



COMPTROLLER'S INVESTIGATIVE REPORT

Baxter City Recorder

November 28, 2023

Jason E. Mumpower
Comptroller of the Treasury



DIVISION OF INVESTIGATIONS



JASON E. MUMPOWER
Comptroller

November 28, 2023

Mayor John Martin
and Board of Aldermen
200 Main Street
Baxter, TN 38544

City of Baxter Officials:

The Office of the Comptroller of the Treasury conducted an investigation of selected records of the Baxter City Recorder, and the results are presented herein.

Copies of this report are being forwarded to Governor Bill Lee, the State Attorney General, the District Attorney General of the 13th Judicial District, certain state legislators, and various other interested parties. A copy of the report is available for public inspection in our Office and may be viewed at <http://www.comptroller.tn.gov/ia/>.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jason E. Mumpower", with a long horizontal flourish extending to the right.

Jason E. Mumpower
Comptroller of the Treasury

JEM/MLC

INVESTIGATIVE REPORT

Baxter City Recorder

The Office of the Comptroller of the Treasury investigated allegations of malfeasance related to the Baxter City Recorder. The Comptroller's Office initiated the investigation after receiving allegations that the city recorder was not performing her duties. The investigation was limited to selected records for the period January 1, 2021, through December 31, 2022. The results of the investigation were communicated with the office of the District Attorney General of the 13th Judicial District.

BACKGROUND



The City of Baxter (city) is located in Putnam County, Tennessee, and is governed by the board of mayor and councilmen (board). Pursuant to Tenn. Code Ann. § 6-4-201, the Baxter City Recorder (recorder) is appointed by the board and may also be appointed to the positions of finance director, treasurer, or both. The recorder is responsible for a broad range of administrative, accounting, and support services, and is under the general supervision of the board.

The recorder has financial oversight responsibilities which are critical to the function of the city's operations. These responsibilities require timeliness, accuracy, and correction of errors while overseeing the assets, liabilities, revenues, and expenditures of the city. The recorder also has numerous administrative oversight responsibilities set forth in Tenn. Code Ann. §§ 6-4-202-204, which require that the recorder or the recorder's designee shall be present at all meetings of the board and keep a full and accurate record of all business transacted, to be preserved in permanent form. The recorder shall also have custody of, and preserve in the recorder's office, the public records, original rolls of ordinance, ordinance books, and minutes of the board; and register them by number, date, and content, and keep an accurate and current index of such material. Additionally, the recorder shall provide, copy, and when required, certify copies of records, papers, and documents in the recorder's office.

The recorder is a Certified Municipal Finance Officer (CMFO) and has held the recorder position for 6 years. Pursuant to Tenn. Code Ann. § 6-56-404, individuals with CMFO credentials must complete sixteen (16) hours of annual Continued Professional Education (CPE) training, and the

recorder was in compliance with the CMFO requirements during the entire scope of the investigation.

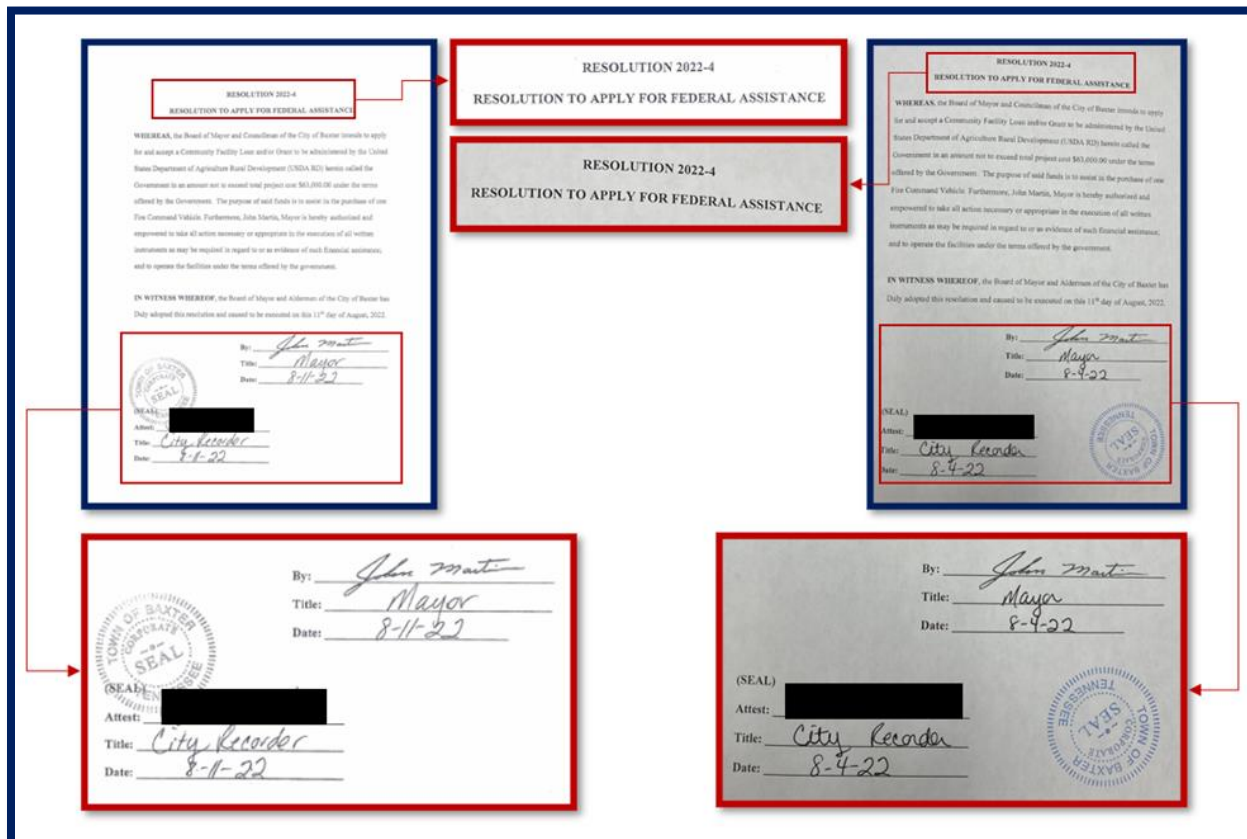
RESULTS OF INVESTIGATION

1. THE RECORDER PREPARED CITY RECORDS THAT CONTAINED ERRORS AND INACCURATE DATES

The recorder failed to meet the statutory requirements of Tenn. Code Ann. § 6-4-202 by preparing and filing city records that contained errors and inaccurate dates. City records include resolutions, ordinances, and board meeting minutes.

- A. A resolution prepared by the recorder contained inaccurate filing dates. In November 2022, the recorder provided investigators Resolution 2022-4 signed by the mayor and the recorder, which was dated August 11, 2022. However, the Resolution 2022-4 document officially filed by the recorder was dated August 4, 2022. On the two resolutions, the recorder's signature appears different, and the city seal was in a different location on the resolution provided to investigators (dated August 11, 2022) versus the resolution officially recorded (dated August 4, 2022), (Refer to Exhibit 1).

Exhibit 1



Resolution 2022-4 provided to investigators (left) and Resolution 2022-4 officially filed by the recorder (right), with different signatures, dates, and stamp locations of the city seal.

- B. City ordinances containing errors were filed by the recorder resulting in inaccurate or incomplete permanent records. Investigators identified multiple errors related to the reading dates of ordinances. These errors included: reading dates listed on the ordinance not corresponding to a date when a council meeting or public hearing was held, an instance of an ordinance with no reading dates listed, and an instance of an ordinance with no mention of the ordinance in any board meeting minutes.
- C. Board meeting minutes, prepared by the recorder, contained inaccuracies such as the incorrect ordinance listed on motions to vote, and the incorrect board meeting dates listed on the approval of meeting minutes. The board members are responsible for reviewing the prior meeting's minutes to ensure that they are accurate. However, the board members often approved the prior meeting's minutes with a dispense of the reading motion, allowing the errors to remain undetected.

2. THE RECORDER DID NOT PERFORM BANK RECONCILIATIONS ACCURATELY OR TIMELY

The recorder did not perform bank reconciliations accurately or timely. Investigators noted numerous issues related to timeliness, accuracy, and the correction of errors for 10 of the city's 13 bank accounts. Bank statements for the city's bank accounts were not reconciled with the general ledger in an accurate or timely manner. Sound business practices dictate that bank statements should be reconciled to the general ledger monthly. Failing to reconcile bank statements on a monthly basis increases the risk that errors or misappropriations will occur without prompt detection.

- A. Bank statements were not timely reconciled to the general ledger. There were multiple instances where the account analysis reports used to reconcile the bank balance to the book balance were dated several months to over one year after the bank statement date (**Refer to Exhibit 2**).

Exhibit 2

2021/07/23 1

TOWN OF BAXTER
Account Analysis (Account Order)
JANUARY 01, 2021 Th. JANUARY 31, 2021

ACQ160 2021/07/23 0:33:10 TOWN OF BAXTER
Account Analysis (Account Order)
JANUARY 01, 2021 Th. JANUARY 31, 2021 FlexGen4 (7.0U) Page: 1

110 GENERAL FUND
11210 GENERAL FUND CHECKING EPC

Fnd-Funct-Obj-Fnd-Centr-Obj	Sub Cost Sub	Transaction	Date	Description	Debit Amount	Credit Amount	Balance
110-11210			01/01/2021		0.00	0.00	696,275.73
110-11210		JE 9913	01/01/2021		376.14	0.00	696,651.87
110-11210		CR 20210104	01/04/2021		5,858.41	0.00	702,510.28
110-11210		CR 20210105	01/05/2021		1,158.74	0.00	703,669.02
110-11210		JE 9829	01/06/2021		0.00	51.54	703,617.48
110-11210		CR 20210106	01/06/2021		7,584.38	0.00	711,201.86
110-11210		CR 11591	01/07/2021		0.00	23.75	711,178.11
110-11210		CR 11595	01/07/2021		0.00	3,137.62	708,040.49
110-11210		CD 61641	01/07/2021		0.00	705.67	707,334.82
110-11210		CD 61642	01/07/2021		0.00	250.00	707,084.82
110-11210		CD 61643	01/07/2021		0.00	200.00	706,884.82
110-11210		CD 61644	01/07/2021		0.00	299.65	706,585.17
110-11210		CD 61645	01/07/2021		0.00	39.59	706,545.58
110-11210		CD 61646	01/07/2021		0.00	175.14	706,370.44
110-11210		CD 61647	01/07/2021		0.00	250.00	706,120.44
110-11210		CD 61648	01/07/2021		0.00	50.00	706,070.44
110-11210		CD 61649	01/07/2021		0.00	50.00	706,020.44
110-11210		CD 61650	01/07/2021		0.00	350.00	705,670.44
110-11210		CD 61651	01/07/2021		0.00	200.00	705,470.44

General Ledger Report dated July 23, 2021, used for the January 2021 reconciliation, 6 months after the bank statement date.

B. Bank statements were not reconciled completely. Reconciliations were incomplete and variances between the bank statements and the general ledger were not identified or explained (Refer to Exhibit 3 and Exhibit 4).

Exhibit 3

April 2022

Final Balance on Statement \$1,160,346.25

Outstanding Checks

62249	\$	187.00
62320	\$	225.00
62408	\$	17.60
62495	\$	86.52
62616	\$	305.99
62622	\$	5,012.46
62624	\$	39.00
62629	\$	583.23
62630	\$	398.12
62628	\$	6,423.20
62627	\$	181.80
62623	\$	427.00
62626	\$	514.00
62625	\$	25.00

\$3,323.26

21689.30

-43.44

-65387.21

-403.99

\$1,035,292.33

1,035,292.33

1,035,292.33

May 2022

Final Balance on Statement \$1,311,877.27

Outstanding Checks

62249	\$	187.00
62320	\$	225.00
62408	\$	17.60
62495	\$	86.52
62616	\$	305.99
62622	\$	5,012.46
62624	\$	39.00
62629	\$	583.23
62630	\$	398.12
62628	\$	6,423.20
62627	\$	181.80
62623	\$	427.00
62626	\$	514.00
62625	\$	25.00

\$30,649.61

Subtract Online Tax Pay ran for wrong amount Ending Balance 5/12/2022 -403.99 \$949,944.02

1996,703.83

1996,703.83

1996,703.83

Left: April 2022 reconciliation showing a \$3,323.26 variance with a "?" next to an incorrect balance. Right: May 2022 reconciliation showing a \$30,649.61 unexplained variance.

Exhibit 4

January 2022

Final Balance on Statement Outstanding Checks \$1,229,023.95

62249	187.00
62320	225.00
62407	286.41 ✓
62408	17.60
62417	1506.59 ✓
62390	559.49 ✓
62396	3825.00 ✓
62421	50.00 ✓
62425	232088.00 ✓
62415	220.63
62409	494.71 ✓
62406	443.91 ✓
62400	95.27 ✓
62401	1773.48 ✓
62406	178.12 ✓
62403	263.50 ✓
62494	282.56 ✓
62405	60.00 ✓
62407	13.00 ✓

243620.67

Balance \$985,403.28

Add Tax Payment not on GL \$1,919.21

Subtract Interest ran .26 short on GL -\$0.26

Subtract Interest not on GL -\$36.37

TCRS PAYMENT NOT ON BANK \$34.82

Add Dec USDA not Ran \$1,144.00

Add USDA Pay ACH not Ran Jan \$1,144.00

Add USDA Pay ACH not Ran \$1,144.00

Add Payroll not on gl \$4,360.46

Deposit on GL not bank \$79.28

Add Deposit on GL not bank 1248.61

Subtract Deposit on Bank not GL -85387.21

Subtract Online Tax Pay ran for wrong amount -403.99

Ending Balance 1/31/2022 \$908,610.43

February 2022

Final Balance on Statement Outstanding Checks \$1,125,368.02

62249	\$ 187.00
62320	\$ 225.00
62408	\$ 17.60
62454	\$ 25.00 ✓
62487	\$ 60.00 ✓
62486	\$ 12,986.75 ✓
62489	\$ 627.35 ✓
62491	\$ 334.00 ✓
62490	\$ 1,114.60 ✓
62485	\$ 78.75 ✓
62488	\$ 646.24 ✓
62492	\$ 248.10 ✓
62493	\$ 224.02 ✓
62495	\$ 86.52 ✓
62507	\$ 4,221.86 ✓
62515	\$ 1,155.52 ✓
62513	\$ 439.80 ✓
62514	\$ 726.78 ✓
62511	\$ 595.00 ✓
62512	\$ 67.16 ✓
62509	\$ 32.99 ✓
62506	\$ 2,232.20 ✓
62508	\$ 1,589.71 ✓

\$ 28,161.95

\$1,097,206.07

\$1,919.21

-\$0.26

-\$36.37

\$34.82

Add Dec USDA not Ran \$1,144.00

Add USDA Pay ACH not Ran Jan \$1,144.00

Add USDA PAY not Ran \$1,144.00

Add USDA Pay ACH not Ran \$1,144.00

Add Payroll not on gl \$4,360.46

Subtract Tax Refund not done 757.23 and 308.25

Add online pay not on bank \$182.99

\$1,081.93

Deposit on GL not bank \$2,027.78

Add Back transfer to other accounts \$48,172.95 ✓

Add Back transfer to other accounts \$115,902.00 ✓

Add Back transfer to other accounts \$117,154.16 ✓

Subtract Deposit on Bank not GL -232088.00 ✓

Subtract Deposit on Bank not GL -232088.00 ✓

Subtract Deposit on Bank not GL -43.44 ✓

Subtract Deposit on Bank not GL -85387.21 ✓

Subtract Online Tax Pay ran for wrong amount -403.99 ✓

Ending Balance 2/28/2022 \$1,071,256.93

Reconciliations that reflect the book balance, not the actual reconciliation balance, and any variance between these two balances was not included.

- C. Monthly reconciliations contained items or amounts that were not appropriately identified. Reconciling or outstanding amounts were carried forward for multiple months instead of being corrected monthly.

Additionally, multiple transactions and amounts were eventually added together on later reconciliations to total a larger cumulative amount with no description or reason, thereby losing transparency and accuracy in the reconciliation.

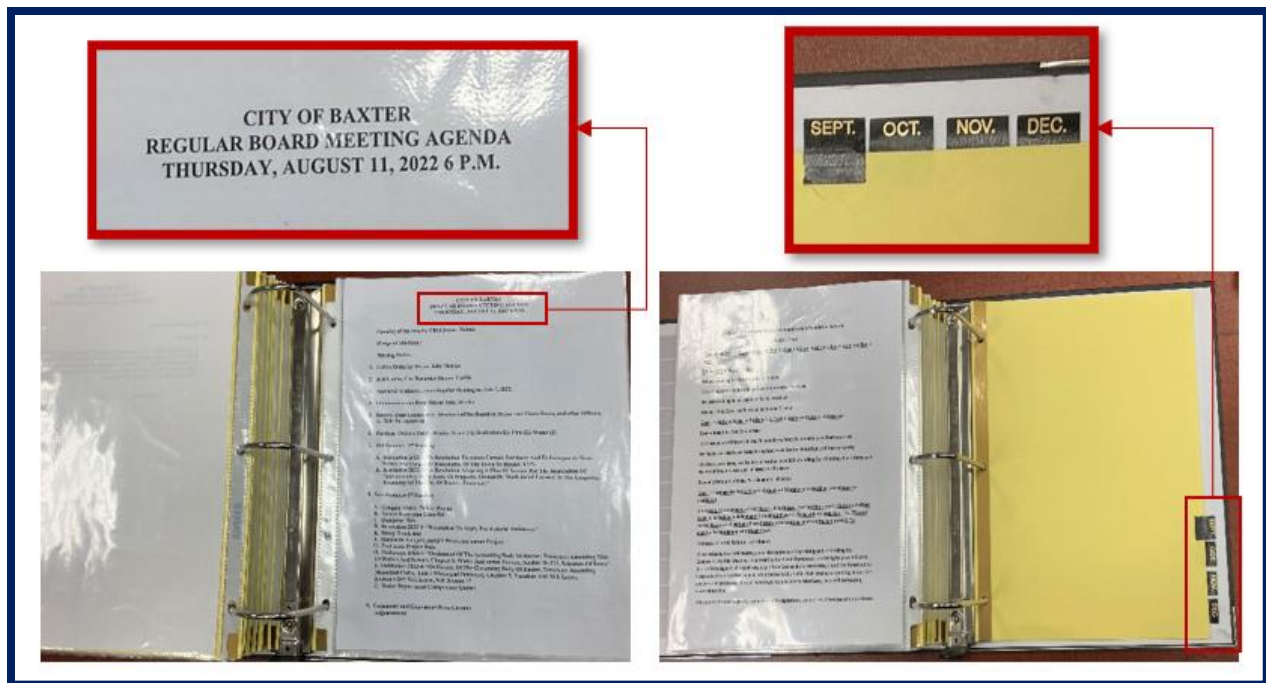
Several reconciling items carried forward for multiple months were electronic bank deposits and withdrawals, including the city's payroll, loan payments, and Internal Revenue Service (IRS) payments which were not recorded in the general ledgers when identified on the bank statements. Deposits should be noted monthly with appropriate descriptions identifying when the deposits were processed.

Posting errors, such as double counting of deposits to the general ledger accounts, were shown as reconciling items for several months.

3. THE RECORDER DID NOT PROPERLY MAINTAIN BOARD MEETING MINUTES

The recorder did not properly maintain a full and accurate record of board meeting minutes as required by Tenn. Code Ann. § 6-4-202. A review of the minute book at city hall, maintained by the recorder, revealed months of missing board meeting minutes. No board meeting minutes for August 2022 through December 2022 were maintained in the book, and there were also minutes filed in the minute book that were not officially signed or dated (**Refer to Exhibit 5**). The Comptroller’s Audit Manual states in section C, “Municipal officials should ensure that complete minutes of actions taken by the governing body are maintained at the municipal office. The official minutes should be signed and kept together in date order and be easily accessible.” Additionally, the Baxter Municipal Code states in sect. 1-302, “The recorder shall keep minutes of all meetings of the board of mayor and aldermen...”.

Exhibit 5



Photos taken of the minute book taken by investigators in January 2023, 6 months after the last board meeting minutes had been placed in the minute book.

During a visit to city hall in November 2022, investigators asked to inspect the board meeting minutes for the board meeting held 14 days prior. The recorder responded that she hadn’t transcribed those minutes yet. Investigators then requested to inspect the notes taken at that board meeting. The recorder was unable to present the meeting notes at that time. Failure to properly and timely maintain board meeting minutes decreases transparency and increases the risk of inaccurate or incomplete records of official board business.

4. THE RECORDER DID NOT FILE ORDINANCES TIMELY

The recorder did not file ordinances timely. In November 2022, investigators visited the recorder’s office and requested to inspect the filed ordinances and resolutions for July 2021 to present. The

recorder provided the July 2021 through June 2022 ordinances and resolutions filed and preserved. However, the recorder stated that she hadn't filed anything since July 2022 because she had been too busy. The Baxter Municipal Code states, "All ordinances shall be signed by the mayor and recorder and the ordinance will be placed in the minutes of the board of mayor and aldermen and shall be filed and preserved among the records..." Failure to timely file ordinances hinders transparency and increases the risk of inaccurate records and legal liabilities.

Pursuant to Tenn. Code Ann. §§ 8-47-101, 8-47-102, and 8-47-103, any person holding any municipal office of trust or profit who knowingly or willfully neglects to perform any duty enjoined upon such officer by any of the laws of the state shall forfeit such office and shall be ousted from such office. The city attorney, among other prosecuting attorneys, has the power, on their own initiative and without any complaint having been made, and the duty upon a finding of reasonable cause, to institute a removal action and proceedings in the circuit, chancery, or criminal court of the proper county, to oust such officer from office.

INTERNAL CONTROL DEFICIENCIES

Our investigation revealed deficiencies in internal control. These deficiencies included:

Deficiency 1: The board failed to provide oversight of the accounting function

The board failed to provide oversight of the accounting function. City officials should ensure that the records are accurately maintained and that errors are detected and corrected in a timely manner. Bank reconciliations should be prepared monthly, documenting beginning balances, deposits in transit, outstanding checks (with check number and date), and the ending reconciliation balance should match the accounting records. Correcting journal entries should reference the transaction in detail and formal documentation with explanations should be maintained for all journal entries made to the accounting records. Failure to provide proper oversight of the accounting functions increases the risk that errors or misappropriations will occur without prompt detection.

Deficiency 2: The city mayor authorized the recorder to use their signature stamp

The city mayor authorized the recorder to use their signature stamp. The use of a signature stamp allowed the recorder to sign city documents and payroll checks without proper oversight and effectively circumvents and overrides the internal control of requiring two signatures on documents. City officials should follow best practices and immediately discontinue the use of a signature stamp in this manner.

Deficiency 3: The board failed to correct repeat audit findings

The board failed to correct repeat audit findings. The 2018 through 2022 annual municipal audit contained repeat findings that accounting entries were not correctly posted. Failure to timely correct audit findings and implement appropriate internal controls increases the risk that errors will

continue to occur and remain undetected. City officials should implement and adhere to the corrective action plans provided by annual audits to correct audit findings, issues, and deficiencies.

The 2022 audit also contained the following findings:

- The bank accounts were not reconciled in a timely manner.
- The books were closed with numerous errors.
- An expense was paid twice.
- Grant receivables were not recorded.
- The city provided their auditor with accounting records that contained errors which resulted in the audit not being completed and filed by the December 31 deadline.

Deficiency 4: The board failed to provide adequate oversight of the recorder’s duties and establish segregation of duties

The board failed to provide adequate oversight of the recorder’s duties and establish proper segregation of duties. The recorder was allowed to initiate and process all transactions, including signing checks, and control accounting and reporting functions. The board is responsible for the design and implementation of internal controls that give reasonable assurance of the reliability of city records. Board should ensure the council meeting minutes, ordinances, and resolutions are free from error, signed, and filed in a timely manner. Additionally, workflow should be established so that an employee’s work is automatically verified by another employee working independently. Bank reconciliations should be reviewed by the board periodically to ensure that they are being performed timely and accurately.
