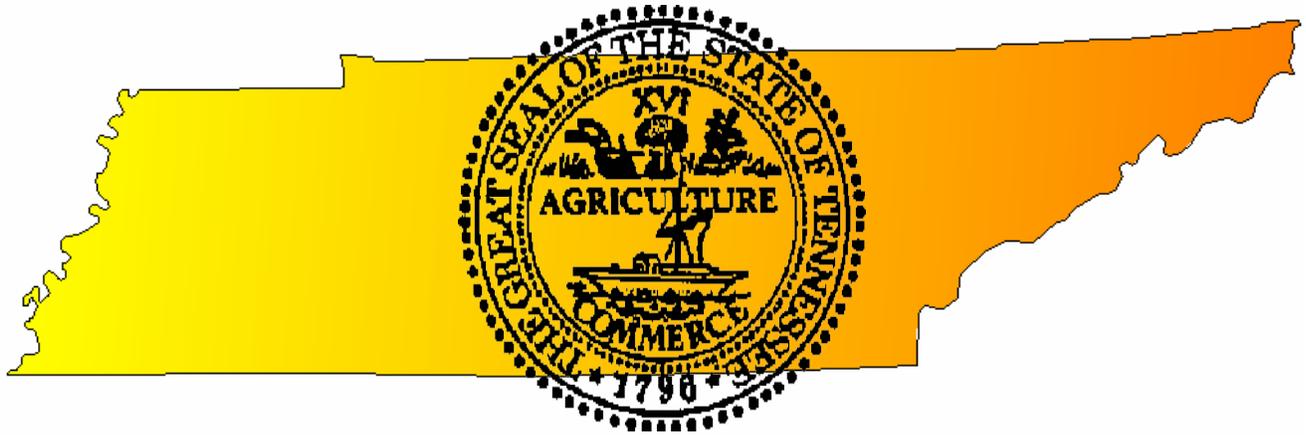


# INVESTIGATIVE AUDIT REPORT

TOWN OF ALEXANDRIA  
JULY 1, 2002, THROUGH OCTOBER 31, 2004



## State of Tennessee



**Comptroller of the Treasury  
Department of Audit  
Division of Municipal Audit**



STATE OF TENNESSEE

John G. Morgan  
Comptroller

C O M P T R O L L E R O F T H E T R E A S U R Y

STATE CAPITOL  
NASHVILLE, TENNESSEE 37243-0260  
PHONE (615) 741-2501

July 18, 2006

Honorable Mayor and Members of the  
Board of Aldermen  
Town of Alexandria  
P. O. Box 277  
Alexandria, TN 37012

Ladies and Gentlemen:

Presented herewith is the report on our investigative audit of selected records of the Town of Alexandria. This examination focused on the period July 1, 2002, through October 31, 2004. The audit was limited to the operations of the police department, the fire department, and the acquisition and disposal of surplus property acquired through state and federal programs. However, when warranted, this scope was expanded.

Section 9-2-102, *Tennessee Code Annotated*, requires that the Comptroller of the Treasury prescribe a uniform system of bookkeeping designating the character of books, reports, receipts and records, and the method of keeping same, in all state, county and municipal offices, including utility districts, which handle public funds. This code section also requires that all officials adopt and use the prescribed system. The Comptroller has prescribed a minimum system of recordkeeping for municipalities, which is detailed in the *Internal Control and Compliance Manual for Tennessee Municipalities* combined with Chapters 1-7 of *Governmental Accounting, Auditing, and Financial Reporting*. The purpose of our audit was to determine the extent of the entity's compliance with certain laws and regulations, including those in the above-mentioned manuals.

The investigative audit revealed that the former fire chief had made cash withdrawals amounting to \$2,612 from a fire department bank account for no legitimate municipal purpose. This matter was referred to the district attorney general. In April 2006, the DeKalb County Grand Jury indicted Eddie Tubbs on one count of Theft over \$1,000 and one count of Official Misconduct.

Honorable Mayor and Members of the  
Board of Aldermen  
Town of Alexandria  
July 18, 2006

The findings and recommendations in this report also relate to those conditions that we believe warrant your attention. All responses to each of the findings and recommendations are included in the report.

Copies of this report are being forwarded to Governor Phil Bredesen, the State Attorney General, the District Attorney General, certain state legislators, and various other interested parties. A copy is available for public inspection in our office.

Very truly yours,

A handwritten signature in black ink that reads "John G. Morgan". The signature is written in a cursive style with a large initial "J" and a long horizontal stroke at the end.

John G. Morgan  
Comptroller of the Treasury



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

**John G. Morgan**  
Comptroller of the Treasury

SUITE 1600  
JAMES K. POLK STATE OFFICE BUILDING  
505 DEADERICK STREET  
NASHVILLE, TENNESSEE 37243-0271  
PHONE (615) 401-7871  
FAX (615) 741-1551

**Dennis F. Dycus, CPA, CFE, Director**  
Division of Municipal Audit

July 18, 2006

Mr. John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, TN 37243-0260

Dear Mr. Morgan:

As part of our on-going process of examining the records of municipalities, we have completed our investigative audit of selected records of the Town of Alexandria. The examination focused on the period July 1, 2002, through October 31, 2004. The audit was limited to the operations of the police department, the fire department, and the acquisition and disposal of surplus property acquired through state and federal programs. However, when warranted, this scope was expanded.

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Mr. John G. Morgan  
Comptroller of the Treasury  
July 18, 2006

Our examination also resulted in findings and recommendations related to the following:

1. Required procedures for confidential funds transactions not followed by police department
2. Apparent noncompliance with federal and state surplus property regulations
3. Inadequate control over fixed assets and other property
4. Confiscated drugs not adequately accounted for
5. Required court approval not obtained for use of confiscated property
6. Daily collection reports not prepared and deposit slips not itemized
7. Duplicate, prenumbered receipts not issued for each collection

In addition to our findings and recommendations, we are also providing management's response. If after your review, you have any questions, I will be happy to supply any additional information which you may request.

Sincerely,

A handwritten signature in black ink, appearing to read "Dennis F. Dycus". The signature is fluid and cursive, with a large initial "D" and "F".

Dennis F. Dycus, CPA, CFE, Director  
Division of Municipal Audit

**INVESTIGATIVE AUDIT OF SELECTED RECORDS OF THE  
TOWN OF ALEXANDRIA  
FOR THE PERIOD JULY 1, 2002, THROUGH OCTOBER 31, 2004**

**LEGAL ISSUE**

1. **ISSUE: Unaccounted for cash and improper charges**

Town officials became aware that Don Eddie Tubbs, who at the time was an alderman and the town fire chief, had maintained an Alexander Fire Department bank account that was not part of the town records. Officials determined that Mr. Tubbs had withdrawn \$896 in cash from that account with no explanation. Town officials also found that Mr. Tubbs had apparently charged gasoline totaling \$472 for his personal vehicle on the town account at Prichard's Foods. Also, officials determined that a cash collection of \$170 apparently made by Mr. Tubbs was never turned over to the town for deposit into a town bank account. Officials determined that Mr. Tubbs received the benefit of \$1,538 in town funds that he was not entitled to. Mr. Tubbs agreed to, and did repay the town for those funds.

However, when auditors obtained more complete records of the Alexander Fire Department bank account, they discovered that there were additional questionable cash withdrawals totaling \$1,716. Therefore, the total amount of Mr. Tubbs apparently unauthorized benefits was \$3,254.

During an interview with auditors, Mr. Tubbs denied using town money or credit for personal gain or benefit. He indicated that the cash withdrawals were used primarily to buy four pagers at an approximate cost of \$1,600. He provided auditors with the name of the vendor and salesman who sold the town the pagers. However, when contacted by auditors, the salesman indicated his company had not sold *any* pagers to the Town of Alexandria during the entire year in question. Auditors were unable to substantiate any legitimate use for Mr. Tubb's cash withdrawals. Mr. Tubbs told auditors that he wanted to pay back to the town what he owed.

This matter was referred to the district attorney general. In April 2006, the DeKalb County Grand Jury indicted Eddie Tubbs on one count of Theft over \$1,000 and one count of Official Misconduct.

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## **FINDINGS AND RECOMMENDATIONS**

1. **FINDING:**    **Required procedures for confidential funds transactions not followed by police department**

Confidential funds transactions were not always properly documented through the use of prescribed forms. Records of undercover drug fund usage were disorganized and incomplete. Auditors were unable to account for \$1,392 in excess cash left over after undercover drug purchases. In addition, cash from undercover funds were used to make nonconfidential purchases, including the purchase of an assault rifle, travel, and training expenses.

“Procedures for Handling Cash Transactions Related to Undercover Investigative Operations of County and Municipal Drug Enforcement Programs,” developed pursuant to Section 39-17-420(f), *Tennessee Code Annotated*, describes proper procedures for undercover cash and also includes prescribed forms for the proper documentation of confidential funds transactions. As described in that document, **undercover cash should be used only for those transactions for which confidentiality is required**. All nonconfidential expenses should be made consistent with statutes, policies, and procedures governing the payment of normal operating expenses.

**RECOMMENDATION:**

To properly account for confidential funds, such funds should be handled in accordance with the “Procedures for Handling Cash Transactions Related to Undercover Investigative Operations of County and Municipal Drug Enforcement Programs.”

**MANAGEMENT’S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur. We understand the procedures for handling cash transactions related to undercover operations and drug enforcement programs and those procedures are being followed.

**Police Chief:**

I agree. All confidential fund transactions will be properly documented on the appropriate forms as prescribed by *Tennessee Code Annotated*. Any and ALL transactions will be documented on the appropriate forms as well as keeping proper receipts with names, addresses, phone numbers, etc.

2. **FINDING: Apparent noncompliance with federal and state surplus property regulations**

The town obtained a utility boat as surplus property from the State of Tennessee, Property Utilization Division, pursuant to Section 1033 of the National Defense Authorization Act, as amended. When the state auditor observed the boat on town property during the course of this audit, there were no registration numbers or other tags or marks to identify ownership of the boat. Although the former mayor and the former police chief both offered to auditors anticipated uses for the boat, those uses did not serve a present need for law enforcement activities at the time it was obtained. After it was determined that the boat had not been used for law enforcement activities, the boat was returned to the state Property Utilization Division. An agreement between the town and the State of Tennessee, Property Utilization Division, dated June 12, 2003, spells out the conditions the town must meet when obtaining surplus property. The contract states, in part:

Property available under this agreement is for the use of authorized program participants; not for speculative or possible future use. Property may not be obtained for the purpose of sale, lease, rent, exchange, barter, to secure a loan or to otherwise supplement normal budgets.

It appears that the town obtained property through this program for which it had no immediate need.

**RECOMMENDATION:**

In order to remain eligible to participate in the surplus property program, the town should comply with all provisions of their agreement with the Property Utilization Division.

**MANAGEMENT'S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur with the recommendation above.

**Police Chief:**

I agree. The Alexandria Police Department will only obtain vehicles and/or property for which there is an immediate need.

3. **FINDING: Inadequate control over fixed assets and other property**

Officials did not require adequate internal control over the municipality's fixed assets and high-risk, moveable property. The municipality obtained items such as vehicles, cameras,

bayonets, a telescope, and refrigerator-freezers from federal and state surplus property programs. However, the former recorder did not maintain complete, updated records of such items. The municipality did sell items at auction, including vehicles. However, accounting records were often not available to determine which vehicles were sold, to whom those vehicles were sold, and the selling price of the individual item. Many of these items were not permanently marked to indicate the municipality's ownership. Because some items purchased from state and federal surplus property programs lacked serial numbers or other unique identifying characteristics, auditors were unable to conclude that all such property was accounted for.

In addition, the municipality's files did not include documentation of an annual physical inventory. Generally accepted accounting principles and the *Internal Control and Compliance Manual for Tennessee Municipalities* require that fixed asset records be maintained. Title 1, Chapter 4, of the manual states:

Municipal officials should require that all fixed assets are located, identified (tagged or marked), and recorded using a separate card for each property item or group of similar items, such as chairs, purchased at the same time. The record should be retained at the municipality and should include up-to-date purchase and disposal information. An annual inventory should be performed and documented ... a record of moveable, high-risk, sensitive property, such as TVs, VCRs, and small office machines, as well as furnishings and works of art, be established and maintained and an annual inventory be performed.

**RECOMMENDATION:**

To better control and account for individual fixed assets and high-risk, moveable property, the recorder should maintain complete, updated records of those items in accordance with the *Internal Control and Compliance Manual for Tennessee Municipalities*. Officials should require that each of the items is permanently marked or tagged to indicate the municipality's ownership. When surplus property is disposed of, complete, accurate records documenting that disposal should be maintained. In addition, officials should require that an annual physical inventory of the fixed assets and of the high-risk, moveable property is performed and documented.

**MANAGEMENT'S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur with the recommendation and since we have a different person in the office and also a city recorder, we're sure the recommendation will be followed.

**Recorder:**

I concur with the recommendation. It will be followed.

4. **FINDING: Confiscated drugs not adequately accounted for**

The police department maintained custody of drugs and drug paraphernalia seized pursuant to Section 53-11-451, *Tennessee Code Annotated*. However, the department did not follow the procedures set forth in state statutes for the disposal of those items. In addition, the police department did not follow procedures required by Tennessee Rules of Evidence.

Our investigative audit revealed that the former police chief did not maintain a complete, updated inventory of evidence. Evidence was not adequately labeled. Auditors found that several items of controlled drug evidence were kept in a file cabinet in the former police chief's office and that records were insufficient to determine the disposition of several drug items seized as evidence. Finally, applicable seized drugs and drug paraphernalia were not destroyed annually as required by state law.

Under court decisions interpreting Tennessee Rules of Evidence, Rule 901, a proper chain of custody must be documented and maintained for items to be admissible as exhibits at court proceedings.

In addition, section 53-11-451(j), *Tennessee Code Annotated*, states:

Any property of the type set forth in subdivisions (a)(1) and (7) which is in the custody and possession of a clerk of any court of this state by virtue of the property having been held as evidence or exhibits in any criminal prosecution where all appeals or potential appeals of a judgment have ended, or when the case has been dismissed or otherwise brought to a conclusion, shall be disposed of as follows:

(1) The clerk of the court having custody of the property to be disposed of shall, no less than once annually, inventory the same and prepare a list of the property proposed to be destroyed with references to the cases involved and the name of the case, the case number and date when such property was used;

(2) The clerk shall submit the inventory list with a filed petition to the court and shall serve a copy of the petition upon the district attorney general. After determining that the listed property is not needed as evidence in any pending or potential judicial proceeding, the court shall order the property to be destroyed; and

(3) The clerk, or such deputy as the clerk may designate, shall completely destroy each item by cutting, crushing, burning or melting and shall file, together with the petition and order relating to the destroyed property, an affidavit concerning such destruction, showing a description of each item, the method of destruction, the date and place of destruction, and the name and addresses of all witnesses to the destruction.

**RECOMMENDATION:**

To comply with state statutes and to alleviate the responsibility for safeguarding property not needed as evidence, the police chief should ensure the annual inventory and destruction of applicable seized drugs and drug paraphernalia. Procedures set forth in Section 53-11-451, *Tennessee Code Annotated*, should be followed for the disposal of such property. All drug evidence should be adequately tagged or marked and stored in a secure place with restricted access.

**MANAGEMENT'S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We agree with the above recommendation. Since the city has a new police chief, things of this matter have been taken care of. The police chief keeps accurate records.

**Police Chief:**

I agree. All evidence shall be properly tagged and a chain of custody will be kept. All evidence will be secured in a double-locked closet and locker whereas I have the only keys. Evidence will be disposed of in accordance with the state laws.

5. **FINDING: Required court approval not obtained for use of confiscated property**

Auditors noted that the former police chief apparently combined confiscated marijuana from several drug seizures into one large, unlabeled bag of marijuana. The police chief stated that the marijuana was to be used in a controlled drug sale. However, auditors could not locate any documentation to support this assertion. Auditors were also unable to determine that all this marijuana was accounted for. In addition, the police department failed to obtain the required court order prior to using seized property in the drug enforcement program.

Section 53-11-451(d), *Tennessee Code Annotated*, requires that the police department obtain permission from the court of jurisdiction to use seized property in the drug enforcement program.

**RECOMMENDATION:**

The police chief should ensure that all confiscated drugs are adequately accounted for. In addition, the police department should obtain court approval prior to using any confiscated property.

**MANAGEMENT'S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur. We understand the police chief we have now is doing everything according to the books. He seems to have everything in order to the best of our knowledge.

**Police Chief:**

I agree. All confiscated drugs will be accounted for and drugs used for any police department activities will only be done with prior court approval and be well documented.

6. **FINDING: Daily collection reports not prepared and deposit slips not itemized**

The former recorder did not prepare daily collection reports summarizing the amount and source of all cash collected each day. In addition, deposit slips did not always list each check included in the deposit. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 6, requires municipal officials to ensure that

... each day the cashier summarizes all cash collections by source on a daily collection report, clearly indicating the amount to be deposited, the amount retained for change, and the amount of cash over or short. Each report should be dated, and the date should be recorded on the corresponding deposit slips. The total on the daily collection report should agree with the total of the corresponding deposit slips as well as the total of all applicable receipts. The cashier should sign the daily collection report...

Section 4 requires that municipal personnel list each check deposited separately on an itemized deposit slip.

**RECOMMENDATION:**

To better account for collections, each day the cashier should prepare a detailed report of that day's total collections and the source of those collections. To help document that all collections are deposited intact, the totals of each daily collection report, corresponding

prenumbered receipts, and related bank deposit should agree. Municipal personnel should itemize deposit slips and list each check separately.

**MANAGEMENT’S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur. The city clerk is doing everything correctly now with daily collection reports, prenumbered receipts, and bank deposits that all agree. She’s doing a great job trying her best to do everything correctly.

**Recorder:**

I concur. Daily collection reports, prenumbered receipts, and itemized deposit slips are now being used.

7. **FINDING: Duplicate, prenumbered receipts not issued for each collection**

Municipal employees or officials who received collections for the municipality did not issue a duplicate, prenumbered receipt for each source of revenue including collections for the drug fund. Section 9-2-103, *Tennessee Code Annotated*, states, “Each ... municipal official who receives any sum or sums in such official’s capacity shall issue to the payer thereof a receipt and shall retain a duplicate thereof in the office of such official....”

Section 9-2-102, *Tennessee Code Annotated*, requires the department of audit to “prescribe a uniform system of bookkeeping designating the character of books, reports, receipts, and records, and method of keeping same, in all state, county, and municipal offices ... which handle public funds.” The *Internal Control and Compliance Manual for Tennessee Municipalities*, requires municipal officials to ensure that **prenumbered** receipts are issued for each revenue source.

**RECOMMENDATION:**

To better account for all revenue, the employee or official who receives collections should issue a duplicate, prenumbered receipt for each source of revenue. The duplicate receipt should provide adequate details to identify the revenue.

**MANAGEMENT'S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur and this is being taken care of. All money coming into the municipality is being issued a duplicate prenumbered receipt for each source of revenue. All record from what source.

**Recorder:**

I concur. We have prenumbered receipts that are issued for all money coming into the municipality and also for each source of revenue.