



HARDEMAN COUNTY SOLID WASTE

Investigative Report
February 4, 2015

Justin P. Wilson, Comptroller





**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
FINANCIAL AND COMPLIANCE INVESTIGATIONS**

Justin P. Wilson
Comptroller of the Treasury

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February 4, 2015

Mr. Jimmy Sain
Hardeman County Mayor
P.O. Box 250
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Mr. Sain:

At the request of the district attorney general for the Twenty-fifth Judicial District, we performed an investigation of selected records of Hardeman County Solid Waste Department for the period July 1, 2013, through September 9, 2014. Our investigation revealed the following deficiencies:

- A cash shortage of at least \$3,062.72 existed at September 9, 2014.
- Questionable adjustments made to customer accounts and write-offs totaling \$9,071.44 were noted during the period examined.
- Deficiencies were noted in the operation of the Solid Waste Department.

The findings and recommendations, as a result of our investigation, are presented below. These findings and recommendations have been reviewed with Hardeman County officials to provide an opportunity for their response. The county mayor's written responses are paraphrased in this report. Also, these findings and recommendations have been reviewed with the district attorney general for the Twenty-fifth Judicial District.

INVESTIGATIVE FINDINGS

**FINDING 1 A CASH SHORTAGE OF AT LEAST \$3,062.72 EXISTED AT
SEPTEMBER 9, 2014**

A cash shortage of at least \$3,062.72 existed in the Solid Waste Department at September 9, 2014, which resulted from a department employee failing to make deposits of collections. We were advised that each employee receipts customer payments for solid waste collection fees as well as animal control fees. Each employee has their own locked cash drawer as well as a unique computer system password. At the end of each day,

employees prepare their own deposit, which is reconciled with a system generated report. We determined that a department employee made adjustments to customer accounts totaling \$985.07 to reflect an amount less than what was actually collected. These adjustments were not supported by adequate documentation and appear to have been made in an attempt to conceal the theft of funds. We also determined that the employee issued generic receipts totaling \$2,077.65 to customers for funds that were never receipted into the computer system and never deposited.

On September 9, 2014, the employee was placed on suspension without pay. On September 29, 2014, the former employee admitted to investigators that “solid waste records show that I may have taken county money for personal usage.” Also, the former employee stated she is willing to repay any county funds that are determined to be unaccounted for.

RECOMMENDATION

Officials should take immediate steps to recover the \$3,062.72 cash shortage. All adjustments to customer accounts should be supported by appropriate documentation. All collections should be receipted using official prenumbered receipts and deposited to the official bank account.

MANAGEMENT’S RESPONSE

Hardeman County will pursue legal action against the employee and attempt to collect the missing funds. As of September 2, 2014, all account adjustments are authorized only by the solid waste board. All collections are receipted using prenumbered receipts and deposited to the official bank account.

FINDING 2 OTHER QUESTIONABLE CUSTOMER ACCOUNT ADJUSTMENTS AND WRITE-OFFS TOTALING \$9,071.44 WERE NOTED IN THE SOLID WASTE DEPARTMENT

During the period under examination, we noted other questionable adjustments (\$7,067.94) and write-offs (\$2,003.50) of customer accounts totaling \$9,071.44. These adjustments and write-offs to customer accounts were not supported with any documentation; therefore, we could not determine the validity of these entries. Proper documentation for an account adjustment or write-off includes, at a minimum, a record that displays the customer’s name, account number, amount to be adjusted or written off, reason for the adjustment/write-off, and an approving signature of an appropriate official.

RECOMMENDATION

Officials should take steps to determine the validity of the \$9,071.44 of questionable customer account adjustments and write-offs.

MANAGEMENT'S RESPONSE

The solid waste staff will continue to investigate the questionable adjustments and write-offs of the customer accounts. All adjustments and write-offs are now approved only by the solid waste board and presented to them by the mayor.

INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES FINDINGS AND RECOMMENDATIONS

FINDING 3 DEFICIENCIES WERE NOTED IN THE OPERATION OF THE SOLID WASTE DEPARTMENT

Our investigation revealed the following internal control and compliance deficiencies in the Solid Waste Department. These deficiencies can be attributed to a lack of management oversight and inadequate maintenance of accounting records.

- A. Delinquent customer accounts, account write-offs, and account adjustments were not presented to management for supervisory review and approval. The computerized system provides a report of customer account adjustments and write-offs performed by each employee, and this report is available for review; however, management did not perform a review. In addition, the Solid Waste Department failed to adhere to a county policy that provides for any receivable that is deemed uncollectible and owed to the landfill that is over two years old and/or any special requests that may include, but are not limited to, indigent care, will be brought forward at the quarterly Solid Waste Committee meetings for approval. Furthermore, the department's write-off policy does not address who authorizes the write-offs, the assessment of interest on delinquent accounts, and the proper documentation for write-offs. Proper documentation for write-offs should include, at a minimum, a record that displays the customer's name, account number, amount to be written off, reason for write off, and an approving signature of an appropriate official.
- B. The Solid Waste Department did not have written policies concerning the collection of customer accounts. The county had established an associated fees and an "imprecise" policy for charging off two year-old delinquent accounts; however, the department had not established written policies and procedures for billing for these services. Sound business practice dictates that written policies and procedures concerning customer accounts should be adopted. This deficiency is a result of the lack of management oversight. Without formal policies and procedures for the collection of customer accounts, employees have no guidance for consistent and uniform treatment of customers.
- C. Duties were not segregated adequately within the Solid Waste Department. Although employees used separate cash drawers when receiving collections, all employees recorded collections, posted payments to the accounts, received

and opened mail, prepared and carried deposits to the bank, and made adjustments to customer accounts. Accounting standards provide that internal controls be designed to provide reasonable assurance of the reliability of financial reporting and of the effectiveness and efficiency of operations. This lack of segregation of duties is the result of management's decisions based on the availability of financial resources and is a significant deficiency in internal controls that increases the risk of unauthorized transactions.

- D. The Solid Waste Department did not always issue official prenumbered receipts for collections. A software weakness, which caused the computer system to periodically fail to issue receipts, provided the opportunity for employees to issue generic receipts for collections. Section 9-2-103, *Tennessee Code Annotated*, requires official prenumbered receipts for all collections. Since official prenumbered receipts were not issued for all collections, we could not determine if all collections had been accounted for properly.

RECOMMENDATION

Management should provide sufficient oversight of customer account adjustments and write-offs and should comply with existing county policies. The Solid Waste Department should develop written policies and procedures concerning the collection of customer accounts. Duties should be segregated to the extent possible using available resources. Management should ensure that the weakness in the software application be resolved. Official prenumbered receipts should be issued for all collections.

MANAGEMENT'S RESPONSE

The new administration has noted many management deficiencies since September 2, 2014. One of the factors that led to this discovery was the computer system that tracked deposits and issued prenumbered receipts had failed over 14 months with no noted attempt by management to get the system repaired. Employees were told to use hand written receipts. This action is irresponsible and unacceptable by the current administration. The computer issues have been resolved. There are two employees in the solid waste office and their duties are now segregated and their responsibilities are clear. No employee has the authority to adjust, refund, or write-off any account. The solid waste office has been moved from its previous independent location to the second floor office in the courthouse. This move provides accountability of employee time and allows for more oversight by the director of operations as well as the mayor.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Justin P. Wilson". The signature is fluid and cursive, with a prominent initial "J" and "W".

Justin P. Wilson
Comptroller of the Treasury

JPW/kbh

CC: Members of the Hardeman County Commission