

INVESTIGATIVE AUDIT REPORT

CITY OF RIPLEY – GAS, WATER, AND WASTEWATER DEPARTMENT

JANUARY 1, 2006, THROUGH JANUARY 31, 2010



State of Tennessee



**Comptroller of the Treasury
Department of Audit
Division of Municipal Audit**



STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Justin P. Wilson

Comptroller

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-9034

PHONE (615) 741-2501

October 11, 2010

Honorable Mayor and Members of the
Board of Aldermen
City of Ripley
110 South Washington Street
Ripley, TN 38063

Ladies and Gentlemen:

Presented herewith is the report on our investigative audit of selected records of the City of Ripley – Gas, Water, and Wastewater Department. This investigative audit focused on the period January 1, 2006, through January 31, 2010. However, when the examination warranted, this scope was expanded.

Section 9-2-102, *Tennessee Code Annotated*, requires that the Comptroller of the Treasury prescribe a uniform system of bookkeeping designating the character of books, reports, receipts and records, and the method of keeping same, in all state, county and municipal offices, including utility districts, which handle public funds. This code section also requires that all officials adopt and use the prescribed system. The Comptroller has prescribed a minimum system of recordkeeping for municipalities, which is detailed in the *Internal Control and Compliance Manual for Tennessee Municipalities* combined with Chapters 1-7 of *Governmental Accounting, Auditing, and Financial Reporting*. The purpose of our audit was to determine the extent of the entity's compliance with certain laws and regulations, including those in the above-mentioned manuals.

The findings and recommendations in this report relate to those conditions that we believe warrant your attention. All responses to each of the findings and recommendations are included in the report.

Honorable Mayor and Members of the
Board of Aldermen
City of Ripley
October 11, 2010

Copies of this report are being forwarded to Governor Phil Bredesen, the State Attorney General, the District Attorney General, certain state legislators, and various other interested parties. A copy is available for public inspection in our office.

Very truly yours,

A handwritten signature in black ink, appearing to read "Justin P. Wilson". The signature is written in a cursive style with a long, sweeping underline that extends to the right.

Justin P. Wilson
Comptroller of the Treasury



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF MUNICIPAL AUDIT

Justin P. Wilson
Comptroller of the Treasury

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

October 11, 2010

Mr. Justin P. Wilson
Comptroller of the Treasury
State Capitol
Nashville, TN 37243-9034

Dear Mr. Wilson:

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 Ripley – Gas, Water, and Wastewater Department. This investigative audit focused on the period January 1, 2006, through January 31, 2010. However, when the examination warranted, this scope was expanded.

Section 9-2-102, *Tennessee Code Annotated*, requires that the Comptroller of the Treasury prescribe a uniform system of bookkeeping designating the character of books, reports, receipts and records, and the method of keeping same, in all state, county and municipal offices, including utility districts, which handle public funds. This code section also requires that all officials adopt and use the prescribed system. The Comptroller has prescribed a minimum system of recordkeeping for municipalities, which is detailed in the *Internal Control and Compliance Manual for Tennessee Municipalities* combined with Chapters 1-7 of *Governmental Accounting, Auditing, and Financial Reporting*. The purpose of our audit was to determine the extent of the entity's compliance with certain laws and regulations, including those in the above-mentioned manuals.

Our examination resulted in findings and recommendations related to the following:

1. Improper accrual of annual leave by superintendent and accountant
2. Superintendent received unauthorized benefits
3. Failure to follow required bid procedures on applicable purchases
4. Superintendent failed to adequately review and oversee project costs
5. Checks cashed through cash drawer
6. No record of adjustments to utility bills or documentation of approval of adjustments
7. Utility accounts receivable reconciliation not performed

Mr. Justin P. Wilson
Comptroller of the Treasury
October 11, 2010

In addition to our findings and recommendations, we are also providing management's response. If after your review, you have any questions, I will be happy to supply any additional information which you may request.

Sincerely,

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

**INVESTIGATIVE AUDIT OF SELECTED RECORDS OF THE
CITY OF RIPLEY – GAS, WATER, AND WASTEWATER DEPARTMENT
FOR THE PERIOD JANUARY 1, 2006, THROUGH JANUARY 31, 2010**

FINDINGS AND RECOMMENDATIONS

1. **FINDING: Improper accrual of annual leave by superintendent and accountant**

Our investigative audit revealed that, as of January 2010, William Maxwell, superintendent of Ripley Gas, Water, and Wastewater, (GWW), had used more than 681 hours of annual leave, valued at \$ 22,000, which he had not earned. City records indicate that for the period January 1, 2006, through January 31, 2010, Mr. Maxwell improperly accrued 984¹ hours of annual leave because he accrued leave in excess of city policies, he received leave adjustments that were not authorized by the city, and he received the benefit from other leave calculation errors.²

We noted the following specific issues with Mr. Maxwell's annual leave accrual:

- Mr. Maxwell received direct adjustments to add hours to his annual leave balance, including receiving over 80 hours when he was hired January 9, 2006. Mr. Maxwell told state auditors at one point that a former alderman³ (now deceased) had told him that his benefits would include unused vacation time from his previous tenure with the city. However, auditors could not verify that Mr. Maxwell had any unused annual leave hours remaining from his previous employment with the city.
- Mr. Maxwell accrued annual leave at accelerated rates, sometimes four times the level set by policy. Mr. Maxwell at one point told state auditors that the excess annual leave he earned was as a result of his working extra time, again, in accordance with instructions from a former alderman;⁴ however, auditors noted that time sheets indicated Mr. Maxwell did not earn any overtime.
- Mr. Maxwell failed to have deducted from his leave balance four weeks of annual leave hours he sold to the city.

The accountant for GWW, Christie Hudnall, was responsible for the preparation of payroll, including the accrual of annual and sick leave.

¹ Accrual of 984 excess hours, reduced by the use of 681 hours, and the additional reduction in balance by 318 hours in three separate adjustments made by the GWW accountant following communications with state and contract auditors resulted in a negative balance of 15 hours as of January 31, 2010.

² During that same period of time, he received gross pay of \$27,022 for the sale of 950 hours of vacation

³ Jimmy Harrison

⁴ Jimmy Harrison

Mr. Maxwell's salary and benefits are not mentioned in the January 9, 2006, minutes of the City of Ripley Mayor and Board of Aldermen, in which Mr. Maxwell was appointed as the full-time superintendent of Ripley Gas, Water, and Wastewater. There is no mention of Mr. Maxwell's salary and benefits in other meetings of the mayor and board in that time period. The minutes of the GWW committee do not include any discussion of the benefits Mr. Maxwell would receive as superintendent.

After various inquiries by state and contract auditors regarding the salary compensation of William Maxwell, Ms. Hudnall made the following adjustments to the annual leave balance of Mr. Maxwell:

Date	Reduction (in hours)
October 10, 2009	100.00
November 7, 2009	205.77
January 30, 2010	12.71
Total Reduction	<u>318.48</u>

Auditors also noted that Christie Hudnall accrued 56.5 hours annual leave in excess of what policy allowed. After an inquiry by state auditors, Ms. Hudnall reduced her annual leave balance by that amount on July 1, 2010.

Section 16 of the City of Ripley Charter states:

The Mayor and Aldermen may make all proper and necessary contracts for corporate purposes and uses, which shall be made in the name of the corporation, and signed by the Mayor and Recorder. No person shall have power to create any liability against the corporation except by express authority of the Mayor and Aldermen, conferred at a meeting and regularly convened.

RECOMMENDATION:

To prevent unauthorized disbursement of government funds, officials should ensure that leave is accrued only at the rates authorized by the mayor and board. Leave accrual rates and leave balances for employees in supervisory positions should be particularly scrutinized.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

The city concurs with the findings and with the recommendations. To ensure that proper accounting functions are followed, the board of mayor and aldermen intends to move and vote to bring all accounting practices and functions under the direction of the city’s chief financial officer.

GWW Superintendent William Maxwell:

I do not concur. The terms of my employment, including my annual leave benefits as superintendent, were established when I was hired as superintendent of the Ripley Gas, Water, and Wastewater Department (GWW) in January of 2006. I was originally contacted by the chairman of the Ripley Gas, Water, and Wastewater Committee at that time about the superintendent’s position. He asked me to apply for the superintendent’s position. The city made me an offer of employment as superintendent at a meeting I attended of aldermen on the GWW Committee and the mayor. The offer included reinstating the balance of my accrued annual leave of 82 hours which I had at the time I left my previous employment with the city in the GWW Department in September of 2001. The offer of employment included four weeks of paid annual leave a year as superintendent. Because city employees worked a 5-day/4-day week cycle during every two period, I was requested to work five days both weeks. In lieu of additional salary for working this extra day, I was offered an additional 6.33 hours of annual leave each month. I accepted the offer of employment made at this meeting. I understood the mayor and board of aldermen approved the terms of my employment at its next monthly meeting.

I agree that the specific terms of my employment regarding my annual leave should have been approved originally by the mayor and board of aldermen. I agreed to the Comptroller’s and contract auditor’s recommended adjustments to my accrued annual leave which adjustments were made by Christie Hudnall. These adjustments included the reduction in my annual leave for the 82 hours I was offered upon my initial employment. During the Comptroller’s audit, I became aware that I had been paid this 82 hours of annual leave in my last paycheck from the city in 2001. I did not remember that these 82 hours had been included in my final paycheck. These adjustments included the reduction in my accrued annual leave in the amounts of days which were inadvertently not deducted from my accrued annual leave for annual leave which I sold back to the city. I understand these days of annual leave sold back to the city were not deducted from my accrued annual leave due to the failure of the GWW payroll program to deduct these days sold to the city. I was not aware of this failure of the GWW payroll program until it was brought to my attention by Ms. Hudnall. This failure of the payroll program caused my annual leave to be greater than it should be, and the same problem occurred with three other GWW employees. I did not instruct Ms. Hudnall to not deduct annual leave sold back to the city from the balance of my accrued annual leave.

GWW Accountant Christie Hudnall:

I do not concur with finding one stating improper accrual of annual leave by superintendent and accountant. The following day after Mr. Maxwell's appointment, Mr. Harrison came by the office on behalf of the GWW committee. Mr. Maxwell met with three of the four committee members at city hall prior to his appointment. Mr. Harrison informed me of Mr. Maxwell's starting salary and benefit package. He said that Mr. Maxwell is to be reinstated with the benefits that he had before his layoff in 2001. The payroll records indicated that Mr. Maxwell still had vacation and sick hours on the books but it was later revealed in the minutes upon Mr. Maxwell's layoff that he was paid those hours, which have been deducted. Mr. Maxwell was to receive four weeks of vacation annually and that he would receive comp time, since Mr. Maxwell would be working every Friday. Therefore, Mr. Maxwell would accrue 13.67 hours for vacation time and the remaining would be for comp time, which all accrued in the vacation time. Mr. Maxwell would accrue 20 hours monthly. After the contract auditors came in and did some preliminary items for the audit, they sent Donna a list of questions. One of those questions was concerning Mr. Maxwell's compensation pay. I went back and broke down Mr. Maxwell's W-2 gross wages. I broke down his wages by the base salary, vacation pay, Christmas bonus; this is when I learned that Mr. Maxwell's vacation time didn't accrue correctly. After communication with the state auditors, it was revealed that the main accrual problem happened in May 2006. I have reduced Mr. Maxwell's vacation hours due to this accrual issue. There is documentation from United Systems that they assisted in fixing the accrual since we were new to their system but their fix didn't actually work based on the posting register. The accrual report that they initially gave didn't provide a good way to view the accrual process. There was also an accrual issue with Lyndsay Dotson, Barbara Coley and mine. After I came back from my maternity leave in October 2009, upon reviewing the payroll, which was done by another employee while I was on leave, I found an accrual error and reduced Mr. Maxwell's vacation hours. I was able to detect this accrual issue because the report I have now gives me the hire date, hours accrued, hours used, and remaining hours after each payroll. This report is printed after each payroll. This report allows me to scrutinize the accrual process and to detect any issues in a timely manner. Also, before an employee is put into the payroll system, I will get approved documentation from the approved designee.

AUDITOR’S REBUTTAL TO SUPERINTENDENT’S AND ACCOUNTANT’S RESPONSES:

We found no documentation that Mr. Maxwell’s benefit package was to include annual or compensatory leave accruals that exceed other city employees. Neither the mayor, nor those surviving members of the gas and water committee who served during the time Mr. Maxwell was rehired in January 2006, could verify his claims.

Regardless of what the late Alderman Jimmy Harrison told Mr. Maxwell or Ms. Hudnall, the authority of members of the mayor and board of alderman is limited by the City of Ripley’s Charter. Section 16 of the City of Ripley Charter states:

“The Mayor and Aldermen may make all proper and necessary contracts for corporate purposes and uses, which shall be made in the name of the corporation, and signed by the Mayor and Recorder. No person shall have power to create any liability against the corporation *except by express authority of the Mayor and Aldermen, conferred at a meeting and regularly convened.*” [Emphasis added.]

Auditors found no authority granting individual aldermen the ability to create city policy or to change, suspend, or violate established board policies. The board of aldermen’s power and authority originate from their actions as a board, not the actions of an individual member of the board.

Auditors did note, that although Mr. Maxwell asserted that he earned a portion of his excess annual leave by working additional hours, city records do not confirm that. On the contrary, time records indicate that Mr. Maxwell worked only 40-hour work weeks. [Refer to Exhibits 1 and 2.]

To clarify Ms. Hudnall’s comments, there were four employees who had accrual issues with their annual leave; however, the significant risk factor is that the two individuals who either had direct supervision of the payroll function, Mr. Maxwell, or actually performed the payroll function, Ms. Hudnall, accrued 984 and 56 excess annual hours, respectively. The other two employees mentioned by Ms. Hudnall had no payroll responsibilities. Those two employees received annual leave adjustments totaling 13 hours.

Ms. Hudnall also responded that the main accrual problem happened in May 2006, which does not provide a complete picture of the scope of the problem. The accrual problem only began in May 2006. Mr. Maxwell accrued excess vacation at the rate of 20.01 hours every two weeks from May 2006 through February 2007. Although Mr. Maxwell’s vacation accrual rate was changed to 20.01 hours per month in March 2007, the excess vacation he accrued from May 2006 through February 2007 was not corrected until external auditors raised questions about Mr. Maxwell’s salary compensation. We reiterate our finding and recommendation.

2. **FINDING: Superintendent received unauthorized benefits**

We noted the following benefits that GWW employees received that were not permitted by the mayor and members of the board of aldermen.

- When Mr. Maxwell was rehired January 9, 2006, his sick leave account was adjusted to add 342 hours.
- GWW employees, received a three percent Christmas bonus in December 2007 and 2008. The mayor and board of aldermen had authorized a two percent bonus to employees in each of those years.
- Minutes of the April 5, 2005, meeting of the mayor and members of the board of aldermen state, “any future Gas, Water, Wastewater employees hired after this date, (April 4, 2005) will be provided the same medical insurance benefits as provided to City of Ripley employees with the City paying 60% of premium and employees paying 40%.” According to city records, Mr. Maxwell was initially hired by the city on May 5, 1992, and terminated on September 4, 2001. Mr. Maxwell was rehired January 9, 2006. Mr. Maxwell pays no portion of the cost of his medical insurance and 100 percent is paid by the City of Ripley.

Section 16 of the City of Ripley Charter states:

The Mayor and Aldermen may make all proper and necessary contracts for corporate purposes and uses, which shall be made in the name of the corporation, and signed by the Mayor and Recorder. No person shall have power to create any liability against the corporation except by express authority of the Mayor and Aldermen, conferred at a meeting and regularly convened.

RECOMMENDATION:

To prevent abuse and avoid misunderstandings, city officials should strictly enforce properly adopted city guidelines. Officials should forbid any benefits that are not permitted by the city’s policies as authorized and approved by the mayor and members of the board of aldermen.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

The city concurs with the findings and with the recommendations. The city has previously allowed this department to maintain a personnel policy separate from that of the city. The city is currently working to update its own personnel policy and, upon completion, all departments will work under the new policy, thus eliminating any other

personnel rules, regulations or other personnel policies. Further, the city will enforce its newly formed personnel policy, uniformly.

GWW Superintendent William Maxwell:

I do not concur. The offer of employment to me which I accepted in January of 2006 included reinstating the balance of my sick leave in the amount of 342 hours which I had at the time I left my previous employment with the city in the GWW Department in September of 2001. This offer of employment included the city agreeing to pay 100 percent of the premiums for my group medical insurance provided by the city. I understood the mayor and board of aldermen approved the terms of my employment at its next monthly meeting. Prior to the Comptroller's investigative audit, Ms. Hudnall discovered that GWW employees had incorrectly received a three percent Christmas bonus in December 2007 and December 2008. When the Christmas bonuses for these years were given, Ms. Hudnall failed to change the payroll program to reflect a two percent bonus rather than a three percent bonus. A three percent bonus had been approved for December of 2006.

I agree that the specific terms of my employment regarding my sick leave and amount of the payment of the premiums for my group medical insurance should have been approved originally by the mayor and board of aldermen.

GWW Accountant Christie Hudnall:

I do not concur with finding two stating that the superintendent received unauthorized benefits except I do concur with the Christmas bonus benefit. As discussed in finding one, I was instructed by Mr. Harrison as to Mr. Maxwell's benefits. He said that Mr. Maxwell is to be reinstated with the benefits that he had before his layoff in 2001. The payroll records showed Mr. Maxwell still had 342 hours of sick time. Upon Mr. Maxwell's layoff in 2001, GWW paid 100 percent of Mr. Maxwell's insurance and that would still be a benefit to him as they agreed in the meeting prior to Mr. Maxwell's appointment. In the future, I will get approved documentation from the approved designee. Also, discussed in finding one was that contract auditors had questions concerning Mr. Maxwell's compensation pay. I went back and broke down Mr. Maxwell's W-2 gross wages. I broke down his wages by the base salary, vacation pay, and Christmas bonus. It was discovered that in 2007 and 2008 the GWW received a three percent Christmas bonus instead of the two percent authorized by the mayor and board of aldermen. To ensure this doesn't happen in the future, all manual entries to the accounting software are scrutinized to ensure correct computation.

AUDITOR'S REBUTTAL TO SUPERINTENDENT'S AND ACCOUNTANT'S RESPONSES:

As noted in Finding 1, regardless of what the late Alderman Jimmy Harrison told Mr. Maxwell or Ms. Hudnall, the authority of members of the mayor and board of alderman is limited by the City of Ripley's Charter. Section 16 of the City of Ripley Charter states:

"The Mayor and Aldermen may make all proper and necessary contracts for corporate purposes and uses, which shall be made in the name of the corporation, and signed by the Mayor and Recorder. No person shall have power to create any liability against the corporation except by express authority of the Mayor and Aldermen, conferred at a meeting and regularly convened." [Emphasis added.]

Auditors found no authority granting individual aldermen the ability to create city policy or to change, suspend, or violate established board policies. The board of aldermen's power and authority originate from their actions as a board, not the actions of an individual member of the board. We reiterate our finding and recommendation.

3. **FINDING:** Failure to follow required bid procedures on applicable purchases

Our investigative audit revealed that certain qualifying purchases were not publicly advertised and competitively bid in accordance with city ordinance. Auditors found that pipe was not publicly bid for one sewer project in which those costs exceeded \$61,000. In another instance, the cost of pipe exceeded \$42,000 for a sewer project, yet it was not put up for public bid. Instead, telephone quotations were obtained by the payables clerk.

Auditors also noted that the engineering specifications for one sewer project required 369 feet of 20-inch-diameter steel pipe with a minimum thickness of 0.59 inch. The steel pipe was to be used to encase sewer pipe placed under two roadways and under a railroad track. According to documentation, telephone quotations for 380 feet of steel casing pipe as specified in the project plans were obtained. However, none of those companies supplied the pipe which was actually used. Instead, GWW purchased 349 feet of steel pipe used in the project from an individual who said he worked for another natural gas pipeline. There was no material certification for the pipe and it did not meet the engineer's specifications – the purchased pipe was only 18 inches in diameter and had a minimum wall thickness of only 0.25 inches. According to the seller, the pipe had been removed from a natural gas pipeline in Mississippi and could have been installed as early as 1922.

City of Ripley Ordinance No. 413 requires that all purchases in excess of \$10,000 be publicly advertised and competitively bid.

RECOMMENDATION:

To obtain the best price, the board should demand that required bidding procedures are followed for all purchases or contracts over \$10,000. Adequate documentation should be maintained as evidence of correct bidding procedures. Applicable invoices which have not been bid should be rejected and the official or employee who is responsible for the purchase should be held liable. It is also advisable that construction projects follow the specifications of engineering plans that have been submitted to state and regulatory authorities.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

The city concurs with the findings and with the recommendations. All bidding procedures will now be performed under the direction of city hall.

GWW Superintendent William Maxwell:

I concur. Historically, pipe purchases made by GWW over \$10,000 had not been publicly advertised and competitively bid in accordance with City Ordinance No. 415. I believed GWW’s in-house engineer’s approval of the 349 feet of steel pipe was sufficient for meeting the specifications of the pipe for the sewer project for which it was purchased. I concur with the Comptroller’s recommendations on this finding, and I will see that required bidding procedures are followed for all purchases or contracts over \$10,000 and that specifications for engineering plans submitted to state and regulatory authorities will be followed.

GWW Accountant Christie Hudnall:

I concur with finding three stating failure to follow required bid procedures on applicable purchases. We have recently had an interoffice meeting and sent out a memo outlining compliance with all bid procedures in accordance with the City of Ripley and *Tennessee Code Annotated*. The purchasing agent will be responsible for following this process.

4. **FINDING: Superintendent failed to adequately review and oversee project costs**

Our investigative audit revealed that contract labor and equipment invoices were not adequately reviewed prior to payment. We noted that the city advertised for bids for equipment based on hourly and daily rates for large construction equipment as well as for labor on projects with annual costs expected to exceed \$25,000. The superintendent

acknowledged that he was responsible for overseeing those projects. However there is no evidence anyone at GWW verified that the charges paid for labor and equipment were legitimate.

For example, auditors noted that GWW was billed and paid for the daily use of three excavators in June 2007 at a rate of \$70 per hour. However, the vendor that submitted that bill only had two excavators. Neither the vendor, nor the GWW superintendent could explain the discrepancy.⁵ Auditors also noted that this same vendor billed GWW for the daily use of two backhoes in May 2007 at a rate of \$45 per hour. However, the vendor only had one backhoe. Neither the vendor, nor the GWW superintendent could explain the discrepancy.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 18, Section 1, states:

Municipal officials should ensure ... that personnel or officials receiving goods or services purchased by the municipality sign delivery receipts, invoices, or other supporting documentation to verify that items and services for which the municipality has been billed have actually been received and accepted. The documentation should be sufficient to determine that the expenditure was for a municipal purpose.

RECOMMENDATION:

To help ensure that all city expenditures are for a valid municipal purpose, members of the board of mayor and alderman should ensure that all invoices for work billed to the city are adequately reviewed by an individual who has adequately supervised the project. Municipal officials should require that the superintendent, foreman, or other individual supervising the project prepare and maintain a construction log book.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

The city concurs with the findings and recommendations.

GWW Superintendent William Maxwell:

I do not concur. As superintendent, I believed that GWW employees and I had been adequately reviewing and overseeing projects. The payment for the daily use of three excavators rather than two for one day in June of 2007 was not noticed because the vendor had actually furnished three operators for the project that month but had furnished two backhoes and had billed for three on this day. The billing for two backhoes for two days in May of 2004 from a vendor occurred because the vendor used two backhoes

⁵ Auditors did note that, during that time period, GWW was leasing a third excavator from another vendor.

those two days that month; however, he only owned one backhoe and had borrowed the second backhoe actually used that month. I concur in the Comptroller’s recommendation, and I have put into place a system whereby the GWW employees, employees of vendors and equipment used each day on utility construction projects are recorded in writing daily and reviewed by the supervisor daily and will be used in reviewing monthly invoices from vendors.

GWW Accountant Christie Hudnall:

I concur with finding four stating failure to adequately review and oversee project costs. We have recently had an interoffice meeting and sent out a memo outlining requirements for contract labor and equipment. The billing submitted by the contractor shall be itemized by each piece of equipment, hourly rate, and individual labor charges by hour. The foreman will be responsible for the daily log sheet of said equipment and labor. The foreman overseeing the project will have to verify and sign the log sheet as well.

AUDITOR’S REBUTTAL TO SUPERINTENDENT’S RESPONSE:

A construction log was not maintained. Contract labor and equipment invoices were not signed. There was no other documentation available to indicate anyone had reviewed contract labor and equipment invoices as required by the *Internal Control and Compliance Manual for Tennessee Municipalities*. We reiterate our finding and recommendation.

5. **FINDING:** Checks cashed through cash drawer

We noted that cashiers cashed personal and third-party checks through the system’s cash drawers. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 13, Section 9, states:

Municipal officials should ensure that ... collections are deposited intact and only in designated depositories. Intact means that collections are deposited in the form and amount in which they are collected. Employee and third party checks must not be cashed through the cash drawers. No collections should be withheld from the deposit for any reason.

RECOMMENDATION:

To help prevent the misuse or loss of collections, city officials should ensure that all collections are deposited intact within three working days into an official city bank account.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

The city concurs with the findings and recommendations.

GWW Superintendent William Maxwell:

I concur. GWW employees are no longer permitted to cash personal and third-party checks.

GWW Accountant Christie Hudnall:

I concur with finding five stating checks are cashed through cash drawer. Cashiers are no longer allowed to cash personal or customer checks through the system's cash drawer. Checks are accepted for the amount the customer was billed.

6. **FINDING: No record of adjustments to utility bills or documentation of approval of adjustments**

The utility did not maintain a record of adjustments to customers' water and sewer bills nor document that adjustments were approved by the governing body. We noted adjustments totaling \$1,326.65 to the water and sewer account of a business property owned by a former elected official during calendar 2009. Ripley Gas, Water, and Wastewater policy allows only one adjustment caused by a leak in a 12-month period. Adjustments were made by office personnel who also collected funds in payment of customer accounts.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 15, Section 3, states:

Municipal officials should ensure that ... charges disputed by customers are investigated and adjustments are approved, in accordance with the municipality's policy, by someone other than the bookkeeper handling receipt and payment records.

NOTE: Adjustments should never be made by the employee who collects or posts the accounts as paid. If the municipality utilizes a computer system, the employee who collects or posts should not have access to that portion of the computer system that allows adjustments.

Section 4 requires municipal officials to ensure that

... documentation of each adjustment is required and retained. Adjustments to billings for meter reading and other errors should be recorded in the billing register. All adjustments to customers' bills should be approved by the governing body or its designee.

RECOMMENDATION:

To ensure accountability for all billings, the mayor and members of the board of aldermen should ensure that a detailed account of each adjustment is recorded and retained. Each adjustment should be approved by the governing body or its designee. The approval should be adequately documented and maintained in the municipality's records.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

The city concurs with the findings and recommendations.

GWW Superintendent William Maxwell:

I concur. GWW did maintain a record of adjustments, but I understand it did not meet the Comptroller's standards. GWW is now keeping a detailed account of utility bill adjustments. All utility bill adjustments will be reviewed and approved by the GWW Committee and the mayor and board of aldermen.

GWW Accountant Christie Hudnall:

I concur with part of finding six stating no record of adjustments to utility bills or documentation of approval of adjustments. There is a record of adjustments to utility bills. When an employee does an adjustment, a posting register is printed out and kept. This posting register gives the customer name, account number, type of adjustment, amount of adjustment, and the beginning and ending amount of the customer's account. Only three office employees are now allowed to make adjustments. When these adjustments are made, they are put in a binder with detailed explanations for the adjustments. These adjustments are reviewed by the superintendent. The adjustments are also reviewed by the GWW committee and approved each month.

7. **FINDING:** Utility accounts receivable reconciliation not performed

The utility's records did not include documentation of a monthly reconciliation of utility accounts receivable. The *Internal Control and Compliance Manual for Tennessee*

Municipalities, Title 5, Chapter 15, Section 10, describes reconciliation procedures which include accounting for adjustments and other reconciling items.

RECOMMENDATION:

To detect errors or irregularities promptly, the mayor and members of the board of aldermen should ensure that the total accounts receivable per the billing system, less the amount of cash collections per bank deposits, less any approved and authorized adjustments, equals the amount of accounts receivable. The mayor and members of the board of aldermen should ensure that these procedures are performed regularly and that any variances are adequately investigated.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

The city concurs with the findings and recommendations.

GWW Superintendent William Maxwell:

I do not concur. GWW did reconcile its accounts receivable monthly and did include adjustments to utility bills. GWW will ensure that total accounts receivable per billing system will be reconciled to include utility bill adjustments authorized by the mayor and board of aldermen or their designee.

GWW Accountant Christie Hudnall:

I do not concur with finding seven stating that utility accounts receivable reconciliation not performed. All accounts receivable are reconciled monthly. There is an aging report printed out that breaks down the receivable in each fund and that report is reconciled to the general ledger. The only issue with adjustments was the approval of adjustments, which has been resolved as stated in finding six.

AUDITOR’S REBUTTAL TO SUPERINTENDENT’S AND ACCOUNTANT’S RESPONSES:

The term “utility accounts receivable reconciliation” refers to a process in which utility billing, collections, and adjustments are reviewed by someone independent of the collection process. That review includes the comparison of utility records with other independent sources of information, such as comparing collection records with bank records. The reconciliation also involves identifying all adjustments and having an independent reviewer determine if they are valid and within city policy. That independent review of adjustments is so essential to the process that, if it is not performed, the accounts receivable has not been reconciled.

During the scope of our audit, all office personnel were allowed to make adjustments and there was no review and approval process. We reiterate our finding and recommendation.

EXHIBITS

