CITY OF JELLICO

Investigative Report

September 21, 2015

Justin P. Wilson, Comptroller

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
FINANCIAL AND COMPLIANCE INVESTIGATIONS

Justin P. Wilson
Comptroller of the Treasury

JAMES K. POLK STATE OFFICE BUILDING, SUITE 1600
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7907
FAX (615) 741-7667

September 21, 2015

Mayor William F. Baird
City of Jellico
410 South Main Street
Jellico, Tennessee 37762

Mayor Baird:

On March 2, 2015, we received information alleging that cash had not been deposited into the City of Jellico's bank account during July and August 2014. In addition, on May 13, 2015, the city mayor informed us that he had found a large amount of cash in a filing cabinet located at the Police Department. We performed an investigation of selected records of the City of Jellico for the period July 1, 2014, through August 22, 2014, and expanded our scope to May 13, 2015, to determine the propriety of the cash discovered at the Police Department.

Our investigation revealed the following deficiencies:

- Collections were not accounted for properly.
- Duties were not segregated adequately.
- Numerous deficiencies exist in the financial operations of the City of Jellico.

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. These findings, recommendations, and management's response have been reviewed with the district attorney general for the Eighth Judicial District.

INVESTIGATIVE FINDINGS AND RECOMMENDATIONS

FINDING 1 COLLECTIONS WERE NOT ACCOUNTED FOR PROPERLY

Collections were not accounted for properly. Based on our interviews and an examination of the city's bank statements, accounting records, and various policies and procedures, we identified the following deficiencies related to collections:

A. Two money bags and two envelopes were found in a locked filing cabinet located at the City of Jellico's Police Department that contained a total of $1,805. This cash could not be identified with any specific receipts or any cases. It should be noted that two employees had keys to the filing cabinet. One employee stated that the former mayor periodically gave her cash to store in the filing cabinet, and she had forgotten the money was there. This $1,805 was subsequently deposited in the city's bank account.

B. From July 1, 2014 through August 22, 2014, we reconciled total receipts issued with bank deposits and determined that receipts exceeded deposits by $195. However, we were unable to determine if this cash shortage was part of the cash found in the filing cabinet as noted above.

RECOMMENDATION

Official receipts should be issued for all collections, and all collections should be deposited in the city's bank account.

FINDING 2 DUTIES WERE NOT SEGREGATED ADEQUATELY

Duties were not segregated adequately in the Office of City Recorder. The city recorder was responsible for receiving and receipting collections, maintaining the accounting records, and preparing and making deposits. The recorder was also responsible for purchasing and writing all checks as well as co-signing the checks with the mayor. Internal controls should be designed to give reasonable assurance of the reliability of financial reporting and of the effectiveness and efficiency of operations. This deficiency is the result of a lack of management oversight and management's failure to correct the deficiency noted in prior-year audit reports.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 1, Section 1, states that municipal officials should separate duties of employees so no one person has control over a complete transaction from beginning to end. Work-flow should be established so 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 to minimize the possibility of collusion. When adequate segregation of duties is not possible, management 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, a review of bank statements, receipts, and disbursements summaries as well as the related supporting documentation and analysis of monthly reports.

RECOMMENDATION

Municipal officials should segregate duties to the extent possible using available resources. Management should continually review internal control procedures and monitor the operations of the office.

FINDING 3 **NUMEROUS DEFICIENCIES EXIST IN THE FINANCIAL OPERATIONS OF THE CITY OF JELLICO**

We reviewed various transactions for the City of Jellico's Office of City Recorder and noted the following deficiencies:

A. The office did not issue official prenumbered receipts sequentially for some collections as required by Section 9-2-103, *Tennessee Code Annotated*. The failure to issue official receipts sequentially increases the risk that collections may not be accounted for properly.

B. The city recorder did not adequately prepare daily collection reports. In some instances, information on collection reports was inaccurate and did not reflect all collections for the day. 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 prenumbered receipts should agree with the total collections recorded on the daily collection report.

C. The city made disbursements from collections instead of depositing the collections and issuing a check for the disbursement. For example, the city gave a $50 cash refund for a damage deposit for a conference room rental instead of issuing a check.[1] The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 11, Section 6, requires that all funds to be disbursed by prenumbered checks.

[1] The city has a conference room available for rent at the Jellico Library for $100 ($50 rental fee and $50 damage deposit). The customer pays the $100 in advance. The $50 damage deposit is returned if the room is left undamaged and clean.

RECOMMENDATION

Officials should correct the above-noted deficiencies in the financial operations of the City of Jellico to provide accountability to comply with the standards provided by the Tennessee Comptroller's *Internal Control and Compliance Manual for Tennessee Municipalities* and other applicable accounting standards.

MANAGEMENT'S RESPONSE – MAYOR WILLIAM F. BAIRD

At the time you were investigating, the City Court Clerk was collecting, receipting, and depositing all funds that came through the court system. This has been corrected using the following procedures:

1. All collections are receipted by the court clerk.

2. Receipts and collections are then taken to the assistant city recorder where both the court clerk and the assistant city recorder count the collections. The court clerk is then given a receipt for all funds receipted.

3. The receipted collections are taken to the bank for deposit by the city recorder or the assistant city recorder.

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

Sincerely,

Justin P. Wilson
Comptroller of the Treasury

JPW/kbh

CC: City of Jellico Board of Aldermen