

**INVESTIGATIVE AUDIT OF THE RECORDS OF THE
CITY OF SOUTH FULTON
FOR THE PERIOD JANUARY 1, 2002, THROUGH DECEMBER 31, 2002**

LEGAL ISSUE

1. **ISSUE: Apparent embezzlement**

Our investigative audit revealed that at least \$1,900 in collections was not deposited into the city's bank account. We established that only those collections that were recorded on the city's computer receipts were deposited into the city's bank account. City clerks initially recorded certain collections on manual receipts. These manual receipts were then periodically recorded on the city computer and the related collections deposited into the city bank account. However, our investigative audit revealed that on occasion, collections that were manually receipted were not recorded on the city's computer record. In addition, we noted six occasions totaling \$700 when manual receipts were "short receipted" or recorded in the computer record at less than was collected. Refer to the exhibit at the end of this report.

This matter was referred to the local district attorney general. On October 7, 2003, the Obion County Grand Jury indicted a former city clerk, Amy Magness, on one count of theft over \$1,000 from the City of South Fulton.

GLOSSARY OF STATE STATUTES

Section 39-14-103, *Tennessee Code Annotated*

Theft of property.

A person commits theft of property if, with intent to deprive the owner of property, the person knowingly obtains or exercises control over the property without the owner's effective consent.

Section 39-14-105, *Tennessee Code Annotated*

Grading of theft.

Theft of property or services is . . .

(3) A Class D felony if the value of the property or services obtained is one thousand dollars (\$1,000) or more but less than ten thousand dollars (\$10,000). . . .

FINDINGS AND RECOMMENDATIONS

1. **FINDING:** **Employees borrowing cash from cash drawer**

Employees used city collections for short-term personal loans. According to employees, these loans usually consisted of \$10 or \$20, and were documented with “IOUs” in the cash drawer. However, in May 2001 one employee’s loans had accumulated over several months to total at least \$1,060.

Article II, Section 29, of the *Constitution of the State of Tennessee*, provides:

But the credit of no County, City or Town shall be given or loaned to or in aid of any person, company, association or corporation, except upon an election to be first held by the qualified voters of such county, city or town, and the assent of three-fourths of the votes cast at said election.

RECOMMENDATION:

To avoid an unconstitutional giving or lending of the city’s credit, the mayor and members of the city commission should prohibit employees from borrowing city funds for any reason or for any period of time.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Commissioners:

We concur. Administrative policy and job descriptions have been created and adopted that prohibits the borrowing of cash from cash drawers, provides dual control of all money received in the office, and provides a check and balance system for security and accuracy purposes.

Manager:

I concur with the mayor and board of commissioners’ response.

Recorder:

I concur with the mayor and board of commissioners’ response.

2. **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 on many occasions the time between municipal personnel receiving a collection and depositing a collection exceeded six days.

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, the city manager should direct employees to deposit all collections intact and within three working days into an official municipal bank account.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Commissioners:

We concur. Administrative policy and job descriptions have been created and adopted that promote dual control over money received in the office and direction to make deposits fully intact every day.

Manager:

I concur with the mayor and board of commissioners' response.

Recorder:

I concur with the mayor and board of commissioners' response.

3. **FINDING: Missing prenumbered manual receipts**

Our investigative audit revealed that several manual receipts were not available for audit. The copy of the receipt to be retained by the city appeared to have been torn or cut out of the receipt book. As a result, we were unable to determine the source or amount of the collection.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 2, requires municipal officials to 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 safeguard collections properly, the city manager should ensure that employees account for all prenumbered duplicate receipts.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Commissioners:

We concur. Administrative policy has been created and adopted that require all money received in the office be accompanied by a prenumbered receipt and each prenumbered receipt must be accounted for.

Manager:

I concur with the mayor and board of commissioners’ response.

Recorder:

I concur with the mayor and board of commissioners’ response.

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CITY OF SOUTH FULTON
CASH DRAWER BALANCE

USER- JILL DATE- 11/25/2002 - 11/25/2002

APP	BILL CODE	AMOUNT	INV/REC	CUSTOMER	NAME
CR	999	83.62	073542		203 155 7
CR	999	63.34	073543		44 775 1
CR	999	130.34	073544		46 2820 2
		277.30	WEAKLEY COUNTY ELECTRIC COLLECTIONS TOTAL		
		800.28	APPLICATION TOTAL		
DP	500	100.00	073531	060870 13	LILLIE BROOKS
		100.00	WATER DEPOSIT TOTAL		
DP	501	100.00	073529	121435 11	NEDRA WARD
		100.00	GAS DEPOSIT TOTAL		
		200.00	APPLICATION TOTAL		
PT	100	355.24	007348	000555 97	
PT	100	315.40	007349	000553 98	
PT	100	21.00	007350	000287 02	
PT	100	7.00	007351	000057 02	
PT	100	4.00	007352	000056 02	
		702.64	PROPERTY TAX TOTAL		
		702.64	APPLICATION TOTAL		
		2286.81	TOTAL COLLECTED AUTHORIZED SIGNATURE: <i>J.M. Jones</i>		
		277.30	LESS WEAKLEY COUNTY ELECTRIC COLLECTIONS TOTAL		
		2009.51	CITY COLLECTIONS		
		2009.51	CITY CASH COLLECTED		
		0	CASH SHORT OR OVER		

RECEIPT

DATE 11/25/02 No. 828171

FROM Nedra Ward \$ 200.00/-

Two hundred + 00/100 DOLLARS

FOR RENT FOR Gas deposit 12143511

ACCT. PAID DUE

CASH CHECK MONEY ORDER

FROM _____ TO _____

BY Jm

1152