



STATE OF TENNESSEE  
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DEPARTMENT OF AUDIT  
DIVISION OF MUNICIPAL AUDIT

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October 2, 2006

Members of the Board of Public Utilities  
Winchester Utilities  
219 Second Avenue, NW  
Winchester, TN 37398

Gentlemen:

We have completed our investigative audit of selected records of Winchester Utilities. The examination focused on the period January 1, 2006, through April 30, 2006. However, when the examination warranted, this scope was expanded. The audit was limited to an examination of selected disbursement records. During the course of our audit, we noted the following issues:

1. The City of Winchester Planning Department purchased a computer from a company that is owned in part by a Winchester Utilities employee. According to section 3.12 of the Winchester City Charter, "...[A]ny officer or employee of the city shall not profit personally, directly or indirectly, from any business transacted with the city government...." Because the city's governing body is ultimately responsible for the composition of the utility's management, utility employees are required to follow all provisions of the city charter.
2. Winchester Utilities issued several checks that were signed by only one person. The involved bank accounts were used for petty cash. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, Section 2, states, "Municipal officials should require two signatures on all checks."
3. On the first day of fieldwork, the auditor observed records that indicated cashiers were cashing checks for customers and employees. When asked, management confirmed that this was occurring and was not uncommon.

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.” Upon learning of the requirement that all collections be deposited intact, meaning in the form and amount collected with no amounts withheld, the general manager and other office employees took immediate steps to correct this condition.

4. Utility personnel disbursed \$100 from petty cash as a wedding gift to one of its employees. The Winchester Utilities’ accounting manager indicated that the business office is not accounting for the gift as an employee benefit or compensation. At the time of the gift, there was no withholding for taxes.

According to the Internal Revenue Service, as presented in *Publication 15-b*, “Cash, no matter how little, is never excludable as a de minimis benefit...” Further, management should carefully consider whether such gifts conform to Section 6-56-112, *Tennessee Code Annotated*, which states that “[a]ll expenditures of money made by a municipality must be made for a lawful municipal purpose.”

Management should take immediate action to correct the remaining unresolved issues. If you have any questions concerning these matters, please contact me.

Very truly yours,



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