CITY OF RAMER

Investigative Report

July 7, 2015

Justin P. Wilson, Comptroller

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
FINANCIAL AND COMPLIANCE INVESTIGATIONS

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July 7, 2015

George Armstrong, Mayor
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Mayor Armstrong:

We performed an investigation of selected records of the City of Ramer for the period July 1, 2012, through June 30, 2014; however, we expanded the scope as necessary. The investigation revealed the following deficiencies:

- The city manager failed to present all cash on hand during an official cash count conducted by investigators;
- Duties were not segregated adequately in the city manager's office;
- Numerous deficiencies exist in the financial operation of the city manager's office; and
- The mayor and board of aldermen did not provide adequate oversight of the city's operations.

The findings and recommendations as a result of our investigation are presented in this report. These findings and recommendations have been reviewed with management to provide an opportunity for their response. Written responses from the mayor and board of alderman are paraphrased in this report. Also, these findings and recommendations have been reviewed with the district attorney general for the Twenty-fifth Judicial District.

Background

The City of Ramer, located in McNairy County, Tennessee, was incorporated in 1958 under the Uniform City Manager-Commission Charter as set out in Chapters 18-29 of Title 6 in *Tennessee Code Annotated*.

Previous audits of the City of Ramer noted that the financial records were insufficient and inadequate. As a result, auditors were unable to perform audits in compliance with *Government Auditing Standards*.

The annual financial reports for the City of Ramer for the fiscal years ended June 30, 2010, through June 30, 2013, listed serious deficiencies. Many of these deficiencies, some of which are noted in our findings, remain uncorrected.

Section 9-2-102, *Tennessee Code Annotated*, requires the Comptroller of the Treasury, Department of Audit, to prescribe a uniform accounting system for all municipal offices that handle public funds. This statute also requires officials of all municipal offices to adopt that system. To fulfill this responsibility, the Comptroller of the Treasury issued the *Internal Control and Compliance Manual for Tennessee Municipalities*, to be used in conjunction with the Government Finance Officers Association's *Governmental Accounting, Auditing and Financial Reporting*.

The *Internal Control and Compliance Manual for Tennessee Municipalities,* Title 5, Chapter 3, Section 3, states, "Municipal officials should either hire or contract with individuals (other than those conducting the audit) who have the expertise necessary to take responsibility for the annual financial report."

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 6, Chapter 1, also requires municipal officials to ensure close constant supervision to ensure that internal controls are working to prevent and/or detect errors and irregularities.

INVESTIGATIVE FINDINGS AND RECOMMENDATIONS
INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES

FINDING 1 THE CITY MANAGER FAILED TO PRESENT ALL CASH ON HAND DURING AN OFFICIAL CASH COUNT BY INVESTIGATORS

Investigators counted cash on hand in the City Manager's Office that totaled $2,510.92. We noted $417.27 more cash on hand than there should have been based on the receipts and deposits reflected in the accounting records presented to us during the cash count. The city manager informed us that she was aware of this overage and expected it to occur based on how she prepared deposits. We noted the city manager did not make deposits intact; i.e., funds collected during a specific period of time were not deposited together. The city manager confirmed by her signature that no other collections or cash on hand was available for us to count at the time.

A subsequent examination of the accounting records revealed that $5,542.03 should have been provided to us at the time of the cash count instead of the $2,510.92, a difference of $3,031.11. Accounting records reflected the city manager had additional collections on hand at the time of the cash count; however, these funds

were not presented to us. We did determine that the city manager eventually deposited the $3,031.11 into the city's official bank account. When asked why she did not present these collections to the investigators at the time of the cash count, the city manager replied that there might have been a deposit in the bank bag that she forgot to give to the investigators because she was nervous. In addition, the city manager advised us that she would occasionally back-date receipts into the accounting records, which may be the reason the additional receipts appear before the date of our cash count. Based on the poor condition of all of the city's accounting records, the haphazard method the city manager receipted and back-dated collections, and the inconsistent statements of the city manager, we could not determine if all the city's funds were adequately accounted for at the time of our cash count. It should be noted that the city manager has been a Certified Municipal Finance Officer since 2012.

RECOMMENDATION

The city manager should present all cash on hand to investigators during official cash counts. Receipts should not be back-dated.

FINDING 2 DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE CITY MANAGER'S OFFICE

The part-time city manager is also listed as the city recorder and the court clerk.[1] This individual is responsible for the collection of funds, making bank deposits, recording all financial transactions, and co-signing checks. We found no apparent compensating controls for this lack of segregation of duties. For purposes of our report, we refer to this employee as the city manager.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 1, Section 1 states,

> 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 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

[1] The city does not have a police department; therefore, this is a position in name only.

as the related supporting documentation, and analysis of monthly reports.

Failure to segregate duties adequately or provide compensating controls greatly increases the risk of unauthorized transactions.

RECOMMENDATION

Officials should segregate duties to the extent possible using available resources.

FINDING 3 NUMEROUS DEFICIENCIES EXIST IN THE FINANCIAL OPERATION OF THE CITY MANAGER'S OFFICE

We reviewed various transactions and operations in the City Manager's Office. The city manager failed to prepare financial records in a timely manner in accordance with generally accepted accounting principles. The failure to maintain accounting records on a current basis diminishes the usefulness of the financial records as a management tool and results in a loss of budgetary and accounting control. Based on the condition of the accounting records, lack of adequate accounting records, and the collection practices of the city manager, we could not determine if all city collections were adequately accounted for in the period examined. We noted the following deficiencies:

A. The office did not deposit collections intact, which means funds collected during a specific period of time were not deposited together. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 14, Section 9, states that municipal officials should ensure that collections are deposited intact and only in designated depositories. No collections should be withheld from the deposit for any reason.

B. The city manager did not adequately prepare daily collection reports. In many instances, the date on collection reports was inaccurate and did not reflect the actual date of the collection of funds. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 14, Section 6, requires municipal officials to ensure that each day the cashier summarizes all cash collections by source on a daily collection report, clearly indicating the amount to be deposited, the amount retained for change, and the amount of cash over or short. Each report should be dated, and the date should be recorded on the corresponding deposit slip. The total on the corresponding deposit slip as well as the total of all applicable pre-numbered receipts should agree with the total collections recorded on the daily collection report.

C. Collections were not deposited promptly. For several months, the city manager made as few as two deposits per month. For the month of November 2012, the city manager made no deposits of water account collections. Collections should be deposited daily, if possible, but no more than three days after the initial collection, as required by Section 5-8-207, *Tennessee Code Annotated*. The delay in depositing funds increases the risks of fraud and misappropriation.

D. The date the city manager used to record some receipts was inaccurate. We noted instances where receipts were posted to the accounting system several weeks before they were deposited, while other receipts were deposited up to a week before being posted to the accounting system. A single posting date was sometimes used to record receipts in the accounting records when these were actually receipted over several days. The city manager did advise that she back-dated receipts. Such practices increase the risk of fraud and misappropriation and can be used to conceal fraud.

E. The city manager did not bill any utility accounts in January 2013 for services rendered. Sound business practices dictate that bills be sent to customers in a timely manner to avoid disruption of utility services.

F. The city manager made an erroneous accounting entry and later back-dated the correcting entry almost two weeks before the original erroneous entry. Such practices indicate a lack of understanding of basic business and accounting principles.

G. The city manager does not periodically reconcile unpaid utility accounts with billed amounts, payments, adjustments, and collections according to minimum accounting standards. These reconciliations are needed to ensure that any errors are identified and corrected promptly.

H. The utility billing stubs did not show the actual date of collection; therefore, we could not determine if penalties for late payment were properly applied, properly recorded, and properly deposited. This practice increases the risk of fraud and misappropriation.

I. Some deposit slips were not itemized. Checks received for payments were not listed on the deposit slip or other record of collections. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 14, Section 7, states that each check should be listed on the deposit slip or on an attached list itemizing the name of each payor and the amount paid. Prior to August 2013, the city manager did not prepare a list of receipted checks included in bank deposits. This control is necessary to ensure that all collections are properly receipted and deposited.

J. The city manager posted entries to customer accounts for which no billing stub or other receipt could be located to support the entry. Without billing stubs or other receipts, the accuracy of the postings cannot be determined.

K. The city did not have sufficient records available to determine if more than 100 current customers had paid a security deposit for services. Failure to maintain records of deposits for services increases the risk of misappropriation of funds and increases the risk that customers could receive services without paying a deposit.

L. The city manager makes adjustments to customer accounts. Since the recorder also collects receipts on behalf of the city and records those receipts in the accounting records, management should review any adjustments made by the city recorder. This practice increases the risk that funds could be misappropriated and not detected timely.

M. The city did not maintain a complete and accurate list of inventory records. Generally accepted accounting principles require accountability for all city owned assets, such as buildings, equipment, and vehicles. Without accurate inventory records, the city cannot adequately control its assets. In addition, the failure to maintain an asset listing increases the risk of loss.

N. The city did not maintain sufficient records to determine the amount of money owed to it at any given time. This increases the risk that money owed to the city will not be paid.

O. The city paid for supplies by check based on billing statements; however, there was no evidence on file to document that the supplies were actually received. This practice weakens controls over the purchasing process and increases the risks of paying for something that was never received.

P. Our examination of bank statements disclosed numerous instances of illegible imaged canceled checks. Imaged canceled checks did not include the back side of checks. We also noted checks with missing or unreadable payees. This increases the risk that an improper check could clear the city's bank account and not be detected when reviewing the bank statements.

Q. Office employees did not maintain separate cash drawers.[2] Internal controls dictate that each employee have their own cash drawer, start the day with a standard fixed amount of cash, and remove all but the beginning amount at the

[2] Two part-time employees made collections and used the same cash box as the city manager within the scope of our examination.

end of the day. This amount should be verified to the employee's receipts at the end of each day. Failure to adhere to this control regimen greatly increases the risk that a cash shortage may not be detected in a timely manner. Furthermore, in the event of a cash shortage, the official would not be able to determine who was responsible for the shortage because multiple employees were working from one cash drawer.

R. The city manager phoned in her work hours to the company performing payroll processing. Therefore, no documentation existed to ensure that her work hours were accurate and properly approved. We were advised by the city manager that she worked approximately 20 hours per week. The city should adopt a policy stating each employee should maintain a time record showing the hours worked and any leave taken. These time records should be signed by appropriate city management and maintained on file for inspection. The failure to prepare time sheets could result in improper payroll payments.

S. Official pre-numbered receipts were not always issued in sequential order for collections. In addition, receipts were not reconciled with deposits.

T. The city does not use purchasing or receiving reports. The city has no procedures to document that a responsible person determined each purchase was necessary, authorized in the budget, and actually received as ordered. That responsible person should have been someone other than the person who ordered the purchase and signed the check in payment. Lack of purchasing procedures greatly increases the risk that improper items could be ordered or that legitimate items could be ordered but not received, and the city could end up paying for items in both instances.

The *Internal Control and Compliance Manual for Tennessee Municipalities* prescribes the minimum required recordkeeping procedures and control activities for collecting and accounting for cash collections and disbursement of funds. Adherence to such procedures and control activities is necessary to safeguard the city's assets and ensure that those assets are used in an appropriate and responsible manner, and any deviations will be detected timely.

RECOMMENDATION

Officials should correct noted deficiencies in the financial operations of the City Manager's Office for accountability, transparency, and to comply with the standards provided by the Tennessee Comptroller's *Internal Control and Compliance Manual for Tennessee Municipalities* and other applicable accounting and auditing standards.

FINDING 4 **THE MAYOR AND BOARD OF ALDERMEN DID NOT PROVIDE ADEQUATE OVERSIGHT OF THE CITY'S OPERATIONS**

The mayor and the board of aldermen did not provide adequate oversight of the city's operations and did not establish internal controls to ensure accountability of the city's funds. The lack of oversight by the mayor and board of aldermen directly contributed to the failure to properly account for the city's funds.

RECOMMENDATION

The mayor and board of aldermen should provide proper oversight of the city's operations and the establishment of adequate internal controls to ensure the city complies with applicable laws, rules, and regulations. Minutes of board meetings should adequately document the business conducted by the board.

Management provided the following response to our findings:

MANAGEMENT'S RESPONSE—GEORGE ARMSTRONG, MAYOR

In response to the findings discussed during our meeting on June 5, 2015 we are preparing to take the following actions:

Having only one office employee who takes in collections, posts all payments, and does all bookkeeping, the mayor or vice mayor will review the above monthly and will also be reviewed by the board at monthly city meetings. Collections will be dated the day received and deposited intact to reflect the batch report that the utility system generates and will coincide with deposits. Deposits will be reviewed by the mayor or vice mayor before deposits are taken to the bank. These deposits will be made within three business days. Please note the office is closed on Wednesday and is not considered a business day. The city will also maintain separate cash drawers for the city manager and part-time help.

The city is making a diligent effort to determine who has and has not made a water deposit. This could be difficult because these records were kept manually for many years. At this time all adjustments are being reviewed and initialed by a member of the city board. The city is also working to gather a list of assets and the values of all buildings, equipment, vehicles, etc.

Each hourly employee will be expected to present a time sheet to be initialed by management before any wages will be paid.

The city will not pay invoices unless they are accompanied by the packing slip to insure the items were received. Since Ramer is a part-time office with only two paid employees, one who orders office supplies and one who orders supplies for the well, purchases will be reviewed at the next city meeting after the supplies have been ordered.

In conclusion, the board will take an active role in the city's daily activities to decrease the possibilities of any wrongdoing or fraud.

If you have any questions concerning the above, please contact this office.

Sincerely,

Justin P. Wilson
Comptroller of the Treasury

JPW/kbh

CC: Vice Mayor and members of the Ramer Board of Aldermen