

INVESTIGATIVE AUDIT REPORT

**CITY OF GIBSON
JANUARY 1, 2012, THROUGH MAY 31, 2012**



State of Tennessee

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



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DIVISION OF INVESTIGATIONS**

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September 24, 2013

Honorable Mayor and Members of the
Board of Aldermen
City of Gibson
P. O. Box 374
Gibson, TN 38338

Ladies and Gentlemen:

The Division of Investigations, in conjunction with the Tennessee Bureau of Investigations, conducted an investigative audit of selected records of the City of Gibson which focused on the period January 1, 2012, through May 31, 2012. However, when warranted, this scope was expanded.

Presented in this report are the findings resulting from this investigative audit. 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,

L. Rene Brison, CPA, CFE, Assistant Director
Division of Investigations

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**INVESTIGATIVE AUDIT OF SELECTED RECORDS OF
THE CITY OF GIBSON
FOR THE PERIOD JANUARY 1, 2012, THROUGH MAY 31, 2012**

CASE SUMMARY

The Comptroller of the Treasury, Division of Investigations, in conjunction with the Tennessee Bureau of Investigations, performed an investigative audit of selected records of the City of Gibson. The audit focused primarily on the period from January 1, 2012, through May 31, 2012; however, when necessary, this scope was expanded. The investigative audit revealed the following:

- Former city recorder Shawnda West misappropriated city cash of at least \$24,267.
- Former city recorder Shawnda West provided herself with unauthorized health insurance benefits of \$1,583.

INVESTIGATIVE FINDINGS

A schedule summarizing the misappropriation by former city recorder Shawnda West and the investigative findings resulting from this audit are shown below. These matters were referred to the local district attorney general. In September 2013, the Gibson County Grand Jury indicted Shawnda West on charges of theft, forgery and official misconduct.

Summary Schedule of Misappropriation	
<u>Method</u>	<u>Amount</u>
Recorded collections not deposited	\$24,267
Unauthorized insurance benefits	<u>1,583</u>
Total	<u>\$25,850</u>

1. **FINDING: Misappropriation of city collections totaling at least \$24,267 by former city recorder**

Our examination revealed that beginning in January 2012 and continuing through May 2012, the former city recorder, Shawnda West, failed to deposit into a city bank account at least \$24,267 in receipted city collections, apparently retaining the collections for her personal benefit. During this time, Ms. West was responsible for collecting, receipting, recording, depositing and reconciling all city collections.

2. **FINDING: Unauthorized health insurance benefits to former city recorder totaling \$1,583**

Our examination revealed that former city recorder, Shawnda West, used city funds to provide herself unauthorized health insurance benefits of \$1,583. The mayor and board of aldermen approved and provided single coverage health insurance for city employees¹. However, investigators found that beginning in October 2011, the former city recorder upgraded her coverage to “subscriber and dependents” until her insurance coverage was terminated in June 2012. The city’s mayor and board of aldermen never approved extended coverage for Ms. West. The difference between the cost to the city of the coverage the former recorder received and the coverage authorized by the mayor and board of aldermen was \$1,583.

INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES
FINDINGS AND RECOMMENDATIONS

Presented below are the findings and recommendations related to internal control and compliance deficiencies noted during the investigative audit. City officials have indicated their intent to correct these deficiencies.

1. **FINDING: Failure to adequately segregate financial duties**

City officials failed to adequately separate duties of employees, allowing the former city recorder access and complete control over all aspects of financial transactions without adequate oversight. According to the *Internal Control and Compliance Manual for Tennessee Municipalities*, page 32:

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

¹ The mayor and board of aldermen authorized family coverage for one specific city employee as part of his employment package when he was hired.

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

RECOMMENDATION:

To help prevent errors and the risk of fraud, waste, and abuse, management should ensure that no employee has complete control of a financial transaction. Elected officials should provide for increased oversight, where appropriate.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur and we have changed to where both the clerk and the recorder each handle the money transactions for both the water department and the general fund. The recorder and clerk each sign off on the daily financial reports for both the water department and fines. The recorder primarily prepares the daily deposits, but both are trained to do them and they each verify the deposits to the daily financial reports. All financial reports are readily available for review.

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

The former city recorder failed to deposit collections intact within three days of receipt. 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 Aldermen:

We concur and we have changed the procedure where deposits are usually made daily. If there is a delay in making the deposit, a deposit is made the next day. All names are listed on the deposit tickets for money orders or checks and not the check number.

Recorder:

Response is the same as that of the mayor and board of aldermen.

3. **FINDING: Failure to prepare daily collection reports**

The former city recorder failed to prepare daily collection reports to document that all collections were properly accounted for and deposited into a city bank account. The *Internal Control and Compliance Manual for Tennessee Municipalities*, page 50, 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 prenumbered receipts should agree with the total collections.

RECOMMENDATION:

To better account for collections, each day the city recorder should prepare a detailed report of daily collections indicating the source of the collections. To help document that all collections are deposited intact, the totals of each daily collection report, corresponding prenumbered receipts, and related bank deposit should agree. The recorder should sign and date the report.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur and we have changed the procedure to where collection reports to document all collections are prepared daily and balance to the deposits made into the city bank accounts. These are the financial reports that both the clerk and the recorder sign off on daily.

Recorder:

Response is the same as that of the mayor and board of aldermen.