



CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

December 14, 2004

The Honorable Eddie Gooch, Mayor  
City of Providence  
201 East Main Street  
P.O. Box 128  
Providence, Kentucky 42450

RE: Expanded examination of utility receipts

Dear Mayor Gooch:

The Auditor of Public Accounts issued a report dated April 6, 2004, detailing the results of a special examination of certain financial activity of the City of Providence (City). This examination found a discrepancy of \$334,736 between utility payments credited to utility customer accounts and deposits made to the City's utility bank accounts for the period of January 1, 2003, through March 16, 2004. This discrepancy involved 1,818 instances of customer utility accounts credited as paid for which no corresponding bank deposit was made.

The Auditor's report also identified four City checks totaling \$8,720.45 paid to the City Clerk that could not be supported as bona fide obligations of the City. These two issues, the utility discrepancy and the unsupported payments to the Clerk, were referred to the Attorney General's office for further investigation.

We determined the City's utility database retained sufficient information to examine utility account activity beginning January 1, 2001. Given the opportunity to identify further discrepancies in the accounting for utility receipts and in conjunction with the Attorney General's investigation, this office expanded the scope of the original examination. Accordingly, we examined utility payment and deposit records for calendar years 2001 and 2002. We further applied the same examination procedures to utility account records for the period March 17, 2004 through September 30, 2004.



As with the period examined in our original report, we requested the City to generate a composite report from its utility database. The composite report details all utility payments credited to customer accounts each day for calendar years 2001 and 2002. We reconciled the daily totals from these composite reports to daily posting reports for each cash drawer, which are printed from the utility database at the close of each business day.

This reconciliation revealed substantial discrepancies between the composite report and the individual daily posting reports in both 2001 and 2002. For 2001, customer billings totaling \$283,003 were not included on the daily posting reports, however, the billings were credited as paid on the composite report. Bank deposits correspond with the daily posting report totals; therefore, the \$283,003 discrepancy represents payments credited to customer accounts that were not deposited to the City's bank account.

Similarly, for 2002, customer billings totaling \$282,982 were not included on the daily posting reports, but were credited as paid on the composite report. This amount represents payments credited to utility customer accounts that were not deposited to the City's bank account.

The City maintained customer-billing stubs for all accounts posted on the daily posting reports. However, the additional accounts posted as paid on the composite report had no corresponding billing stubs on file with the City. We tested these additional account payments listed on the composite report by tracing them to the monthly utility transaction listing. This listing records all utility account activity for a particular month. This procedure confirmed that the billing amounts were from current bills and were credited as payments in the system.

Added to the amount previously reported, the discrepancy between customer payments and bank deposits for the period January 1, 2001, through March 16, 2004, totaled \$900,721. The chart below shows the discrepancy by calendar year.

2001	\$283,003
2002	\$282,982
2003	\$272,732
2004	<u>\$ 62,004</u>
Total	\$900,721

As mentioned above, we updated the original examination by obtaining a composite report for each month for the period March 16, 2004 through September 30, 2004. We compared the daily totals from the composite report to the daily posting reports and to City bank account deposits. No discrepancies were identified for this period.

Mayor Gooch  
December 14, 2004  
Page 3

The additional discrepancies identified in accounting for utility receipts for calendar years 2001 and 2002 were provided to law enforcement for further investigation.

We appreciate your continued cooperation and assistance during our examination process. Please contact this office should you have any questions.

Sincerely,

A handwritten signature in cursive script that reads "Brian Lykins". The ink is dark and the signature is fluid and legible.

Brian Lykins, Director  
Division of Examination and Information Technology

BL:kct