. In several instances, the paychecks prepared by the recorder differed from auditors' recalculations of those wages using the corresponding timecard. On at least two occasions, the paycheck that the recorder prepared for herself included greater overtime compensation than her timecard indicated.

According to the recorder, town employees would sometimes accumulate compensatory time in lieu of overtime pay for hours that they worked over 40 per week. However, when auditors asked the recorder to provide compensatory time and leave records, she said that aside from the police chief, her recordkeeping was not that formal. She also said that the police chief's records had become inaccessible due to a computer system failure and that she was unable to locate any backup. When asked about her own compensatory time, she stated that she used all amounts that she accumulated in the weeks immediately following. The only records of the recorder's accumulation and use of compensatory time located by auditors consisted of handwritten notes on her timecards.

The audit also revealed numerous instances in which employees' timecards had neither a time clock stamp nor a manual entry to indicate the beginning and/or end of a shift. In addition, employees were not required to sign their timecards to indicate that the information contained was correct, although each timecard had a printed signature line. Timekeeping and payroll records also lacked any documentation of supervisory review and approval. In addition, the recorder said that she had never provided time cards or any summary of time worked to the officials who signed the paychecks.

According to the Petersburg Employee Handbook, "With the exception of the police chief no employee can work overtime without being requested to by the Mayor except in the case of an emergency where the employee must use their sound judgment (sic)." According to the recorder, the mayor and board have never issued a written policy that authorizes compensatory time. The recorder said that the former mayor verbally approved all of her overtime and compensatory time.

Title 2, Chapter 3, Section 7 of the *Internal Control and Compliance Manual for Tennessee Municipalities* states, "Time cards or honor system time sheets (approved by

department heads) should be maintained for all employees in order to eliminate unauthorized pay and repeated tardiness.”

Section 5 of the manual requires officials to ensure that “a cumulative employee leave record is maintained for each employee. The record should clearly show all leave of any type earned and taken for each pay period, all paid and unpaid absences, and the current leave balance.”

RECOMMENDATION:

To prevent abuse and to comply with the *Internal Control and Compliance Manual for Tennessee Municipalities*, town officials should require all employees to prepare complete and accurate time cards. If the mayor and board decide to allow overtime and/or compensatory time, they should adopt a written policy to address it and require adequate documentation on timecards or other records. When an employee fails to use the time clock, that employee should make an accurate manual entry as soon as practical after the omission is discovered. Each employee should sign his or her timecard, and his or her supervisor should also sign to indicate that the record is correct and approved. The recorder should prepare and routinely update required leave records, including hours of leave earned and used within a pay period, plus a cumulative balance.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur and have implemented the following system. All employees are required to sign their time cards as well as immediate supervisor and a check signer. Due to the age (1972) of the time clock, we are working to have a system in place that will eliminate any confusion determining the time worked. At this time, there are no employees accruing comp time. In the event it is necessary to use a “comp time” system, the board of mayor and aldermen will approve a method suitable for accurate payment. Any overtime worked will require the signature of the department head as well as the signature of the mayor, vice mayor, or alderman.

Recorder:

Response is the same as that of the mayor and board of aldermen.

2. **FINDING: Collections apparently not deposited, collections not deposited promptly and intact, and collections used to make cash purchases**

Town records indicated that, in violation of state law, the recorder failed to deposit some town collections and routinely used cash collections on hand to make purchases. During fiscal year 2006, the recorder apparently allowed town employees and officials to use at

least \$567 of undeposited collections to make purchases. The town did not have an approved petty cash fund. Instead, employees and officials incorrectly treated money in the cash register, apparently both starting change and collections, as if it was petty cash.

In addition, at least \$600 of cash collections, apparently chiefly from traffic citations collected late in fiscal year 2005, went unrecorded and undeposited by the recorder.¹ An examination of June 2005 receipts, issued for fines and court costs, confirmed occurrences of receipted collections that did not trace to deposit in a municipal bank account. In at least one instance during the same month, the recorder apparently did not prepare a receipt to document the collection of a fine.

In all, records indicated that cash purchases during fiscal year 2006 amounted to at least \$2,481. In addition to the \$567 and \$600 from undeposited collections, checks payable to “Petty Cash” totaled \$1,361.²

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. State law requires that public funds be deposited within three days of receipt. The municipality should make daily deposits when large amounts of money are involved.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 5, requires municipal officials to ensure that “at the end of the day, the cashier counts the cash and checks on hand, leaving only the **predetermined amount** in the change fund.” (Emphasis added.) In other words, the amount left in the drawer for change at the end of the day always equals the amount of change on hand at the beginning of the day. It does not vary from one day to the next.

Title 2, Chapter 4, of the above manual establishes rules governing petty cash and requires that a petty cash fund be established at a “fixed sum” for purchases only as

¹The recorder said that she withheld some water collections in addition to the identified fines to establish the \$600.

² $\$567 + \$600 + \$1,361 \neq \$2,481$. The difference is the starting change in the cash register and a small amount of coins (<\$1), purportedly remaining from the \$600 cash that apparently originated in fiscal year 2005.

needed. The manual does not allow the use of petty cash to make change for collections received.

RECOMMENDATION:

To help ensure adequate controls over collections and disbursements, town officials should ensure that all collections are deposited into an official municipal bank account intact, within three working days as set forth in Section 6-56-111(1), *Tennessee Code Annotated*. Cash on hand should be safeguarded. Undeposited collections should never be used to make purchases. A predetermined amount should be established for change, and should the mayor and board approve of establishing a petty cash fund, also for petty cash. The recorder should maintain the petty cash separately from town collections and beginning change. The person performing the role of cashier should not include petty cash in starting change.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. Deposits are made daily with the exception of Wednesday. The Bank of Lincoln County, Petersburg Branch, is not open for business on this day. At this time, the Town of Petersburg does not have a petty cash system. There is a beginning balance of \$50 used daily for change in the cash register only. Necessary purchases are made by authorized personnel and reimbursed with a check written on the proper account. Suitable documentation will be required for reimbursement, including signed receipts. Purchases of this nature should not exceed \$125.

Recorder:

Response is the same as that of the mayor and board of aldermen.

3. **FINDING: Inadequate supporting documentation for disbursements**

The recorder and water manager failed to retain adequate supporting documentation for multiple disbursements. For several payments, the files contained either no documentation at all, or only summarized statements. Also, most invoices had no signature or other indication that a town employee or official had verified that goods were received or that services had been performed. In addition, most of the town's paid invoices were not canceled or marked paid.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, Section 4, states:

All disbursements, regardless of the accounting procedures, must be supported by invoices, cash tickets or other adequate supporting documentation. (Statements are NOT adequate supporting documentation.)

Title 1, Chapter 4, Section 1, of the above manual requires:

Municipal officials should adopt policies and procedures that provide safeguards for inventories of materials and supplies. These policies and procedures should, at a minimum, include the following:

- (a) a requirement to inspect and count each incoming materials delivery, with the receiver signing each invoice as received.

Title 2, Chapter 2, Section 3, recommends:

Municipal officials should ensure ... that personnel cancel invoices, writing on each one the check number, amount, payment date, and account to be charged before the checks and documentation are submitted for approval and signing.

RECOMMENDATION:

To document that each disbursement was for a valid municipal purpose, officials should ensure that adequate supporting documents are maintained in the municipality's files in accordance with the *Internal Control and Compliance Manual for Tennessee Municipalities*. To avoid payment for goods not actually received or services not performed, the mayor and members of the board of aldermen should require the employee responsible for receiving the goods or for overseeing the service to sign the invoice or a receiving report. His or her signature indicates that he or she has inspected the goods received or services performed, and that the vendor has satisfactorily delivered the goods or services. To decrease the possibility of unauthorized and duplicate payments, the recorder should cancel all invoices when paid as set forth in the manual.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. Each employee or municipal official responsible for their departments will sign the invoice or receiving report.

Recorder:

Response is the same as that of the mayor and board of aldermen.

4. **FINDING:** Numerous checks apparently signed without review of adequate supporting documentation; some issued without required second signature

The town's authorized check signers apparently signed town checks without requiring the recorder to submit invoices or other supporting documentation beforehand. There were also instances of town checks being issued with only one authorized signature.

As described in Finding 3, the recorder failed to maintain adequate supporting documentation for numerous disbursements, and as described in Finding 1, it appears that the check signers approved payroll disbursements without reviewing timecards or other source documents for accuracy and adequacy.

In at least two instances, checks with only one authorized signature were issued to the Co-op, in payment primarily for gasoline. One of those checks was documented only by an account statement with no underlying receipts.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, Section 4, specifies:

All disbursements, regardless of the accounting procedures, must be supported by invoices, cash tickets or other adequate supporting documentation. (Statements are NOT adequate supporting documentation.)

Section 3 of the same chapter requires that the related documentation accompany the checks when presented for approval and signing. Section 2 mandates that "Municipal officials should require two signatures on all checks."

RECOMMENDATION:

Before presenting a check for signing, the recorder should attach adequate supporting documentation. Prior to signing the check, authorized individuals should review the supporting documentation to determine that the disbursement is for a valid municipal purpose. To decrease the risk of unauthorized disbursements, municipal officials should require two authorized signatures, as indicated by the current bank signature card, on every check that the town issues.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. All checks will have the proper invoice attached prior to signatures. This will include all payroll checks with time cards for each employee. Once checks are signed by the check signers, the invoice/statement will have the corresponding check number, date, and town recorder's signature.

Recorder:

Response is the same as that of the mayor and board of aldermen.

5. **FINDING:** No comprehensive written purchasing policy

The mayor and the members of the board of aldermen have not adopted a comprehensive written purchasing policy. According to the *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 1, municipalities should adopt a written purchasing policy. Topics that the policy should address include designating persons authorized to make purchases, requiring the use of prenumbered purchase orders, outlining procedures for emergency and small-item purchases without prior approval, requiring approval by the finance officer, and requiring bids for purchases over a stated amount. Currently, the mayor and board have only addressed the bid threshold.

One of the consequences caused at least in part by the lack of prenumbered purchase orders was multiple cases of late payments on invoices billed to the town. According to the recorder, the former mayor responded to tight cash flows by delaying payments on certain accounts deemed to have lower priority. The presence of an approval system, including properly used purchase orders, can help to postpone or prevent town purchases when money is not available.

Although no comprehensive policy exists, the recorder told auditors that the board must approve non-emergency expenditures greater than \$125. The minutes of meetings indicated that the mayor and board approved monthly financial statements, including expenditures by type. However, there was no indication that the board sought or received detailed information about the checks that made up those expenditures. As stated in Finding 2, the town issued more than \$1,000 of checks payable to petty cash during the period covered by this audit. Many petty cash checks were larger than \$125. There is no record that the mayor and board were aware of the frequency and magnitude of petty cash disbursements.

RECOMMENDATION:

To establish and document a clear understanding of authorized purchases and related procedures, the town should adopt a comprehensive written purchasing policy. To guard against inappropriate purchases and purchases made without sufficient fund balances, the recorder should complete purchase orders and obtain approval prior to initiating all applicable purchases.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. The board of mayor and aldermen will adopt a purchasing policy. Discretionary spending will remain at \$125. All purchases greater than \$125 will require board approval prior to the purchase. Within the purchase policy, there will be guidelines set for invoices, purchase orders, and payments, etc.

Recorder:

Response is the same as that of the mayor and board of aldermen.

6. **FINDING: Daily collection reports not completed; records not reconciled prior to deposits**

The Town of Petersburg’s records did not document that all cash collections were deposited promptly and intact. The daily collection reports³ that the recorder prepared did not include information necessary to compare each day’s collections to the related deposits. There were no summaries of collections by source. The reports apparently omitted many collection transactions and town records indicated the recorder and water manager did not run the omitted collections through the cash register. In some instances, the recorder failed to specify the amount of change on hand on the collection report. (As explained in Finding 2, the amount of change should be constant; the recorder and water manager allowed it to vary.) None of the reports recorded cash short or over. In almost every instance, the amount of a day’s deposits, as shown on bank statements, differed from the amounts recorded on the cash register tape and the daily collection report. The recorder apparently made no attempt to reconcile the differences.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, provides guidelines for handling, recording, and depositing cash. Section 6 of that chapter mandates:

Municipal officials should 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 with the total of all applicable receipts.

³This form had the title “Petty Cash Log.” It was in use during the majority of the period between July 1, 2005, and July 31, 2006.

RECOMMENDATION:

To document that deposits are made promptly and intact, protect public funds, comply with requirements set forth by state law, and accurately account for all collections, the recorder should summarize each day's total collections on a daily collection report, which includes sufficient detail to identify the source of collections and the fund to which money from each source belongs. The recorder should determine that the totals of the corresponding bank deposit slips, daily collection report, and cash register record agree, and if not, document the amount over or short. The recorder should sign and date the report.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. A daily summary will be included with all cash register logs and deposits. Documentation of any overages or shortages will be noted. The recorder will sign and date all reports and supporting documentation.

Recorder:

Response is the same as that of the mayor and board of aldermen.