

INVESTIGATIVE AUDIT REPORT

SELMER UTILITY DIVISION COLLECTION RECORDS

JULY 1, 2002, THROUGH JULY 31, 2004



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



STATE OF TENNESSEE

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

John G. Morgan
Comptroller

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-0260

PHONE (615) 741-2501

March 8, 2005

Honorable Mayor and Members of the
Board of Aldermen
Town of Selmer
144 North Second Street
Selmer, TN 38375

Gentlemen:

Presented herewith is the report on our investigative audit of the collection records of the Selmer Utility Division. This examination focused on the period July 1, 2002, through July 31, 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 investigative audit revealed that during the period May 1, 2000, through July 31, 2004, a former utility clerk misappropriated at least \$46,814.67 in utility department collections. A former clerk acknowledged to auditors that she took funds without authority for her own personal benefit. This matter was referred to the local district attorney general. In February 2005, the McNairy County Grand Jury indicted Carolyn Kirk on one count of Theft over \$10,000.

The findings and recommendations in this report also 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 Selmer
March 8, 2005

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

March 8, 2005

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 collection records of the Selmer Utility Division. This examination focused on the period July 1, 2002, through July 31, 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 investigative audit revealed that during the period May 1, 2000, through July 31, 2004, a former utility clerk misappropriated at least \$46,814.67 in utility department collections. A former clerk acknowledged to auditors that she took funds without authority for her own personal benefit. This matter was referred to the local district attorney general. In February 2005, the McNairy County Grand Jury indicted Carolyn Kirk on one count of Theft over \$10,000.

Mr. John G. Morgan
Comptroller of the Treasury
March 8, 2005

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

1. Inadequate separation of duties
2. Utility accounts receivable reconciliation not performed
3. Collections not deposited intact
4. Duplicate, prenumbered receipts not issued for each collection

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
SELMER UTILITY DIVISION-COLLECTION RECORDS
FOR THE PERIOD JULY 1, 2002, THROUGH JULY 31, 2004**

LEGAL ISSUE

1. **ISSUE:** **Misappropriated collections**

Our investigative audit revealed that during the period May 1, 2000, through July 31, 2004, a former utility clerk misappropriated at least \$46,814.67 in utility department collections. Gas and water revenue, as well as gas department security deposits, were collected and recorded but never deposited into a system bank account.

A former clerk acknowledged to auditors that she took funds without authority for her own personal benefit. This matter was referred to the local district attorney general. In February 2005, the McNairy County Grand Jury indicted Carolyn Kirk on one count of Theft over \$10,000.

FINDINGS AND RECOMMENDATIONS

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

Although the utility department had several clerical employees, one employee had almost complete control over collecting and recording gas department revenue as well as preparing and delivering gas department bank deposits. She was also responsible for reconciling gas department 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.

In addition, Title 3, Chapter 3, Section 3, of the manual states:

Municipal officials should ensure that . . . charges disputed by customers are investigated and adjustments are approved, in accordance with the municipality's policy, by someone other than the bookkeeper handling receipt and payment records.

NOTE: Adjustments should never be made by the employee who collects or posts the accounts as paid. If the municipality utilizes a computer system, the employee who collects or posts should not have access to that portion of the computer system that allows adjustments.

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:

Mayor and Members of the Board of Aldermen:

We concur with the stated finding and will implement changes to the internal control structure in order to comply with the *Internal Control and Compliance Manual for Tennessee Municipalities* to ensure no employee has control over a complete transaction. The specific control structure will include duties for each job assignment. This will require a probable elimination of part-time positions to accommodate full-time employees with defined responsibilities. (Refer to Exhibit 1 for employees' duties.)

Director of Public Works:

I concur. I will follow your recommendation.

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.

We noted that the computerized billing register could not be reconciled with posted collections, penalties, and adjustments.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 3, Section 10, states, “. . . 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:

Mayor and Members of the Board of Aldermen:

We concur and will implement a policy in accordance with the *Internal Control and Compliance Manual for Tennessee Municipalities*, requiring the accounts receivable clerk to prepare a monthly accounts receivable reconciliation of the detail list of accounts receivable in the billing register to the general ledger account. We will print and maintain a monthly accounts receivable report that will be compared to the accounts receivable reconciliation each month. This will be viewed monthly by the office manager. The present computer firm has been notified that if this problem is not corrected within the next 30 days, we will begin to interview other computer firms which can give us the necessary data in a timely and efficient manner.

Director of Public Works:

I concur. We have contacted the computer company and if the problem is not resolved in 30 days, we will change companies.

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

Collections for gas and water services were not deposited intact into the municipality’s bank account. Customers made one payment for multiple services. Cash and checks from collections were separated to make up separate deposits into the gas operating account and the water operating account. We noted the above-mentioned shortages in both gas and water operating accounts when comparing the actual deposit with the amount that should have been deposited. We also noted that employees, including the former utility clerk, cashed personal checks through the cash drawer.

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. . . . The municipality should make daily deposits when large amounts of money are involved.

RECOMMENDATION:

To help prevent the misuse or loss of collections, officials should ensure that all collections are deposited intact within three working days into an official municipal bank account. Cash on hand should be safeguarded. Personal checks should not be cashed through the cash drawer.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur and will implement policies in accordance with the *Internal Control and Compliance Manual for Tennessee Municipalities*. The office manager will make deposits on a daily basis to comply with the three-day rule. No one will be allowed to cash personal checks through the cash drawer. No employee will have control over a complete transaction, ensuring all collections are deposited intact.

Director of Public Works:

I concur. Deposits are currently made on a daily basis. No personal checks by employees are allowed to be cashed in the office.

4. **FINDING: Duplicate, prenumbered receipts not issued for each collection**

Utility clerks who received collections for miscellaneous collections such as service fees, returned checks, and tap fees did not issue a duplicate, prenumbered receipt for each source of revenue. Section 9-2-103, *Tennessee Code Annotated*, states, "Each . . . municipal official who receives any sum or sums in such official's capacity shall issue to the payer thereof a receipt and shall retain a duplicate thereof in the office of such official. . . ."

Section 9-2-102, *Tennessee Code Annotated*, requires the department of audit to "prescribe a uniform system of bookkeeping designating the character of books, reports, receipts, and records, and method of keeping same, in all state, county, and municipal offices . . . which handle public funds." The *Internal Control and Compliance Manual for*

Tennessee Municipalities, requires municipal officials to ensure that **prenumbered** receipts are issued for each revenue source.

RECOMMENDATION:

To better account for all revenue, the employee or official who receives collections should issue a duplicate, prenumbered receipt for each source of revenue. The duplicate receipt should provide adequate details to identify the revenue.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur and will issue duplicate, prenumbered receipts for every source of revenue with adequate details necessary for identification.

Director of Public Works:

I concur. We have installed the Point of Sale equipment to document all transactions and will use prenumbered receipts for miscellaneous payments.

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DUTIES OF EMPLOYEES

Office Manager/Controller/Accountant

1. Make bank deposits
2. Open, handle, and prelist all mail receipts
3. Oversee all customer service issues
4. Approve all adjustments to bills including voided transactions
5. Review and approve all reconciliations
6. Review and approve all journal entries
7. Review and approve payroll payments
8. Fill in as needed for cashiers

Accounts Receivable/Billing

1. Generate accounts receivable reconciliations on a monthly basis
2. Handle all billing functions
3. Prepare bank reconciliations

Accounts Payable/Payroll Clerk

1. Receive invoices, enter into general ledger and generate checks for approval
2. Handle all payroll functions (upon approval) and generate payroll checks and reports
3. Handle all general ledger data entry
4. Prepare deposits

Cashiers (2)

1. Handle daily transactions such as receipts collected at the windows