



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DIVISION OF INVESTIGATIONS
FINANCIAL AND COMPLIANCE UNIT**

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October 14, 2013

Rickey E. Gray, General Manager and
Members of the Board of Commissioners
First Utility District of Tipton County
3706 Highway 59 West
Covington, TN 38019

Gentlemen:

The First Utility District of Tipton County is a public utility district governed by a three-member board. The district's revenues are derived principally from water and gas service charges. Our office was notified by utility management on October 3, 2012, of their discovery of a cash shortage in the amount of \$400 resulting from missing cash collections held in separate bank bags. These bags contained cash held for making change and collections from meter deposits.

A former utility district clerk was questioned by utility district officials after the cash shortage discovery. The clerk later admitted taking the money and returned personal cash to the district in the amount of the shortage. Our examination focused on collection records for payments on accounts receivable, meter deposits, and adjustments. The focus of our audit procedures was the month of September 2012. When necessary, we expanded the scope of our audit procedures. These findings and recommendations have been reviewed with management and the district attorney general.

INVESTIGATIVE FINDING

1. **FINDING: A cash shortage of \$400 existed as a result of missing cash collections**

On September 26, 2012, a former utility district clerk was observed putting money into her purse. This was reported to the office manager, who examined cash and noted that the bank bag containing the change fund and the bank bag for meter deposit collections were short by a combined amount of \$400. The office manager and the general manager questioned the former employee, who admitted to taking the funds to pay her gas and water bills. The clerk was terminated on October 2, 2012, and repaid the funds. The district notified our office via a fraud reporting form on October 3, 2012.

INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES
FINDINGS AND RECOMMENDATIONS

1. **FINDING:** **Three-day deposit law violation**

In the course of our examination, we noted that meter deposits were deposited once per month. Section 5-8-207, *Tennessee Code Annotated*, requires county officials to deposit public funds into the office bank account within three business days of collection. The delay in depositing the funds increases the risk of fraud and misappropriation.

RECOMMENDATION:

Collections should be deposited into the office bank account within three business days as required by state statute.

MANAGEMENT'S RESPONSE:

General Manager and Members of the Board of Commissioners:

We certainly agree with the facts as stated and your recommendation. At the time of the incident we immediately made several changes, and by October 15, 2012, we had the following procedures in place:

- (1) We make certain that even if any small amount of meter deposit money is collected, we make a bank deposit that same day. At all times now, the three-day deposit law is followed. Due to our local situation, sometimes several days pass with no meter deposit collections, but at any rate, we are following the three-day deposit rules.
- (2) Surprise counts of the meter deposit money are now undertaken periodically by either the general manager or office manager.
- (3) We examined, from September 2012 back to September 2010, all meter deposit bank deposits against the customer receipt books to see if perhaps there were discrepancies between amounts deposited and amounts per duplicate receipt books. The result was that there were no discrepancies or apparent shortages in that 24-month time period.

2. **FINDING: Customer accounts receivable were not reconciled**

During our examination, we noted that utility staff did not regularly reconcile customer collections to amounts posted to accounts receivable. We compared customer collections and bank deposits to amounts posted to accounts receivable for each day of September 2012. We noted that total customer collections posted to accounts receivable on one day did not always match a corresponding amount of collections on or near the same day. This deficiency can be attributed to the failure of the utility to monitor and review the daily financial transactions and ensure proper posting.

RECOMMENDATION:

Receivables should be properly determined and recorded on the accounting records when received. The accounting system and collection procedures should provide a direct method for an individual independent of the collection process to obtain summary and/or detailed information on collections posted on a given day, and to trace those collections to specific bank deposits.

MANAGEMENT'S RESPONSE:

General Manager and Members of the Board of Commissioners:

As of August 27, 2013, we started a daily procedure, documented manually on worksheets, of reconciling the customer accounts receivable subsidiary balances against station collections and various adjustments made to customer accounts. These worksheets are maintained by the office manager and checked monthly by an independent accountant. As of this date, we have had good success. Thank you again for the helpful and courteous attitude you have displayed and we are trying to improve our procedures and controls.

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

Sincerely,



Kevin B. Huffman, CPA, CFE, CGFM
Investigative Audit Manager
Division of Investigations
Financial and Compliance Unit