



CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

February 15, 2011

Honorable Larry Thurby, Mayor  
Corydon City Council Members  
City of Corydon  
P.O. Box 185  
Corydon, KY 42406

Re: Examination of Specific City Financial Activity

On January 6, 2011, Corydon City Council (City) unanimously passed a motion to request the Auditor of Public Accounts (APA) to examine financial activity of the City. Subsequently, the APA received a letter dated January 7, 2011, officially requesting this examination.

After the APA received the letter, we contacted the City. Our initial discussion revealed the following areas of concern: Improper credit card purchases; improper cash transfers between bank accounts; improper expenditures from all bank accounts; and inadequate policies, procedures, and controls at the City.

Based on the concerns noted above, we then met with City officials and the following procedures were developed for the examination.

1. Examine all credit card statements for the period of January 1, 2010 through December 31, 2010 and the supporting documentation of these expenditures.
2. Examine all bank accounts to determine purpose and need for each account.
3. Examine financial activity of all bank accounts and trace activity to daily work and documentation for the period January 1, 2010 through December 31, 2010.
4. Examine the CPA's review of cash transfers made by the City.
5. Substantiate the purchase of an engagement ring with City funds in the preceding period.
6. Examine policies, procedures, and controls over receipts and expenditures and provide suggestions for Internal Controls and Compensating controls.



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We have completed our examination of specific City financial activity and have found, based on the City's records, the following:

- \$48,189 of sewer receipts for Calendar year 2010 were not deposited into City Sewer Bank Accounts.
- \$19,204 of sewer receipts for Calendar year 2009 were not deposited into City Sewer Bank Accounts.
- \$5,164 excess withdrawals over receipts in the Customer Utility Account.
- \$5,767 in checks, written from the sewer account, were cashed by City Sewer Clerk with no supporting documentation.
- \$1,036 of reimbursements made to City Sewer Clerk were not supported by documentation.
- \$447 of personal cell phone bills charged to City's credit card and not reimbursed.
- \$200 cash advance on City's credit card, signed by City Sewer Clerk, not reimbursed.
- \$667 of credit card purchases with no supporting documentation.
- \$512 of other payments to vendors with no support.

The above discrepancies total \$81,186.

The above findings are presented in more detail below, along with our recommendations.

1. **Examine All Credit Card Statements For The Period January 1, 2010 Through December 31, 2010 And The Supporting Documentation Of These Expenditures**

**Finding:** We examined activity of VISA credit cards for calendar year 2010 and found that eleven of the twelve monthly statements were missing documentation to support allowability of the credit card charges. We found seven personal transactions made by employees of the City, of which four were reimbursed. Three charges had no documentation of reimbursement to the City. Two of the three were personal cell phone bills charged to the City totaling \$447. The telephone company confirmed the accounts paid with the credit card did not belong to the City. The third was a cash advance made on the credit card in the amount of \$200 that was signed for by the City Sewer Clerk.

We also examined Lowe's credit card bills and found the bills examined were missing two invoices totaling \$667. There was also one invoice that was signed by an individual who is not a City employee.

2. **Examine All Bank Accounts To Determine Purpose And Need For Each Account**

**Finding:** We examined the City's bank accounts and found that the City maintains five separate checking accounts for the Sewer Fund. There is an Enterprise Account, Operating and Maintenance (O&M) Account, Depreciation Account, Sinking Account and Customer Utility Account. The City Sewer Clerk and City Clerk do not present all checking account activity and balances to the City Council.

The Enterprise Account is the bank account where sewer payments from customers are deposited. The O&M account is the account where expenses of the sewer fund are paid. Transfers are routinely made from the Enterprise to O&M account.

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**2. Examine All Bank Accounts To Determine Purpose And Need Of Each Account (Continued)**

The Depreciation Account is an account the City Clerk uses to set aside monies as savings for the City. The receipts of this account consist of special taxes and interest. We found no evidence the activity of this account was established or approved by the City Council.

The City's Sinking Account was established to meet bond payment requirements.

The Customer Utility Account is not a bank account of the City but rather Global Express. Global Express is a service provider that allows customers to pay various vendors (for example telephone, cell phone, utilities) at one location. Monies are received by the City and the City is then required to deposit these receipts into this account. Global Express then withdraws monies from the account based on the activity recorded by Global Express equipment used on site. The City receives a small commission (\$129 during calendar year 2010) for providing this service. The commission paid to the City does not cover the cost of employee's time to engage in transactions and then balance the daily activity of the account.

**3. Examine Financial Activity Of All Bank Accounts And Trace Activity To Daily Work And Documentation For The Period January 1, 2010 Through December 31, 2010**

**Finding:** To reconcile City sewer receipts to Sewer Account bank deposits for calendar year 2010, the City's bank deposits into the Sewer Account were compared to the City's payment register total for 2010. Sewer account bank deposits net of interest were \$97,789. Customer receipts per the 2010 Sewer Payment Register were \$145,978, yielding a discrepancy of \$48,189, which represents recorded but un-deposited receipts.

To investigate the discrepancy, we examined deposit tickets included on bank statements and deposit ticket carbon copies and noted deposits consisted mainly of checks. There was very little cash noted on the deposit tickets. We contacted the City's bank and the bank stated it was bank policy to write on the customer's deposit ticket any cash included in the deposit.

Once we concluded very little cash was being deposited, we recapped cash receipt journals maintained by City employees. Customers were to be issued a separate receipt if paying with cash. The total cash per the recap of cash receipts journals was \$37,777. Also, a review of the 2010 Sewer Payment Register revealed \$37,358 cash payments documented. Deposits into all accounts were not made timely and deposits were made primarily by the City Sewer Clerk.

For analytical purposes, we compared the 2009 bank deposits to the 2009 Sewer Payment Register and noted that bank deposits were \$19,204 less than receipts per the Sewer Payment Register.

**Finding:** The Examination of Customer Utility Account (Global Express Account) activity revealed the City transferred \$6,100 into this account. The General Fund initially placed \$2,100 into the account as a required minimum balance since deposits were not made daily. The City Sewer Clerk later transferred an additional \$4,000 from the

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**3. Examine Financial Activity Of All Bank Accounts And Trace Activity To Daily Work And Documentation For The Period January 1, 2010 Through December 31, 2010**  
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depreciation account to keep the account from being overdrawn due to the cash shortage discussed below. We contacted Global Express to determine the amount that should have been deposited into this account. Since withdrawals from this account based on Global Express activity totaled \$28,760, receipts in a corresponding amount should have also been deposited. However, receipts (net of transfers and commissions) deposited were only \$23,596 yielding a discrepancy of \$5,164. Also, deposits should have consisted mainly of cash since most checks were truncated after scanned on the Global Express equipment. When a check is truncated, it is not needed for the actual bank deposit.

Additionally, we reprinted daily totals from the Global Express machine for December 15, 2010 through December 30, 2010 and traced to withdrawals by Global Express. We were unable to trace amounts due Global Express to deposits made to the Customer Utility Account.

**Finding:** We examined payments made from the City's Sewer O&M account and noted the following:

- Payments totaling \$1,036 made to the City's Sewer Clerk for reimbursements that were not supported by any documentation.
- Payments totaling \$5,767, made to petty cash, were cashed by the City's Sewer Clerk that had no supporting documentation.
- Two other payments to vendors totaling \$512 that had no supporting documentation.

**4. Examine The CPA's Review Of Cash Transfers Made By The City**

**Finding:** We confirmed the CPA's review of transfers made by the City. It is the City's normal practice to make cash transfers from the Enterprise Account (account where sewer payments are deposited) to the O&M Account (operating fund) and to the Sinking Account (debt service account). However, the CPA also noted a total of \$14,000 of cash transfers from the Depreciation Account (a capital projects savings account) to the O&M Account, the Sinking Account, and the Customer Utilities Account (an agency account that holds money for other vendors) that were unsubstantiated or not approved.

**5. Substantiate The Purchase Of An Engagement Ring With City Funds In The Preceding Period**

**Finding:** The Mayor purchased an engagement ring in the amount of \$699. The ring was charged on December 10, 2008. The City's general fund was reimbursed \$699 with a personal check from the Mayor on April 13, 2009.

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**6. Examine Policies, Procedures, And Controls Over Receipts And Expenditures And Provide Suggestions For Internal Controls And Compensating Controls**

**Findings:**

- Duties over receipts and deposits were not segregated and there were no compensating controls.
- Receipts were not batched daily.
- Customer payments were not processed as paid on same day as payment.
- Deposits were not made daily.
- Deposits were not reconciled to supporting documentation.
- Credit cards were used by Mayor and all office employees for personal expenses.
- Credit card purchases were not properly supported with documentation.
- Credit card was used by someone not employed by the City.
- Cash was advanced on credit card.
- Checks were not kept secure.
- Signature stamp was used and not kept secure.
- Accounts were opened without Council approval.
- Deposit tickets were not dated and have no breakdown of checks and cash.
- Customer Utility Account was not reconciled.
- Deposits were not made to Customer Utility Account prior to withdrawals by Global Express.
- Cash drawers were not locked or secure.
- Physical access to records and cash was not restricted.
- Numerous petty cash payments were unsupported or not approved.
- Council was not presented all bank accounts.
- Cash transfers were not approved by Council.
- Clerks and assistants had limited knowledge of statutory duties and accounting.
- Written policies and procedures were not followed.

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**Recommendations:**

We recommend the City strengthen its internal controls by enforcing written policies and procedures and implement the following internal controls.

A. Credit Cards

- Provide examples to users of unallowable expenses that should not be charged on a credit card.
- Specify if certain expenses require prior approval by City Council as well as the Mayor.
- Limit the types of purchases made with credit cards in favor of more deliberative purchase methods, such as purchase orders, bids, etc.
- Require credit card statements be presented to the Mayor and other Council members for review prior to payment. This should be documented by signing the credit card statement. By signing, the Mayor or Council members attest that proper documentation was provided and the expenses were for a legitimate business expense.
- Address the employees' responsibility to reimburse unsupported expenditures. The policy should provide for a process to disallow expenditures charged to a City credit card. The policy should establish a specific time period that the employee is to reimburse disallowed charges. The time period that an employee is given to reimburse the City for disallowed credit card charges should be no longer than three business days after the charge was disallowed. We recommend the policy address the penalty that should be applied for not reimbursing the City within the required period.
- Address the prohibition of use of the City credit cards for personal transactions.
- Address the prohibition of cash advancements from credit cards.
- Address the prohibition of use of credit cards by persons not employed or bonded by the City.

B. Cash and Receipts

- Customer payments should be processed as received. Customer payments should be entered into computer program as they occur and the customer should be given either a cash receipt or stamped stub.
- Cash receipts and payment stubs should be batched daily for all daily receipts. Sewer payment totals should be agreed to the Customer payment listing for the day. All other receipts should be reconciled to supporting documentation.
- Deposits should be made daily or if cash/checks on hand exceed \$500.
- Deposits should be verified by someone other than the person making the deposit.
- Receipts ledger posting should be verified against deposits by someone independent of recording to the ledgers.
- Deposit tickets should be prepared correctly. Lists of checks should be maintained with the deposit ticket. The breakdown of cash and checks should be correct.
- Cash transfers should not be initiated without council approval. Requests for cash transfers should be presented to the Mayor and Council Members prior to the transfer being completed.

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**Recommendations: (Continued)**

B. Cash and Receipts (Continued)

- Petty cash disbursements should have proper documentation to support an expenditure. Petty cash reimbursements should be reviewed and traced to supporting documentation prior to payment. We recommend the City require a receipt for each purchase and maintain a ledger of all petty cash account activity including the daily account balance.
- Council should approve the opening and closing of accounts prior to establishment or elimination of the accounts.
- The City Clerk and City Sewer Clerk should present all account activity and balances to the Council and Mayor.
- Physical access to cash and records should be restricted. General public and non-bonded personnel should not be allowed where cash and accounting records are maintained.
- All cash and checks should be placed in a locked cash register. Cash registers should be programmed and utilized and kept locked when not in use. Cash and checks should not be kept in desk drawers. Un-deposited cash/checks should be maintained in a locked safe or vault.
- Unused City checks should be kept in a secure location such as the safe or vault.
- The signature stamp should not be used for check signing and should be secured in the safe or vault.
- Unneeded accounts should be eliminated and more specifically, the Enterprise and Operating and Maintenance accounts should be combined. The Customer Utility Account should be evaluated to determine necessity of the service provided. If the account is deemed necessary, then activity of the account should be treated in the manner mentioned above for the other necessary checking accounts.

We have referred this matter to the Office of the Attorney General for further investigation.

If you have any questions regarding this letter, please contact me at (502) 564-5841.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

February 15, 2011

