

INVESTIGATIVE AUDIT REPORT

TOWN OF MASON

JANUARY 1, 2007, THROUGH DECEMBER 31, 2008



State of Tennessee



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



STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Justin P. Wilson

Comptroller

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-9034

PHONE (615) 741-2501

December 2, 2009

Honorable Mayor and Members of the
Board of Aldermen
Town of Mason
12157 Main Street
Mason, TN 38049

Mayor and Board of Aldermen:

Presented herewith is the report on our investigative audit of selected records of the Town of Mason. This investigative audit focused on the period January 1, 2007, through December 31, 2008. However, when the examination warranted, this scope was expanded.

Section 9-2-102, *Tennessee Code Annotated*, requires that the Comptroller of the Treasury prescribe a uniform system of bookkeeping designating the character of books, reports, receipts and records, and the method of keeping same, in all state, county and municipal offices, including utility districts, which handle public funds. This code section also requires that all officials adopt and use the prescribed system. The Comptroller has prescribed a minimum system of recordkeeping for municipalities, which is detailed in the *Internal Control and Compliance Manual for Tennessee Municipalities* combined with Chapters 1-7 of *Governmental Accounting, Auditing, and Financial Reporting*. The purpose of our audit was to determine the extent of the entity's compliance with certain laws and regulations, including those in the above-mentioned manuals.

Our investigative audit revealed that former town and court clerk, Arnita Mitchell, took more than \$96,000 worth of town money for her personal use. The audit also revealed that Ms. Mitchell received more than \$1,000 worth of water and gas services from the town for herself and another person without paying. These matters were referred to the local district attorney general.

On November 2, 2009, the Tipton County Grand Jury indicted Arnita Mitchell on one count of Theft Over \$60,000, one count of Forgery Over \$60,000, one count of Computer Fraud Over \$60,000, one count of Theft of Services Over \$1,000, three additional counts of Forgery, and three counts of Official Misconduct.

Honorable Mayor and Members of the
Board of Aldermen
Town of Mason
December 2, 2009

The findings and recommendations in this report also relate to those conditions that we believe warrant your attention. All responses to each of the findings and recommendations are included in the report.

Copies of this report are being forwarded to Governor Phil Bredesen, 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.

Very truly yours,

A handwritten signature in black ink, appearing to read "Justin P. Wilson", with a stylized flourish at the end.

Justin P. Wilson
Comptroller of the Treasury



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

Justin P. Wilson
Comptroller of the Treasury

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

December 2, 2009

Mr. Justin P. Wilson
Comptroller of the Treasury
State Capitol
Nashville, TN 37243-9034

Dear Mr. Wilson:

As part of our ongoing process of examining the records of municipalities, we have completed our investigative audit of selected records of the Town of Mason. This investigative audit focused on the period January 1, 2007, through December 31, 2008. However, when the examination warranted, this scope was expanded.

Section 9-2-102, *Tennessee Code Annotated*, requires that the Comptroller of the Treasury prescribe a uniform system of bookkeeping designating the character of books, reports, receipts and records, and the method of keeping same, in all state, county and municipal offices, including utility districts, which handle public funds. This code section also requires that all officials adopt and use the prescribed system. The Comptroller has prescribed a minimum system of recordkeeping for municipalities, which is detailed in the *Internal Control and Compliance Manual for Tennessee Municipalities* combined with Chapters 1-7 of *Governmental Accounting, Auditing, and Financial Reporting*. The purpose of our audit was to determine the extent of the entity's compliance with certain laws and regulations, including those in the above-mentioned manuals.

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Mr. Justin P. Wilson
Comptroller of the Treasury
December 2, 2009

Our examination also resulted in findings and recommendations related to the following:

1. Collections not reconciled to deposits and amounts over/short not reflected on daily collection reports
2. Inadequate separation of duties
3. Clerks operated out of a single collections drawer
4. Inadequate controls over traffic citations and court docket and failure to maintain a complete, accurate record of court transactions in official court docket
5. Change used as petty cash
6. Collections not deposited timely
7. Collections not deposited intact
8. Employee time and leave records inaccurate and inadequate
9. Inadequate supporting documentation for disbursements to recorder

In addition to our findings and recommendations, we are also providing management's response. If after your review, you have any questions, I will be happy to supply any additional information which you may request.

Sincerely,

A handwritten signature in black ink, appearing to read "Dennis F. Dycus". The signature is fluid and cursive, with a large initial "D" and "F".

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

**INVESTIGATIVE AUDIT OF SELECTED RECORDS
OF THE TOWN OF MASON
FOR THE PERIOD JANUARY 1, 2007, THROUGH DECEMBER 31, 2008**

LEGAL ISSUES

1. **ISSUE: Apparent misappropriation of town collections totaling at least \$96,961**

During the period January 1, 2007, through June 30, 2009, a former town and court clerk, Arnita Mitchell, apparently misappropriated at least \$96,961 from the Town of Mason. Ms. Mitchell perpetrated this apparent misappropriation by posting some utility customer payments separately from documented collections, by posting fictitious payments to both her water and gas accounts and a relative's water and gas accounts, and by substituting unreceipted checks in payment of police citations for receipted cash collections.

Apparent misappropriation of \$95,224

Each day, town clerks were responsible for recording customers' gas and water utility payments in the town's computer system. The payments were recorded in batches, or groups of payments entered into the computer system. Once entered into the computer, each batch of payments would be printed out to document the utility collections received and deposited into the town bank account. However, Ms. Mitchell entered other utility payments, many of which were check payments, into the computer system but did not print out a record of those collections. She then misappropriated the undocumented cash and substituted the undocumented check payments for documented cash. Since there was no paper record of these collections in town files, Ms. Mitchell was able to misappropriate \$95,224 over a period of 30 months without detection.

Fictitious payments posted to former clerk's utility accounts and a relative's utility accounts totaling \$1,428

Our investigative audit revealed that Ms. Mitchell also posted fictitious payments to both her utility accounts and a relative's utility accounts totaling \$1,428. Ms. Mitchell created fictitious entries in the town's accounting records in an apparent attempt to conceal her scheme from management, posting payments to her accounts and her relative's accounts even though no collection was actually received on behalf of these accounts.

In an interview with auditors, Ms. Mitchell admitted that she had taken town collections for her own personal use and that she had posted fictitious payments to both her utility accounts and a relative's utility accounts.

Citation collections check swap totaling \$309

Our investigative audit revealed that Ms. Mitchell apparently misappropriated police citation collections totaling \$309. As court clerk, Ms. Mitchell was responsible for maintaining the court docket, including recording citation numbers, offender name, disposition of the citation, any fees or payments received and the corresponding receipt number for the related payment. On at least three occasions, Ms. Mitchell apparently deliberately mis-referenced receipt numbers in the town court docket to conceal substitutions of unrecorded police citation payments made by check for police citation cash collections. In each instance, the referenced receipts were for payment of another citation or were voided.

Total Apparently Misappropriated by Former Town Clerk	
Scheme Utilized	Amount
Ghost batched utility payments	\$ 95,224
Fictitious payments to former clerk and relative's utility accounts	1,428
Citation collections check substitution	<u>309</u>
Total apparent misappropriation	<u>\$ 96,961</u>

This matter was referred to the local district attorney general. On November 2, 2009, the Tipton County Grand Jury indicted Arnita Mitchell on one count of Theft Over \$60,000, one count of Forgery Over \$60,000, one count of Computer Fraud Over \$60,000, one count of Theft of Services Over \$1,000, three additional counts of Forgery, and three counts of Official Misconduct.

2. **ISSUE: Additional misappropriation of cash collections totaling at least \$7,062**

Our investigative audit also revealed an additional misappropriation of town cash collections totaling at least \$7,062. These unaccounted for funds consisted of recorded cash received from gas and water utility payments and meter deposits and general fund collections. Although the cash collections were documented in town records, they were not deposited into any town bank accounts. Due to the recorder's failure to reconcile daily collections to deposits, addressed in greater detail in Finding 1, this additional cash misappropriation was allowed to continue undetected throughout the entire scope of our investigative audit. Available town records were insufficient to conclusively determine who was responsible for the additional misappropriation.

Source of Additional Misappropriated Collections	Amount
Gas and water utility payments	\$5,473
Gas and water meter deposits	600
General fund collections	<u>989</u>
Total additional misappropriation	<u>\$7,062</u>

Total Collections Misappropriation	Amount
Total misappropriation by former clerk	\$ 96,961
Total unattributed misappropriation	<u>7,062</u>
Total misappropriation	<u>\$104,023</u>

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FINDINGS AND RECOMMENDATIONS

1. **FINDING:** Collections not reconciled to deposits and amounts over/short not reflected on daily collection reports

Although receipted collections were summarized by source on daily collection reports (DCRs), town recorder Nancy Hazlerig failed to ensure that totals on DCRs agreed with totals on corresponding deposit slips as well as the total of all applicable receipts. Ms. Hazlerig also failed to require the two clerks to record overages or shortages on DCRs.

Our investigative audit revealed that total collections reflected on DCRs did not always match total collections reflected on corresponding deposit slips. Because Ms. Hazlerig failed to reconcile recorded collections with amounts deposited and failed to require the clerks to record overages or shortages on DCRs, town collections totaling \$7,062 were misappropriated as noted in Legal Issue 2 without being detected timely. Comparing and reconciling daily collection totals to related deposits is one of the most basic management oversight obligations of any recorder.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 6, states:

Municipal officials should 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.... The total on the daily collection report should agree with the total of the corresponding deposit slips as well as with the total of all applicable receipts....

RECOMMENDATION:

To better account for collections and decrease the risk of undetected errors and irregularities, including the misappropriation of town funds, the town recorder should ensure that recorded collections are reconciled with deposits and that amounts over or short are documented on DCRs and in other applicable accounting records. The recorder should determine that the totals of the corresponding bank deposit slips, daily collection report, and cash register record agree, and if not, document the amount over or short.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur with the Comptroller's finding and recommendation.

Recorder:

I concur with the Comptroller's finding and recommendation.

2. **FINDING: Inadequate separation of duties**

Although there were two collection clerks, former clerk Arnita Mitchell received collections, recorded collections, prepared the court docket, and prepared bank deposits. Because the town recorder failed to exercise adequate management oversight and ensure that duties were adequately separated, Ms. Mitchell was able to misappropriate town money [refer to Legal Issue 1] without being detected timely. 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 3, Chapter 1, Section 1, of the manual also states:

Municipal officials should ensure that responsibility for each step of cash handling and recording is clearly established. If possible, the employees who receive cash collections should be different from those who maintain the books and records.

RECOMMENDATION:

To decrease the risk of undetected errors and irregularities, the mayor and members of the board of aldermen should require the town recorder to review employees' responsibilities and ensure that no employee has control over a complete transaction.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. The recommendations are in place with two cash registers and each [clerk] making her own deposit. The recorder is not collecting funds.

Recorder:

I concur with the Comptroller's finding and recommendation.

3. **FINDING: Clerks operated out of a single collections drawer**

Although two clerks received and recorded town collections, both used the same collections drawer. In addition, the town recorder occasionally used the same cash drawer when she assisted with collecting money. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 6, states, “Each cashier should be assigned a separate cash drawer that is accessible only to that cashier.”

RECOMMENDATION:

To decrease the risk of undetected errors and irregularities, the mayor and members of the board of aldermen should require the recorder to ensure that each cashier is assigned a separate cash drawer that is accessible only to that cashier.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. Refer to Finding 2 and separation of duties. Security cameras have been installed in the front office to deter embezzlement.

Recorder:

I concur with the Comptroller’s finding and recommendation.

4. **FINDING: Inadequate controls over traffic citations and court docket and failure to maintain a complete, accurate record of court transactions in official court docket**

Town officials did not require that adequate controls over traffic citations and the town court docket were implemented. We noted the following deficiencies in internal controls over traffic citations and the town court docket:

- a) Arnita Mitchell, a former court clerk and town clerk, was responsible for posting dispositions to the town court docket, collecting fines, and preparing court collections for deposit, creating an inadequate separation of duties related to town court collections.
- b) Postings to the town’s court docket were not complete and accurate. The disposition of the citations was not always completely filled out, including any fines or fees paid. Frequently, the receipt number for any payment of court-related costs was not noted in the docket.
- c) The court docket was not organized by citation number.

The town recorder failed to ensure either proper separation of duties or that adequate court records were maintained. As a result, we could not determine whether the town received all court-related revenue due, or if all court collections received were recorded in the town's records and deposited into town bank accounts. In addition, because the recorder failed to ensure that the court docket was complete and organized, Ms. Mitchell was able to misappropriate court-related collections totaling \$309 [refer to Legal Issue 1] without being detected timely.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 5, describes the proper procedures for traffic citations and court collections. Those procedures include filing citations numerically, issuing prenumbered receipts for fines, posting citation numbers to the court docket, posting receipt numbers for fines to the court docket, recording dispositions of all citations in the court docket, and establishing efforts to collect all outstanding fines.

Section 18-1-105(a), *Tennessee Code Annotated*, states:

It is the duty of the clerk of each of the courts to: ... (4) Keep an execution docket, in which shall be entered, within the time after the adjournment of each court prescribed for issuing executions, all judgments or decrees, in the order of their rendition, with the names of all the plaintiffs and defendants in full, the day and year of rendition, the amount of the recovery and the amount of costs, the character and number of the execution, the date of its issuance and to what county issued, the person to whom delivered and the date of delivery, the date and substance of the return, and the dates and amounts of money paid into and paid out of the clerk's office.

RECOMMENDATION:

To help ensure that all court-related revenue is collected, properly recorded in the town's records, and deposited into a town bank account, the mayor and members of the board of aldermen should require the recorder to establish and enforce strict adherence to internal control policies over traffic citations and the court docket as set forth in the *Internal Control and Compliance Manual for Tennessee Municipalities*. Officials should ensure that all citations are accounted for, a complete court docket is maintained, and the court clerk's copies of citations are marked to indicate disposition and are signed by the judge. In addition, the recorder should ensure that receipts are written for all collections, citation numbers are recorded on related receipts, and that those collections are promptly deposited into a town bank account. Town officials should require the recorder to review employees' responsibilities to ensure that no employee has control over a complete transaction.

MANAGEMENT’S RESPONSE:**Mayor and Members of the Board of Aldermen:**

We concur with the Comptroller’s finding and recommendation.

Recorder:

I concur. I am looking into a court software to implement the corrections.

AUDITOR’S CLARIFICATION:

We commend the recorder for her desire to correct the issues related to maintenance of the court docket. However, new or upgraded computer software will not address the significant human deficiencies that caused the problems noted in the finding. Instead of focusing on software or automated solutions, we suggest a greater focus on correcting the existing docket system currently in use.

5. **FINDING:** **Change used as petty cash**

Town records indicated that the recorder apparently routinely allowed town employees to use cash drawer change to make purchases. The town did not have an approved petty cash fund. Instead, employees and officials treated the change as if it was petty cash. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 5, requires municipal officials to ensure that “at the end of the day, the cashier counts the cash and checks on hand, leaving only the **predetermined amount** in the change fund.” (Emphasis added.) Title 2, Chapter 4, of the manual establishes rules governing petty cash and requires that a petty cash fund be established at a “fixed sum” for purchases only as needed.

RECOMMENDATION:

To provide greater control over collections and prevent abuse, the mayor and members of the board of aldermen should require the recorder to ensure that town employees establish and follow required petty cash procedures as set forth in the *Internal Control and Compliance Manual for Tennessee Municipalities*. The recorder should maintain the petty cash separately from town collections and beginning change. Cash collections on hand should be safeguarded and should never be used to make purchases. Separate, predetermined amounts should be established for change and for petty cash.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. The petty cash box has a log book for documentation daily.

Recorder:

I concur with the Comptroller's finding and recommendation.

6. **FINDING:** Collections not deposited timely

The town recorder failed to ensure that collections were deposited promptly. Some collections, including meter fees and at least one state grant check, were not deposited timely into town bank accounts. Town records indicated that some meter fees were deposited more than three days after being received and that a state grant check for \$5,000 was not deposited until more than three months after being received by town personnel. Section 6-56-111, *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*, Title 3, Chapter 1, Section 5, states:

Collections should be deposited promptly and intact and only in designated depositories. The bank's night depository should be used, if necessary, to avoid large accumulations of currency overnight.... The municipality should make daily deposits when large amounts of money are involved.

RECOMMENDATION:

To help prevent the misuse or loss of collections, the mayor and members of the board of aldermen should require the recorder to ensure that all collections are deposited intact within three working days into an official municipal bank account. All cash on hand should be safeguarded.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur with the Comptroller’s finding and recommendation.

Recorder:

I concur with the Comptroller’s finding and recommendation.

7. **FINDING:** **Collections not deposited intact**

The recorder failed to ensure that collections were deposited intact. As noted in Legal Issue 1, collections were not deposited in the form or amount in which they were collected. Instead, Ms. Mitchell routinely substituted undocumented checks for receipted cash collections without detection.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 5, states:

Collections should be deposited promptly and intact and only in designated depositories. The bank’s night depository should be used, if necessary, to avoid large accumulations of currency overnight.... The municipality should make daily deposits when large amounts of money are involved.

RECOMMENDATION:

To help prevent the misuse or misappropriation of town collections, the mayor and members of the board of aldermen should require the recorder to ensure that all collections are deposited intact within three working days into an official town bank account.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur with the Comptroller’s finding and recommendation.

Recorder:

I concur with the Comptroller’s finding and recommendation.

8. **FINDING: Employee time and leave records inaccurate and inadequate**

Our audit revealed unexplained discrepancies between employee time records and wages paid, as well as inadequate timekeeping and payroll records. In several instances, employee paychecks prepared by the recorder differed from auditors' recalculations of those wages, based on available records of time worked. On at least six occasions, paychecks prepared by the recorder for former clerk Arnita Mitchell included overtime compensation for which she also apparently earned compensatory time.

The recorder was responsible for maintaining employees' time cards and leave records. However, detailed leave records were not maintained for town employees to indicate when leave was taken or how much leave was taken on each occasion. The recorder was unable to provide any record of compensatory time earned or for leave taken, other than employee time cards. Similarly, she was unable to provide details regarding sick, vacation, and compensatory leave taken by employees, other than the aforementioned time cards and summary totals.

Because the recorder failed to keep detailed leave records for employees or exercise proper oversight of hours worked, former clerk Arnita Mitchell was apparently paid for vacation leave not yet earned. In addition, Ms. Mitchell was routinely paid for hours not yet worked (negative compensatory time). The recorder's failure to exercise proper oversight over hours worked by office personnel or maintain detailed leave records effectively resulted in improper personal loans of town funds to Ms. Mitchell.

The audit also revealed numerous instances in which employees' time cards had neither a time clock stamp nor a manual entry to indicate the beginning and/or end of a shift. Timekeeping and payroll records for office employees also lacked the signature of the recorder to indicate concurrence with the hours worked.

Title 2, Chapter 3, Section 7 of the *Internal Control and Compliance Manual for Tennessee Municipalities* states, "Time cards or honor system time sheets (approved by department heads) should be maintained for all employees in order to eliminate unauthorized pay and repeated tardiness."

Section 5 of the manual requires officials to ensure that "a cumulative employee leave record is maintained for each employee. The record should clearly show all leave of any type earned and taken for each pay period, all paid and unpaid absences, and the current leave balance."

RECOMMENDATION:

To prevent abuse and comply with the *Internal Control and Compliance Manual for Tennessee Municipalities*, the mayor and members of the board of aldermen should require the town recorder to ensure that all employees prepare complete and accurate time cards. Each employee's supervisor should sign his or her time card to indicate that the record is correct and approved. The recorder should prepare and routinely update

detailed leave records. Also, the recorder should exercise greater oversight of office employee hours worked and immediately cease allowing transactions that are, in substance, loans to employees. The town should review its records to identify any remaining amounts owed by employees and ensure settlement.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. Time cards are being used by all three ladies in the office.

Recorder:

I concur with the Comptroller’s finding and recommendation.

9. **FINDING: Inadequate supporting documentation for disbursements to recorder**

Our investigative audit revealed that numerous disbursements to the town recorder were not adequately supported. No supporting documentation could be located for petty cash expenditures to Ms. Hazlerig totaling \$1,025. Other disbursements to Ms. Hazlerig totaling \$2,845 were either inadequately supported or no supporting documentation whatsoever could be located.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, Section 4, states:

Municipal officials should ensure ... that supporting documentation is filed alphabetically by vendor or by date paid.... All disbursements, regardless of the accounting procedures, must be supported by invoices, cash tickets or other adequate supporting documentation. (Statements are NOT adequate supporting documentation.)

RECOMMENDATION:

To prevent unauthorized disbursements or abuse and to properly document that each disbursement is for a valid municipal purpose, the mayor and members of the board of aldermen should require the town recorder to ensure that adequate supporting documentation is maintained. The mayor and board should seek reimbursement for any unsupported expenditures. Before signing checks, authorized individuals should review adequate supporting documentation to determine that disbursements are for a valid municipal purpose.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur with the Comptroller's finding and recommendation.

Recorder:

I concur with the Comptroller's finding and recommendation.

Mayor's Closing Remark:

In closing, as mayor for the Town of Mason, I will make every effort to keep these problems that were addressed from ever happening again.