



**STATE OF TENNESSEE
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DEPARTMENT OF AUDIT
DIVISION OF MUNICIPAL AUDIT**

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May 12, 2003

President and Members of the Utility Board
Ripley Power and Light System
P. O. Box 69
Ripley, TN 38063

President and Members of the Board:

We have completed our investigative audit of the Ripley Power and Light System. The examination focused on the period January 1, 2002, through December 31, 2002. However, when the examination warranted, this scope was expanded. The audit focused primarily on the areas of disbursements, payroll, and personnel. Our audit revealed the following weaknesses:

1. The system president was provided a vehicle for both business and personal use. However, for tax purposes, the system reported this fringe benefit as though the vehicle could only be used for business purposes and commuting. The Internal Revenue Service (IRS) considers use of an employer-provided vehicle to be taxable as personal use of the vehicle unless personnel policies specifically prohibit such use. IRS Publication 15-B states that the value of this fringe benefit is the annual lease value of the vehicle. Applying the requirements of IRS Publication 15-B, the unreported fringe benefit realized by the president during calendar years 2001 and 2002 totaled \$15,353.59.

Also, the system president's spouse was authorized to travel with the president on official system business. On at least one occasion, the system paid for airline tickets for both the president and his spouse. The cost of the tickets was \$512.50 each. However, the value of this fringe benefit was not reported as taxable compensation. Unreported taxable compensation to the system president totaled \$15,866.09, calculated as follows:

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Unreported compensation for personal use of system vehicle	\$15,353.59
Unreported compensation for spousal travel fringe benefit	<u>512.50</u>
Total unreported fringe benefit compensation	<u>\$15,866.09</u>

2. System checks were issued to provide a clothing allowance to system office personnel in 2002 and a safety bonus for system employees in 1998. The checks were cashed and the proceeds disbursed to the employees. Employees receiving the cash were required to sign an acknowledgement of receipt of the cash.

However, state statutes require that city officials disburse public funds only by prenumbered check. Section 6-56-111, *Tennessee Code Annotated*, states:

- c. Every municipal official authorized to disburse public funds shall be required to make disbursements of such public funds by consecutively prenumbered checks, warrants, or other generally accepted negotiable instruments drawn on the municipality's official bank account or accounts.

The president and members of the utility board should require and ensure corrective action regarding the above weaknesses. If you have any questions concerning the above, please contact me.

Sincerely,

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

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