



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF INVESTIGATIONS**

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Comptroller of the Treasury

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March 27, 2013

Honorable Mayor and Members of the
Board of Aldermen
Town of Henning
260 North Main
Henning, TN 38041

Ladies and Gentlemen:

The Comptroller's Division of Investigations conducted an investigative audit of selected records of the Town of Henning. This investigation included a review of circumstances surrounding a missing town check subsequently transacted on the town's bank account for \$25,500. The investigation also included an assessment of the disposition of certain vehicles seized by the police department. The investigation focused on the period July 1, 2010, through October 31, 2011; however, when warranted, the scope was expanded. The investigative audit revealed the following:

- Town officials failed to identify and take prompt remedial action to invalidate a missing town check, resulting in a loss to the town of \$25,500.
- The town failed to remit applicable proceeds relative to certain seized vehicles to the Tennessee Department of Mental Health and Substance Abuse Services.
- The mayor and recorder failed to adhere to proper controls when issuing city checks.
- The mayor failed to remit documentation to support some disbursements for which he was responsible.

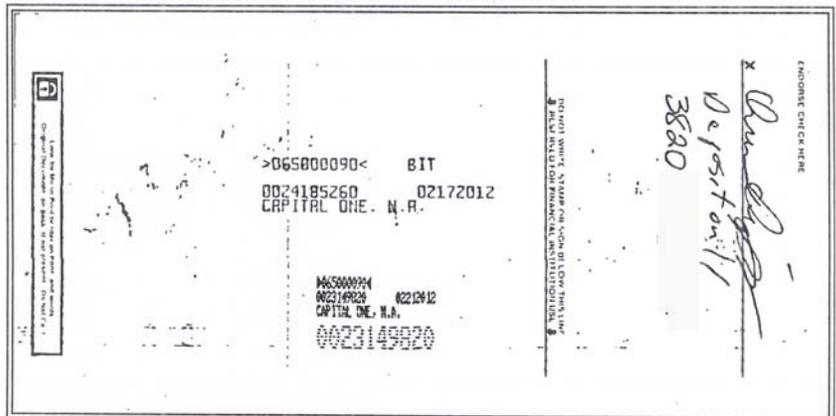
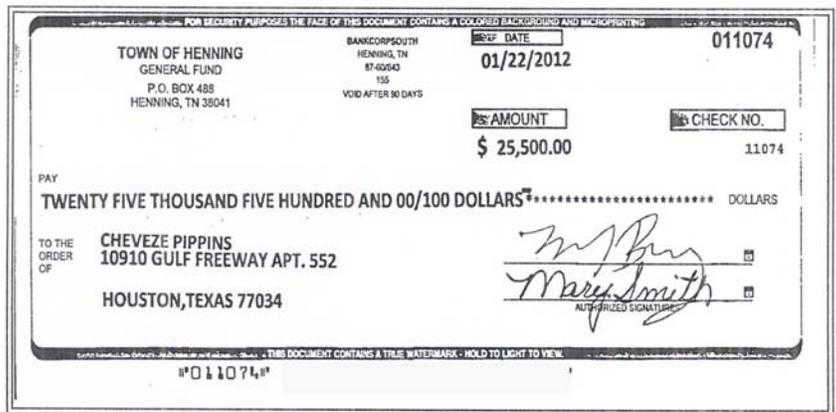
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INVESTIGATIVE FINDING

1. **FINDING:** Failure to account for issued town checks resulted in loss to town of \$25,500

Town officials failed to promptly identify a town check which had apparently been either lost or stolen, and failed to take prompt remedial action resulting in a loss to the town of \$25,500. According to the accounting firm which provided bookkeeping services to the town, town check no. 11074 in the amount of \$187.65 was issued on November 15, 2011, for payment of a legitimate expense, and mailed to an address in Dallas, Texas. The vendor rebilled the town the following month, indicating that no payment had been received. The accounting firm issued a replacement check in December 2011. A stop-payment order was not issued on the presumably lost check.

Exhibit 1



Town bank records show that on February 22, 2012, check no. 011074 was deposited into a bank account in Houston, Texas. (Refer to Exhibit 1.) As shown above, when deposited, the check was made payable to “Cheveze Pippins,” and written in the amount of \$25,500.

When initially questioned by Comptroller investigators about this transacted check, the mayor asserted he had lost the check at a store in Covington, Tennessee, in December

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2011. Subsequent investigation revealed that the check was likely not lost in a store, but instead stolen by an unknown third party after it was signed and mailed. It should be noted that subsequently, in November 2012, two attempts to transact counterfeit town checks were made in Louisiana and again in Houston, Texas. In both those instances, the town's bank refused to honor the checks.

Failure by town officials to identify check no. 011074 as a lost or stolen check and to take prompt remedial action by issuing a stop-payment order resulted in the loss of \$25,500 in town funds.

This office notified representatives of the town's insurance provider and the bank at which the fraudulent check was transacted. In addition, this matter was referred to the local district attorney general's office. The town should take every action provided by law to recover the lost funds. To reduce the risk that town assets are wasted, misused, or misappropriated, town officials should ensure that stop-payment orders are issued for any lost or stolen checks.

INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES **FINDINGS**

Presented below are findings related to internal control and compliance deficiencies noted during the investigative audit that we believe warrant the attention of town officials.

1. **FINDING: Failure to properly remit applicable proceeds to the Tennessee Department of Mental Health and Substance Abuse Services**

The Town of Henning failed to document and remit to the Tennessee Department of Mental Health and Substance Abuse Services applicable amounts owed per state statutes. Our investigative audit revealed that the Henning Police Department seized vehicles in accordance with Section 55-10-403 (driving under the influence) and Section 55-50-504 (driving on revoked license), *Tennessee Code Annotated*. The town did not comply with these laws, both of which require a determination and remittance to the Tennessee Department of Mental Health and Substance Abuse Services of excess proceeds from the sale of these vehicles. Town records revealed that of the eight vehicles seized pursuant to these statutes, between July 1, 2012, and October 31, 2011, town officials disposed of four of these seized vehicles in the following ways:

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- Two vehicles were sold to a local dealership;¹
- One vehicle was sold to the Town of Henning for municipal use;² and
- One vehicle was donated to the town for municipal use.

The total value received by the police department for these four vehicles was \$28,429. Comptroller investigators observed that as of January 6, 2012, the remaining four vehicles were still in the custody of the police department.

Section 40-33-211, *Tennessee Code Annotated*, mandates that the proceeds derived from vehicles forfeited under those statutes are distributed as follows:

(1) The revenue shall be retained by the entity, either state or local government, which was responsible for the seizure. The revenue shall be used during each fiscal year to compensate the entity for reasonable and direct expenses involved in the confiscation, towing, storage, and sale of the forfeited vehicles. All expenses claimed by the entity shall be subject to audit and review by the comptroller of the treasury for the purpose of determining that expenses claimed by the entity are direct and reasonable;

(2) Any remaining revenue shall be transmitted to the department of mental health no later than June 30 of each fiscal year.

2. **FINDING: Failure to adhere to requirements for issuance of checks**

The mayor and recorder issued several city checks with only one authorized signature, and both admitted that on occasion, they presigned blank checks. The *Internal Control and Compliance Manual for Tennessee Municipalities*, page 63, states, “Municipal officials should require two signatures on all checks and should never sign checks in advance of their preparation and issuance.”

3. **FINDING: Inadequate supporting documentation**

The municipality’s files did not include adequate, supporting documentation for each disbursement. For certain disbursements, including several for which the mayor personally delivered the checks, the files contained no documentation. The *Internal*

¹ These transactions were approved by the mayor and board of aldermen on June 27, 2011.

² This transaction was approved by the mayor and board of aldermen on August 1, 2011. Money was transferred from the general government account to the police department account.

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Control and Compliance Manual for Tennessee Municipalities, requires that municipal officials ensure that adequate supporting documentation is obtained and filed for all disbursements.

The mayor and members of the board of aldermen should take immediate action to resolve these issues. If you have any questions concerning the above, please contact me.

Sincerely,

A handwritten signature in cursive script that reads "L. Rene Brison".

L. Rene Brison, CPA, CFE, Assistant Director
Division of Investigations

LRB/RAD