



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

John G. Morgan
Comptroller of the Treasury

**SUITE 1600
JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-0271
PHONE (615) 401-7871
FAX (615) 741-1551**

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

March 31, 2005

Honorable Mayor and Members of
the Board of Aldermen
Town of Mosheim
1000 Main Street
Mosheim, TN 37818

Gentlemen:

We have completed our investigative audit of selected records of the Town of Mosheim. The audit focused on the period August 1, 2000, through October 31, 2001. However, when warranted, this scope was expanded. The audit was limited to an examination of collection records.

During the town's annual financial audit for the fiscal year ended June 30, 2004, the contract auditor became aware of an undisclosed shortage that had occurred in 2000 and 2001. This shortage had not previously been reported to the board of aldermen, the Comptroller's Office or the district attorney general's office.

Our investigative audit revealed that during the period August 1, 2000, through October 31, 2001, a total of \$5,458.25 in utility collections was not properly deposited into a town bank account. The town recorder admitted to auditors that, while she was a town clerk, she had taken that money without authority for her own personal benefit. She stated she told the mayor about her activities in 2001 and repaid the amount to the town. However, the cash was apparently placed in the town's vault and remained there until the contract auditor's inquiries in 2004. On October 22, 2004, the money was deposited into a town bank account.

This matter has been referred to the local district attorney general.

Honorable Mayor and Members of
the Board of Aldermen
Town of Mosheim
March 31, 2005
Page 2

Several weaknesses in the town's internal controls allowed this shortage to occur without detection. Those weaknesses included:

Lack of separation of duties

Although the town had several employees, one employee received collections, recorded collections, prepared deposits and delivered collections to the bank for deposit without oversight or verification. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 2, Section 2, states:

Municipal officials should enforce division of duties to provide a system of checks and balances 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. . . .

Title 1, Chapter 2, Section 4, of the manual further states:

Municipal officials should ensure that automatic proof techniques are applied whenever possible. These techniques include the use of an employee without prior access to the records to . . . reconcile bank accounts . . . periodically test . . . daily balancing of cash receipts . . . open mail and prelist mail receipts . . . perform routine duties of other employees . . . for at least one vacation period per year.

Failure to reconcile accounts receivable

The municipality's records did not include documentation of a monthly reconciliation of utility accounts receivable as reflected in the utility billing register to the general ledger control account. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 3, Section 10, states, "Municipal officials should ensure that . . . the total amount of the unpaid individual accounts on the utility billing sheet is reconciled to the applicable general ledger control account total at the end of each month."

Honorable Mayor and Members of
the Board of Aldermen
Town of Mosheim
March 31, 2005
Page 3

Town officials should take immediate corrective action to resolve these issues. If you have any questions, please contact me.

Sincerely,

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

DFD/RAD