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**Dennis F. Dycus, CPA, CFE, Director**  
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November 9, 2009

Honorable Mayor and Members of the  
Board of Aldermen  
City of Bells  
P.O. Box 760  
Bells, TN 38006

Mayor and Members of the Board of Aldermen:

We have concluded our investigative audit of selected records of the City of Bells. The audit focused on the period July 1, 2008, through June 30, 2009. The investigative audit was initiated to determine the details of the city's acquisition of a wastewater pipeline. As a result, the audit was primarily limited to an examination of selected disbursements. However, when warranted this scope was expanded.

Wastewater Pipeline and Pumping Station Purchase

Pictsweet, a frozen vegetable supplier with a production facility and headquarters located in Bells, discharges a large amount of wastewater per day into the city's wastewater treatment facility. Pursuant to a 1971 agreement, Pictsweet pays 92½ percent of the cost related to building, operating, and maintaining the city's wastewater treatment facility. In addition, Pictsweet owns a substantial amount of the real property in Bells and pays over 20 percent of the property tax collected by the city.

In September 1997, the Tennessee Department of Environment and Conservation [TDEC] notified the City of Bells that their wastewater discharge into the Forked Deer River exceeded allowable limits. In January 1998, the city proposed, and TDEC approved, building a wastewater pipeline and pumping station to transport wastewater to a different location on the river to resolve the problem. However, the city did not obtain a TDEC permit to discharge wastewater at the alternate location until May 2007. In the June 11, 2007, minutes of the meeting of the mayor and board of alderman, a motion was approved to allow Pictsweet to finance 100 percent of the pipeline project, with the city promising to repay Pictsweet 7½ percent of the total cost. However, Pictsweet didn't simply fund the project, but proceeded to have the pipeline project designed, built, and online for use around February 2008. About one year later, on February 9, 2009, the mayor and board of alderman agreed to purchase the pipeline project from Pictsweet. On June 1, 2009, the city obtained a Capital Outlay Note and issued a check in the

amount of \$1,420,639 to Pictsweet for the purchase of the pipeline. Also on that date, the city executed an agreement in which Pictsweet promised to pay to the city 92½ percent of each monthly note payment. Our investigative audit revealed that the city allowed Pictsweet to construct the wastewater pipeline and pumping station to avoid bidding out the project. According to the mayor, the city deliberately circumvented the purchasing requirements for the construction of the wastewater pipeline and pumping station.

Sections 6-56-304 and 6-56-306, *Tennessee Code Annotated*, require that expenditures of \$2,500 or more be let out for bid unless the municipal governing body adopts an ordinance increasing the bid limit. To obtain the best price, comply with state law, and avoid the appearance of impropriety, city officials should ensure that all expenditures exceeding the bid limit are properly let out for bid.

#### Other Issues

While performing the audit, these additional internal control and compliance deficiencies came to our attention:

1. The mayor received excess compensation of at least \$19,450. The city charter does not allow changing the mayor's salary during his term. However, our investigative audit revealed that his salary was improperly increased mid-term seven times between 2000 and 2009. To prevent overpayment in the future, the mayor and members of the board of aldermen should ensure that any pay raises are in compliance with the charter. In addition, the mayor and members of the board of aldermen should ensure the mayor's current pay is accurate and should take steps to recover any overpayment.
2. The mayor and the members of the board of aldermen failed to adopt a comprehensive written purchasing policy. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 1, states that municipalities should adopt a written purchasing policy that includes designating persons authorized to make purchases, requiring the use of prenumbered purchase orders, outlining procedures for emergency and small-item purchases without prior approval, requiring approval by the finance officer, and requiring bids for purchases over a stated amount. To ensure that the municipality purchases items at the best price and in the most advantageous manner, the mayor and members of the board of aldermen should adopt and enforce compliance with a comprehensive written purchasing policy.

3. The mayor and the members of the board of aldermen failed to adopt a comprehensive written travel policy. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, states that municipalities should adopt a written travel policy that requires expenses for reimbursement to be reported on a standardized form in sufficient detail to determine allowability. To prevent unauthorized reimbursement payments and avoid the possible tax ramifications raised by the payment of undocumented expenses, the mayor and members of the board of aldermen should adopt and enforce compliance with a comprehensive written travel policy.
4. The city leased a vehicle from the city superintendent for \$6,000 per year but did not bid out the lease and did not have a written lease agreement with the superintendent. In addition, the city paid for fuel (an average of at least \$290 per month) and minor maintenance of the vehicle even though the superintendent also used the vehicle for his personal use. As previously stated, Sections 6-56-304 and 6-56-306, *Tennessee Code Annotated*, require that expenditures of \$2,500 or more be let out for bid and the *Internal Control and Compliance Manual for Tennessee Municipalities* requires municipal officials to obtain a written contract for all agreements including leases. The city reported the lease payments to the superintendent on Form 1099. However, the payments should have been reported to the IRS as taxable income on his Form W-2. The mayor and members of the board of aldermen should determine which method provides a vehicle for the superintendent's use at the best price to the city. If the city continues to lease a vehicle for the superintendent to drive for city business, the lease should be competitively bid and a lease agreement should be executed. In addition, the mayor and members of the board of aldermen should keep in mind that a leased vehicle is a municipal vehicle and should implement and enforce adequate controls to prevent improper or personal use of the municipal vehicle. If the city continues to pay the superintendent for using his personal vehicle to conduct city business, payment should be made pursuant to a travel policy and on a per mile basis reported on a standardized form in sufficient detail to determine allowability.
5. On January 15, 2009, the city paid for a meal for city natural gas employees at a cost of \$502. Although the invoice in city files did not provide adequate detail, the mayor acknowledged to state auditors that alcoholic beverages were included in that bill. In addition, the bill included a \$102 tip. Section 6-56-112, *Tennessee Code Annotated*, states, "All expenditures of money made by a municipality must be made for a lawful municipal purpose."

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6. Around December 2008, a city employee was involved in an accident while on city time and while driving a city vehicle. He was cited by law enforcement for driving on the wrong side of the road. The charges were dismissed subject to the payment of court costs and attendance at a driving school. State auditors determined that the city paid the \$50 fee for driving school and the \$138 court costs on the employee's behalf. Section 6-56-112, *Tennessee Code Annotated*, states, "All expenditures of money made by a municipality must be made for a lawful municipal purpose."

The mayor and members of the board of aldermen should take immediate corrective action to resolve these issues. If you have any questions or need additional information, please contact me.

Very truly yours,

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