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DIVISION OF MUNICIPAL AUDIT

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December 18, 2001

Honorable Mayor and Members of the
Board of Commissioners
Town of Spring City
P.O. Box 369
Spring City, TN 37381

Dear Mayor and Board:

We have completed our special purpose examination of selected records of the Town of Spring City. Our examination focused on the period July 1, 2000, through May 31, 2001. However, when the examination warranted, this scope was expanded. Our examination revealed the following weaknesses:

1. Due to the nature of the town's lakefront recreational area, the town has chosen to employ outside contractors as the area's caretaker. The contract between the Town of Spring City and the town's park manager did not specify how park and recreation collections were to be remitted to the town or assign responsibility for expenditures other than maintenance equipment and electric bills. As a result, some park and recreation collections were not remitted intact to the town and the town is now paying expenditures which the former park manager previously paid.

Although the current contract was identical to the previous contract, the amount and form of park collections used as compensation differed. The former managers retained half of all parks and recreation collections, and paid additional expenses for parks and recreation maintenance out of the retained collections. The current managers remit all parks and recreation collections to city hall, and receive checks from the town for half of the gross collections. Currently, the town pays all parks and recreation expenditures.

Section 6-56-111, *Tennessee Code Annotated*, requires all public funds to be deposited within three working days of receipt. In addition, the *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 5, states that

collections should be deposited promptly and intact and only in designated depositories. To avoid misunderstandings, adequately control collections, and ensure the town does not pay expenses for which it is not liable, the contract should require that park and recreation managers remit all collections to the town. The contract should specify responsibility for all expenses, and the expenses should be paid accordingly.

2. The Spring City Park and Recreation managers did not issue prenumbered receipts for park collections. 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. . . .” The *Internal Control and Compliance Manual for Tennessee Municipalities* requires municipal officials to ensure that **prenumbered** receipts are issued for each revenue source. Town officials should ensure that prenumbered receipts are issued for all applicable collections.
3. The municipality’s files did not include adequate supporting documentation for many disbursements. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, Section 4, requires that all disbursements, regardless of the accounting procedures, be supported by invoices, cash tickets or other adequate supporting documentation. Section 3 of the manual requires that the related documentation accompany checks presented for approval and signing. Town officials in conjunction with the town recorder should ensure that adequate supporting documentation is required and maintained for each disbursement.
4. The recorder did not maintain complete, updated records of the municipality’s fixed assets and high-risk, movable property. Generally accepted accounting principles and the *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 4, require that records of fixed assets and high-risk movable property be maintained and an annual inventory of those items be performed and documented. Town officials should ensure that complete records of fixed assets and high-risk property are maintained and an annual inventory is performed and documented.
5. Several bank accounts established under the town’s federal identification number were not included in the town’s financial records maintained by the recorder. We also noted a safety deposit box in the name of the Town of Spring City Senior Citizens of which the recorder was not aware. The mayor and members of the board of commissioners should ensure that all town accounts are included in the accounting records (general ledger and cash receipts and disbursements journals) maintained by the recorder and

that applicable internal control procedures and accounting requirements are followed. The financial relationship between the town and related organizations should be evaluated and clearly defined in order to make correct determinations regarding inclusion in the town's records. Bank accounts of separate organizations should never be established using the town's federal tax identification number.

6. The applicable portion of drug-related fines received from the county courts was not recorded in the drug fund. Instead, 100 percent of these fines were deposited into the general fund. Section 39-17-428, *Tennessee Code Annotated*, establishes minimum fines for violations of Tennessee's drug control statutes. This section also establishes the mandatory distribution of those fines, including the portion to be allocated to the special drug account with the remainder paid to the general fund. The recorder should ensure that drug fines are properly allocated.
7. The municipality's records did not include documentation of a monthly reconciliation of utility accounts receivable as reflected in the computerized utility billing records with the general ledger control account. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 3, Section 10, states, "Municipal officials should ensure that . . . 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." 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.
8. The following internal control weaknesses related to the Spring City Police Department were noted. Town officials should ensure that corrective action is taken regarding each weakness:
 - a. Since July 1, 1998, the police department confiscated at least one vehicle under the guidelines of the Tennessee Drug Control Act. The police chief did not maintain adequate documentation of the disposition of this confiscated vehicle. Section 39-17-429(a), *Tennessee Code Annotated*, states, ". . . the municipal law enforcement department shall be accountable to the municipal legislative body for the proper disposition of the proceeds of goods seized and forfeited under the provisions of Section 53-11-451 [narcotics statutes] . . ."
 - b. The police chief did not ensure that the police department personnel maintained a complete, updated inventory (evidence log) of applicable confiscated property. In addition, the police department did not annually inventory and follow prescribed

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procedures for the disposal of confiscated controlled substances set forth in Section 53-11-451(j), *Tennessee Code Annotated*.

- c. The police chief failed to ensure that all confiscated weapons were adequately described in the arrest report or accompanying documentation. In addition, the police department did not properly tag confiscated weapons or appropriately dispose of these items in accordance with Section 39-17-1317, *Tennessee Code Annotated*.
 - d. The police department referred certain court cases to the county courts, including drug offenses and driving under the influence (DUI) cases. However, town officials did not assign responsibility for identifying and following up the cases turned over to the county court. Therefore, the town was not assured of receiving all fines due. State statutes provide that all or part of the fines collected from drug and DUI cases should go to the jurisdiction initiating the arrest.
9. The town does not retain duplicate receipts issued for business licenses/tax in consecutive order. Instead, the receipts are placed in the related individual business file. Section 9-2-104, *Tennessee Code Annotated*, requires that consecutively prenumbered receipts be maintained in a well-bound book.

The mayor and members of the board of commissioners should require and ensure corrective action regarding the above weaknesses. Also, the commissioners should ensure that all recommendations noted in the Town of Spring City's comprehensive annual financial report for fiscal year ended June 30, 2000, presented by Mitchell Emert & Hill, P.C., Certified Public Accountants, are also implemented. If you have any questions concerning the above, please contact me.

Sincerely,

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