



STATE OF TENNESSEE
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DEPARTMENT OF AUDIT
DIVISION OF MUNICIPAL AUDIT

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November 9, 2011

Honorable Mayor and Members of
the City Council
City of Winchester
7 South High Street
Winchester, TN 37398

Ladies and Gentlemen:

As part of our ongoing process of examining the records of municipalities, we have completed our investigative audit of selected records of the City of Winchester. The investigative audit was initiated after city officials notified this office of several discrepancies they had identified. The audit was conducted in cooperation with agents of the Tennessee Bureau of Investigation. This investigative audit focused on the period July 1, 2008, through June 30, 2011. However, when the examination warranted, this scope was expanded.

Legal Issue

Apparent misappropriation of city collections totaling at least \$153,050

During the period July 1, 2004, through December 31, 2010, the former city finance director, Faye Morrow, apparently took at least \$153,050 from the City of Winchester without the knowledge or authority of city officials. She used a number of schemes to extract city cash for her own personal use:

- 1) Ms. Morrow took checks from the county court clerk payable to the city to a local branch of the city depository bank and exchanged them for cash and cashier checks. Ms. Morrow used the cash and some of the cashier checks for her own personal expenditures¹. Ms. Morrow diverted at least \$122,785 from the town during the 6½ years ended December 31, 2010.

¹ Ms. Morrow eventually receipted and deposited some of the cashier checks she had obtained. However, the rest she used in a different scheme described in point 3.

- 2) Ms. Morrow received cash seized incidental and pursuant to narcotic arrests from police department employees. Those funds were turned over to Ms. Morrow for receipting into the city records and depositing into city bank accounts. However, our investigative audit revealed that Ms. Morrow did not deposit all the seized cash given her by police officers. In addition, Ms. Morrow short-receipted other collections related to the city's drug fund, keeping the difference for her own use. Ms. Morrow failed to deposit at least \$19,389 in drug fund collections.
- 3) Ms. Morrow used the cashier's checks she obtained using the diverted county court checks noted in point 1, and exchanged them for recorded cash collections, keeping the cash for her own personal use. Ms. Morrow took an additional \$10,876 from the city using this scheme.

Source	Amount
Cashed county court checks	\$122,785
Cash seizures and other drug fund collections	19,389
Manipulated county court checks	<u>10,876</u>
Total	<u>\$153,050</u>

This matter was referred to the local district attorney general. On November 7, 2011, the Franklin County Grand Jury indicted Mary Faye Morrow on multiple felony counts.

Internal Control Deficiency

Inadequate separation of duties

The former finance director oversaw all the financial recordkeeping in the city and at times was also responsible for reconciling all bank account statements. She also received the mail, receipted collections, and prepared bank deposits. According to the *Internal Control and Compliance Manual for Tennessee Municipalities*, page 32:

Municipal officials should separate duties of employees 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. When possible, different persons should be responsible for the authorization, recordkeeping (posting), custodial (cash and materials handling), and review procedures, to prevent manipulation of records and minimize the possibility of

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collusion. When adequate segregation of duties is not possible, management/board oversight should be increased to provide reasonable assurance that errors, irregularities or fraud are prevented or detected and corrected in a timely manner. Such oversight would include, but not be limited to, the review of bank statements, cash receipts and cash disbursements summaries as well as the related supporting documentation, and analysis of monthly reports.

Page 80 of the manual also recommends mandatory vacations for all employees who handle cash. Another employee should perform all of the vacationing employee's job duties.

If you have any questions concerning the above, please 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