



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF MUNICIPAL AUDIT**

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April 12, 1007

Honorable Mayor and Members
of the Town Council
Town of Smyrna
315 South Lowry Street
Smyrna, TN 37167

Mayor and Town Council:

The Division of Municipal Audit was requested by the Tennessee Bureau of Investigations (TBI) to evaluate various internal controls in the Smyrna Police Department. The request came in conjunction with a TBI investigation into an apparent misappropriation from the police department, which has been referred to the district attorney general for his consideration of any appropriate action. Our office identified internal control weaknesses that allowed the apparent misappropriation to occur without detection. These weaknesses are presented below:

1. The police chief did not ensure that all money collected by police employees was remitted to the town. In addition, bank accounts were opened using the town's federal tax identification number that were not included in the town records. Furthermore, in most instances, receipts were not issued when money was remitted to the responsible police department employee, or when money changed hands from one employee to another.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 1, states, "Municipal officials should ensure that responsibility for each step of cash handling and recording is clearly established." 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..."

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The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 2, states,

... Anytime custody of money changes from one employee to another, the money should be counted by both employees, a receipt should be issued by the recipient of the funds, and BOTH EMPLOYEES SHOULD SIGN THE DOCUMENT INDICATING CONCURRENCE WITH THE AMOUNT TRANSFERRED.

2. The police chief failed to adequately separate duties. A former police officer had complete control over money he collected. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 2, states:

Municipal officials should establish a simple and flexible organizational plan which clearly places responsibility for specific activities upon specified individuals. Control over the accounting function should be centralized under one official who is responsible for all recordkeeping and reporting and who has the authority to supervise the entire financial operation. 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.

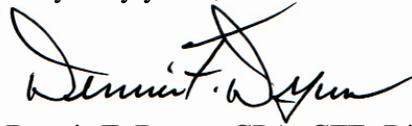
3. The town had no policy addressing fundraising activities. As a result, there was a lack of oversight over what fundraisers police department employees coordinated or participated in and what organizations benefited from the proceeds. Because there was inadequate oversight and controls, town officials were unable to determine which fundraising collections should have been retained by the police department and whether all such collections were remitted to town officials and deposited in an authorized town bank account. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 1, Section 1, states:

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Municipal officials should ensure that a policies and procedures manual is part of the written record system of the municipality. The municipality's manual should incorporate or reference all the policies and procedures required in this manual and should include any additional policies and procedures specific to the municipality.

Town officials should take immediate corrective action to resolve these issues. If you have any questions or need additional information, please do not hesitate to contact me.

Very truly yours,

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

DFD/RAD