INVESTIGATIVE AUDIT REPORT

TOWN OF SOMERVILLE
JULY 1, 2006, THROUGH APRIL 30, 2007

State of Tennessee

Comptroller of the Treasury
Department of Audit
Division of Municipal Audit

STATE OF TENNESSEE

John G. Morgan **C O M P T R O L L E R O F T H E T R E A S U R Y**

Comptroller **STATE CAPITOL**

NASHVILLE, TENNESSEE 37243-0260

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December 13, 2007

Honorable Mayor and Members of
the Board of Aldermen
Town of Somerville
P.O. Box 216
Somerville, TN 38068

Mayor and Members of the Board:

Presented herewith is the report on our investigative audit of selected records of the Town of Somerville for the period July 1, 2006, through April 30, 2007. However, when the examination warranted, this scope was expanded. The audit focused on the collection of property tax and traffic citations; however, other elements of the town's internal control system and recordkeeping were also considered.

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 investigative audit revealed that for the period October 1, 2006, though March 15, 2007, cash collections for traffic citations totaling $3,305 were not deposited into a town bank account.

This matter was referred to the local district attorney general. On November 26, 2007, Sherrill Mason was indicted by the Fayette County Grand Jury on one count of Theft over $1,000 and one count of Official Misconduct.

Honorable Mayor and Members of
the Board of Aldermen
Town of Somerville
December 13, 2007

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.

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

December 13, 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 Somerville. Our examination focused on the period July 1, 2006, through April 30, 2007. However, when warranted, this scope was expanded. The audit focused on the collection of property tax and traffic citations; however, other elements of the town's internal control system and recordkeeping were also considered.

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 investigative audit revealed that for the period October 1, 2006, though March 15, 2007, cash collections for traffic citations totaling $3,305 were not deposited into a town bank account.

Mr. John G. Morgan
Comptroller of the Treasury
December 13, 2007

This matter was referred to the local district attorney general. On November 26, 2007, Sherrill Mason was indicted by the Fayette County Grand Jury on one count of Theft over $1,000 and one count of Official Misconduct.

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

1. Inadequate separation of duties
2. Prenumbered receipts not accounted for
3. Inadequate internal controls over the collection of traffic citations
4. Property tax receipts not properly used
5. Property tax receivables not periodically reconciled
6. Collections not deposited promptly and intact
7. Complete bid documentation not maintained
8. Abstracts not forwarded to the State Department of Safety

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 SELECTED RECORDS OF THE TOWN OF SOMERVILLE FOR THE PERIOD JULY 1, 2006, THROUGH APRIL 30, 2007

BACKGROUND

On December 9, 2006, the town clerk responsible for collecting and recording property tax, business tax, and traffic citations, received a written reprimand after more than $17,000 in undeposited checks payable to the town were discovered in her work area. The checks had been withheld from deposit anywhere from several weeks to more than three months. According to a report by the town administrator, the town clerk was the only person certified to report police work to the state at the time; therefore, "not firing her turned out to be in the best interests of the town." An internal audit conducted under the direction of the town administrator reviewed the collection of property tax. The internal audit determined that collections had not been posted and promptly turned over for deposit, but found no indication municipal funds were missing. On March 12, 2007, more than $11,000 in additional undeposited checks payable to the town were found in the work area of the same town clerk. Some of these checks had been withheld from deposit for more than eight months. After the second group of checks was discovered, the clerk left the municipal building and did not return. The Division of Municipal Audit was notified after the second incident and thus initiated our investigative audit.

LEGAL ISSUE

1. **ISSUE:** **Unaccounted for cash collections totaling $3,305**

The investigative audit revealed that for the period October 1, 2006, though March 15, 2007, cash collections for traffic citations totaling $3,305 were not deposited into a town bank account.

This matter was referred to the local district attorney general. On November 26, 2007, Sherrill Mason was indicted by the Fayette County Grand Jury on one count of Theft over $1,000 and one count of Official Misconduct.

Our investigative audit determined that the lack of certain internal controls contributed to the failure to detect the apparent misappropriation in a timely manner. These weaknesses are detailed in Findings 1, 2, and 3 of the Findings and Recommendations section of this report.

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FINDINGS AND RECOMMENDATIONS

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

Although the town had several employees, certain employees had control over complete transactions. We noted the following instances of inadequate separation of duties:

- The clerk responsible for compiling the traffic court docket and for forwarding information on unpaid traffic citations to the Tennessee Department of Safety was also responsible for making collections for traffic citations.

- A clerk who collected fines for traffic citations also recorded those payments in the town's computer system.

- The clerk(s) responsible for collecting property tax payments were also responsible for recording property tax collections into the town's financial records.

- Two clerks used the same cash drawer.

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:

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 finding. The clerk that compiles the court docket, collects payments for traffic fines, and forwards information to the state will no longer collect payments. The property tax clerk will collect all traffic fines and all property tax payments. Another clerk, besides the police clerk, will record the property tax payments to the computer. The property tax clerk will post the payment to the tax roll. The bookkeeper will reconcile the computer to the tax roll postings and the general ledger. The payroll clerk will make the deposits for both traffic fines and property tax. Only the property tax clerk will collect money; consequently, there will be only one cash drawer.

Town Administrator:

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

2. **FINDING:** **Prenumbered receipts not accounted for**

Our investigative audit revealed that town clerks used several different prenumbered receipt books to record traffic citation collections. However, these receipts were not systematically accounted for. As a result, the incident noted in the Legal Issue was not detected in a timely manner.

Receipts issued for collections, such as business licenses and permits, were also not accounted for. We were not able to trace four receipts issued for four checks collected in payment of business licenses and other general fund purposes totaling $774.73.

The daily cash report for December 5, 2005, was short $100.

In addition, handwritten receipts for the collection of property tax were issued but not accounted for until after the discovery of the previously discussed undeposited checks. We noted that, on several occasions, the handwritten receipts indicated property tax accounts for the same property tax year had been paid two or three times.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 2, states municipal officials should ensure that prenumbered receipts for each revenue source are issued as required by Section 9-2-103, *Tennessee Code Annotated*, and all unused or voided receipts are accounted for.

RECOMMENDATION:

To properly account for all collections, municipal officials should ensure that receipts are issued for all collections, and all receipts are accounted for and properly maintained in town records.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur with the finding. The bookkeeper will keep a running list of the last receipt from each receipt book and will determine that each receipt is accounted for from each book.

Town Administrator:

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

3. **FINDING:** **Inadequate internal controls over the collection of traffic citations**

Our investigative audit revealed the following internal control issues related to collecting and recording payments for traffic citations.

- Traffic citation payments recorded in the town's computerized court docket were not reconciled to corresponding deposits to the municipal bank account.

- The receipt numbers in the computer records of traffic citations did not correspond to the receipt numbers on the handwritten receipts issued to individuals making payments for traffic citations.

- The computerized court docket allowed municipal clerks to create a report of only a portion of traffic citation payments recorded in any given day and was therefore vulnerable to manipulation.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 2, Section 3, states, "Municipal officials should provide constant, close supervision to ensure the following … internal controls are working … procedures are effective and efficient." Section 4 states, "Municipal officials should ensure that automatic proof techniques are applied whenever possible.… reconcile unpaid court fines with the court docket."

RECOMMENDATION:

To decrease the risk of undetected errors and irregularities, management should ensure that traffic citations recorded in the court docket as paid are reconciled with bank deposits. In addition, management should require that computer software systems are not subject to manipulation.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur with the finding. We have installed a new program on the computer which will create a report showing the amount of money posted to police fines and the receipt numbers used to collect those fines. The program does not allow the municipal clerk to change or report a portion of the traffic fines collected.

Town Administrator:

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

4. **FINDING:** **Property tax receipts not properly used**

Preprinted receipts for property tax were only used occasionally and were not properly filed. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 4, Section 3, states:

> Municipal officials should ensure that … one copy of the property tax receipt is filed numerically and one copy is filed by date paid. Daily tax collections should be summarized in total by levy year on the daily collection report, with penalties recorded separately.

RECOMMENDATION:

To properly account for all collections, municipal officials should ensure that preprinted property tax receipts are properly issued and filed in town files.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur with the finding. The clerk collecting property tax will no longer use receipts from a receipt book. The collection will be noted on the property tax receipt showing amount of money received, clerk's initials, check or cash, and the date received.

Town Administrator:

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

5. **FINDING:** **Property tax receivables not periodically reconciled**

The recorder did not document that the property tax receivables balance in the general ledger was periodically reconciled to the unpaid property taxes listed on the manual tax roll or the unpaid property tax receipts. We also noted that property tax collections recorded in the computer system did not correspond to either the collections recorded on the manual property tax ledger or the related bank deposit. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 4, Section 4, states:

> Municipal officials should ensure that … the property tax receivable balance per the general ledger is periodically reconciled to the total amount of unpaid accounts per the tax roll and to the total amount of unpaid tax receipts.

RECOMMENDATION:

So that errors and irregularities related to the recording and collecting of property tax can be detected promptly, municipal officials should require that the recorder periodically perform and document the reconciliation of property tax receivables. The reconciliation should include a comparison of each year's property tax receivables balance in the general ledger with both the total amount of unpaid property tax listed on the respective tax roll and the unpaid property tax receipts.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur with the finding. As stated before, the bookkeeper will reconcile the unpaid property tax listed on the manual tax roll or the unpaid tax receipts to the general ledger.

Town Administrator:

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

6. **FINDING:** **Collections not deposited promptly and intact**

Various collections were not deposited promptly and intact into the municipality's bank account. The municipality's cash receipt records indicated that some collections were not deposited until several weeks or months after being received by municipal personnel. We noted that municipal personnel used undeposited cash for unallowable purposes, such as postage and refunds.

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.… 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.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur with the finding. All clerks have been told that any money received daily must be receipted, recorded, and given to the payroll clerk on the day received. The payroll clerk will deposit the money on the next working day except on weekends which will be deposited on the following Monday. All clerks have been told that they are not to make

refunds or pay for postage from undeposited money. The bookkeeper will pay for refunds and postage from her petty cash or with a check when appropriate.

Town Administrator:

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

7. **FINDING:** **Complete bid documentation not maintained**

The minutes of the meetings of the mayor and members of the board of aldermen included documentation of the winning bid selected by the mayor and board. However, documentation submitted by other competing vendors was not maintained. The Municipal Purchasing Law of 1983, as set forth in Sections 6-56-301 through 6-56-307, *Tennessee Code Annotated*, requires that all applicable purchases of $2,500 or more ($10,000 if the municipality chooses to increase the limit by ordinance as has been chosen by the Town of Somerville) be let out for bid.

RECOMMENDATION:

To obtain the best price and comply with state law, the mayor and members of the board of aldermen should ensure that required bidding procedures are followed for all purchases or contracts over $10,000. Adequate documentation should be maintained as evidence of correct bidding procedures. Applicable invoices which have not been bid should be rejected and the official or employee responsible for the purchase should be held liable.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur with the finding. All bid documentation will be included in the packet of the board of mayor and aldermen when considered by the board.

Town Administrator:

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

8. **FINDING:** **Abstracts not forwarded to State Department of Safety**

Violators apparently failed to pay the fine or appear in court for several traffic tickets. For several months, the former court clerk failed to maintain documentation that abstracts of these and other traffic violations were prepared and submitted to the Tennessee Department of Safety. Section 55-10-306(b)(1), *Tennessee Code Annotated*, states:

> Within thirty (30) days after the conviction or forfeiture of bail of a person upon a charge of violating any … law regulating the operation of vehicles … every … judge of the court or clerk of the court of record in which such conviction was had or bail was forfeited shall prepare and immediately forward to the department an abstract of the record of the court covering the case in which the person was so convicted or forfeited bail.…

RECOMMENDATION:

To comply with state statutes, the recorder should maintain documentation that abstracts of all applicable court records were prepared and forwarded to the Tennessee Department of Safety. The judge should sign the record of all dispositions.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur with the finding. All reports due to the Tennessee Department of Safety have been sent. The court clerk has been told and understands that she will prepare and present by the 10th of each month the applicable court records report to the bookkeeper who will prepare and mail the appropriate money due along with the report to the Tennessee Department of Safety by the 15th of each month.

Town Administrator:

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