

# **SPECIAL INVESTIGATION**

## **CITY OF FRIENDSVILLE**

**JANUARY 1, 2012, THROUGH APRIL 30, 2013**



# **State of Tennessee**

**Comptroller of the Treasury**



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY**

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**Justin P. Wilson  
Comptroller of the Treasury**

April 22, 2014

Honorable Mayor and Members of the  
Board of Commissioners  
City of Friendsville  
P. O. Box 56  
Friendsville, TN 37737

Gentlemen:

The Office of the Comptroller of the Treasury conducted a special investigation of selected records of the City of Friendsville which focused on the period January 1, 2012, through April 30, 2013. When warranted, this scope was expanded.

Presented in this report are the findings resulting from this special investigation. Copies of this report are being forwarded to Governor Bill Haslam, 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 and may be viewed at <http://www.comptroller.tn.gov/ia/>.

Sincerely,

Stephanie S. Maxwell, Deputy General Counsel  
Office of the Comptroller of the Treasury

SSM/RAD

**SPECIAL INVESTIGATION OF SELECTED RECORDS OF  
THE CITY OF FRIENDSVILLE  
FOR THE PERIOD JANUARY 1, 2012, THROUGH APRIL 30, 2013**

**SUMMARY**

The Office of the Comptroller of the Treasury performed a special investigation of selected records of the City of Friendsville. The investigation focused primarily on the period January 1, 2012, through April 30, 2013. When necessary, this scope was expanded. The investigation revealed the following:

- A former part-time clerk, Machella Meaghan Gilliam, misappropriated city utility cash totaling at least \$15,183.
- Ms. Gilliam attempted to conceal a portion of her misappropriation of city funds by falsely recording cash collected from utility customers as adjustments, and by including only partial summaries as documentation of collections.
- The mayor and members of the board of commissioners failed to ensure that employees' duties were properly separated, that adjustments were given only for valid reasons and were properly approved, and that collections were promptly deposited into a city bank account.

These matters were referred to the local district attorney general. On April 7, 2014, former City of Friendsville part-time clerk Machella Meaghan Gilliam, pled guilty in Blount County Circuit Court to one count of theft over \$10,000.

**INVESTIGATIVE FINDINGS**

A schedule summarizing the misappropriation by the former clerk, Meaghan Gilliam, as well as the investigative findings resulting from this special investigation, are shown below.

**Summary Schedule of Amounts Misappropriated by Former Part-Time Clerk**

<b>Method</b>	<b>Amount</b>
Utility cash collections falsely recorded as adjustments and diverted for personal use	\$ 7,768
Recorded collections not deposited	<u>7,415</u>
Total	<u>\$15,183</u>

1. **FINDING: Former part-time clerk misappropriated at least \$7,768 by falsely recording cash collections as adjustments to customer accounts**

During the period June 2012 through April 2013, former part-time clerk Meaghan Gilliam misappropriated at least \$7,768 in utility cash collections by falsely recording customer cash payments as adjustments, and removing and retaining the cash for her personal benefit. For most of these payments, Comptroller investigators obtained copies of customer payment receipts indicating the customer had paid the bill with cash. With the assistance of city staff members, Comptroller investigators determined that there was no legitimate reason for the other questioned adjustments made by Ms. Gilliam.

2. **FINDING: Former part-time clerk misappropriated at least \$7,415 by failing to deposit all cash collections into a city bank account**

Beginning in July 2012 and continuing through January 2013, former part-time clerk Meaghan Gilliam misappropriated additional collections totaling at least \$7,415 by failing to deposit properly recorded cash collections into a city bank account. Instead, she removed and retained these funds for her personal benefit. The former part-time clerk concealed this misappropriation scheme by often including in the city records only a partial summary of the related collections. Comptroller investigators discovered the extent of the misappropriation when they analyzed a complete record of collections for that time period.

## **OTHER FINDINGS AND RECOMMENDATIONS**

Presented below are the findings and recommendations related to internal control and compliance deficiencies noted during the special investigation. In the accompanying responses, management has indicated that they have corrected or that they intend to correct each of these deficiencies.

1. **FINDING: City officials failed to separate financial duties**

City officials failed to adequately separate financial duties. The former part-time clerk was solely responsible for recording utility collections and for preparing related bank deposits. The *Internal Control and Compliance Manual for Tennessee Municipalities*, page 32, 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.

**RECOMMENDATION:**

To decrease the risk of undetected errors and irregularities, management should review employees' responsibilities to ensure that no employee has control over a complete financial transaction. Elected officials should exert increased oversight, where necessary.

**MANAGEMENT'S RESPONSE:**

**Mayor and Members of the Board of Commissioners:**

We concur. The utility manager, city recorder, and administrative assistant will alternate in the posting of payments, the processing of daily cash receipts, and the taking of payments in the office. All transactions are verified before final posting to the general ledger, either by the manager, the city recorder, or the administrative assistant, depending on who processes receipts.

2. **FINDING: City officials failed to properly oversee adjustments to utility customer accounts**

City officials failed to ensure that each adjustment to customer utility bills was for a valid purpose, was adequately documented, and/or was properly approved. The former part-time clerk, who was solely responsible for posting and recording customer payments, also recorded adjustments. The *Internal Control and Compliance Manual for Tennessee Municipalities*, page 57, requires municipal officials to 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.** [Emphasis added.] ... 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 decrease the risk of improper adjustments to utility customer accounts, city officials should require that the purpose of each adjustment is adequately documented, that each adjustment is for a valid purpose, and that all adjustments are properly approved. In addition, employees who collect or post customer accounts as paid should not have authority or access to make adjustments.

**MANAGEMENT'S RESPONSE:**

**Mayor and Members of the Board of Commissioners:**

We concur. The utility manager is the designee to approve all adjustments. Documentation will be available at monthly meetings for review by the board, or at any time during the month. All disputed charges are investigated and are recorded in the billing register in accordance with the *Internal Control and Compliance Manual for Tennessee Municipalities*.

3. **FINDING: Collections not deposited promptly and intact**

The former clerk failed to deposit collections intact within three days of receipt as required by state statute. Section 6-56-111(a), *Tennessee Code Annotated*, states:

Every municipal official handling public funds shall be required to, as soon as practical, but no later than three (3) working days after the receipt by such municipal official of any public funds, deposit the funds to the credit of such municipality's official bank account, or bank accounts.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, page 42, states:

Municipal officials should ensure that ... collections are deposited intact. Intact means that collections are deposited in the form and amount in which they are collected. All money collected must be deposited in the next deposit. No collections should be withheld from the deposit for any reason.

**RECOMMENDATION:**

To help prevent the misuse, manipulation, or loss of collections, management 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 Commissioners:**

We concur. The cash drawer is balanced daily and a balance sheet is done. Funds are deposited before three working days, usually daily or on second day, depending on activity. No collections are withheld from any deposit.