

# INVESTIGATIVE AUDIT REPORT

**CITY OF COLLEGEDALE  
JULY 1, 2005, THROUGH MAY 31, 2006**



## State of Tennessee



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



STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

John G. Morgan

Comptroller

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-0260

PHONE (615) 741-2501

October 2, 2008

Honorable Mayor and Members of the  
Board of Commissioners  
City of Collegedale  
P. O. Box 1880  
Collegedale, TN 37315-1880

Gentlemen:

Presented herewith is the report on our investigative audit of selected records of the City of Collegedale. This investigative audit focused on the period July 1, 2005, through May 31, 2006. However, when the examination 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.

Our investigative audit revealed an apparent misappropriation by the former city manager totaling at least \$15,671.80. The former recorder also apparently falsified government records. These matters were referred to the local district attorney general. On June 11, 2008, the Hamilton County Grand Jury returned an indictment against former city manager, Carol Sue Mason, on one count of Theft over \$10,000.

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.

Honorable Mayor and Members of the  
Board of Commissioners  
City of Collegedale  
October 2, 2008

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 long horizontal flourish 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

BANK OF AMERICA PLAZA  
414 UNION STREET, SUITE 1100  
NASHVILLE, TENNESSEE 37219-1718  
PHONE (615) 532-4460  
FAX (615) 532-4499

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

October 2, 2008

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

Dear Mr. Morgan:

As part of our ongoing process of examining the records of municipalities, we have completed our investigative audit of selected records of the City of Collegedale. This investigative audit focused on the period July 1, 2005, through May 31, 2006. However, when the examination 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.

Our investigative audit revealed an apparent misappropriation by the former city manager totaling at least \$15,671.80. The former recorder also apparently falsified government records. These matters were referred to the local district attorney general. On June 11, 2008, the Hamilton County Grand Jury returned an indictment against former city manager, Carol Sue Mason, on one count of Theft over \$10,000.

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

1. Former city manager authorized payroll advances in violation of the Tennessee State Constitution
2. Inadequate leave records for supervisory personnel

John G. Morgan  
Comptroller of the Treasury  
October 2, 2008

3. Unauthorized benefit and improper use of bulk fuel
4. Inadequate supporting documentation maintained for some disbursements and some invoices paid late
5. Failure to maintain separate bank account for confidential funds
6. Deposits not made intact
7. Collections not deposited within three days
8. Failure to comply with city travel policy
9. Incorrect federal Form W-2

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, stylized initial "D" and "F".

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

**INVESTIGATIVE AUDIT OF SELECTED RECORDS OF THE  
CITY OF COLLEGEDALE  
FOR THE PERIOD JULY 1, 2005, THROUGH MAY 31, 2006**

**BACKGROUND**

Former city manager, Carol Mason, began work at the City of Collegedale on September 28, 1990. Ms. Mason resigned from her position as city recorder in April 2003. On September 2, 2003, the mayor and board of commissioners hired Ms. Mason as city manager. Ms. Mason was terminated as city manager on February 6, 2006, but remained on the payroll as a consultant for an additional two and one-half months with full pay and health benefits. Unless otherwise noted, for purposes of this report, "former city manager" refers to Carol Mason.

During the period May 7, 2003, through May 3, 2004, under the former city accountant's, Paul Attle's, tenure, numerous city checks were issued with only one authorized signature (the former city accountant's). At least four of these checks were payable to the former accountant and were not entered into the city's payroll system. In addition, no authorized purpose for these payments could be located. According to city officials, Mr. Attle resigned from city employment due to the city's investigation into these payments and other questioned uses of city funds by him. Shortly after Ms. Mason was terminated, the board discovered several checks from Mr. Attle issued to the city apparently as reimbursement for the personal use of city funds. These checks had apparently been given to Ms. Mason. However, Ms. Mason did not deposit the checks into a city bank account, and apparently did not inform the board at that time that she had accepted the checks. According to city officials, this matter was referred to the local district attorney general; however, according to the police chief, because it appeared that restitution from Mr. Attle had been accepted by Ms. Mason, no action was taken.

**LEGAL ISSUES**

1. **ISSUE:        Apparent misappropriation by former city manager totaling at least \$15,671.80**

During the period September 11, 2003, through March 8, 2006, the former city manager, Carol Mason, apparently misappropriated at least \$15,671.80 from the City of Collegedale. Ms. Mason perpetrated this apparent misappropriation by diverting for her personal use the proceeds of a city check intended to assist victims of Hurricane Katrina, by directing other unauthorized city payments to herself, and by her unauthorized use of city bulk fuel.

**Apparent misappropriation of \$2,250 authorized for Hurricane Katrina relief**

The former city manager apparently diverted the proceeds of a city check totaling \$2,250 intended to assist victims of Hurricane Katrina. A review of the September 6, 2005, minutes of the mayor and board of commissioners revealed that after learning that a group of employees were planning a trip to assist with Hurricane Katrina relief, the mayor and board approved paying up to \$2,000 to support hurricane victims. Purportedly for this purpose, the former city manager directed a city employee to cash a city check dated September 7, 2005, totaling \$2,250, at a local bank and to bring the cash back to her. The planned trip never took place, and according to the city finance director, the former city manager stated she used the cash to purchase a money order payable to the Red Cross for Hurricane Katrina relief. Per conversation with a Red Cross representative, the Red Cross was unable to locate any documentation that a donation had been made on behalf of the City of Collegedale or on behalf of the former city manager.

**Unearned and unauthorized payments to former city manager**

The investigative audit revealed that for the period September 11, 2003, through February 28, 2006, the former city manager, Carol Mason, directed unearned and unauthorized city payments to herself totaling at least \$10,801.16. Related documentation indicated that the former city manager requested the payments in lieu of personal time off (PTO). As noted in Legal Issue 2, to conceal the apparent misappropriation, Ms. Mason apparently altered and falsified city records to delete her large deficit balance in PTO. The former city manager was responsible for documenting the accrual of, posting the use of, and authorizing payment for earned PTO to City of Collegedale employees.

Leave records for Ms. Mason were not located and, per conversation with other city employees, apparently were not prepared and maintained by the former city manager. Therefore, when calculating the unauthorized payments, state auditors presumed that Ms. Mason took no time off for any reason. Including amounts for designated holidays would increase the apparent misappropriation by an additional \$5,231.52. Also, the unauthorized payment amount does not include \$1,530.65 related to unearned PTO payments that city records indicate were made to Ms. Mason prior to her resignation as city recorder in April 2003.

Section 4-202 of the City of Collegedale Municipal Code, states, "Paid time off (P.T.O.) may be used for absences for which the employee is to be paid. It is used for illness, personal time, holidays, vacations, etc."

**Unauthorized consulting fee payment totaling \$1,530.65**

Shortly after returning to city employment in September 2003, the former city manager, apparently without authorization, directed a \$1,530.65 city payment to herself for consulting fees. City records showed that a city check dated September 26, 2003, for \$1,530.71 (the written amount indicates \$1,530.65) was issued to the former city manager. In the note directing the payment for consulting fees, Ms. Mason indicated the payment was approved by the mayor and vice-mayor. However, these individuals indicated they had not approved the payment to the former city manager. The mayor

further stated that the approval of the board would have been required for a payment such as this.

**Former city manager’s unauthorized use of bulk city fuel totaling \$1,089.99**

As noted in Finding 3 for the period January 1, 2004, through November 30, 2005, the former city manager received an unauthorized and unreported benefit totaling at least \$1,089.99, resulting from her use of city-purchased bulk fuel, while also receiving an authorized vehicle allowance. One city commissioner stated that on one occasion, the board gave Ms. Mason permission to fuel her personal vehicle using the city Visa card prior to traveling to a city-related conference. We were unable to determine that Ms. Mason received any authorization for obtaining city-purchased bulk fuel for her personal vehicle.

**Amount Apparently Misappropriated by Former City Manager**

Source of Misappropriated Amount	Amount
Check for Hurricane Katrina relief	\$ 2,250.00
Unearned and unauthorized payments for personal time off	10,801.16
Unauthorized consulting fee	1,530.65
Unauthorized use of bulk city fuel	<u>1,089.99</u>
Total apparent misappropriation	<u>\$15,671.80</u>

2. **ISSUE: Former city manager apparently falsified government records**

The investigative audit revealed that evidently in order to conceal the substantial deficit balance in her PTO account, and to justify continued payments, the former city manager apparently made false entries to her computerized PTO account. These false entries as well as the former city manager’s total control over all PTO transactions helped facilitate the former city manager’s ability to make the unearned and unauthorized PTO payments totaling \$10,801.16 as noted in Legal Issue 1.

Two different computerized versions of the former city manager’s PTO account were located in city records. One version indicated that the former city manager had a **deficit** PTO balance of (\$5,988.50) at the end of May 2004, but adjustments were made to reflect a positive PTO balance of \$3,807.40 at July 1, 2004. The other version indicated that in September 2004, two adjustments for a total of \$9,633.34 were made to the former manager’s PTO account. City officials stated that they had no knowledge of and did not authorize any of these adjustments.

Section 39-16-504, *Tennessee Code Annotated*, states:

- (a) it is unlawful for any person to:
  - (1) Knowingly make a false entry in, or false alteration of, a government record;
  - (2) Make, present, or use any record, document or thing with knowledge of its falsity and with intent that it will be taken as a genuine governmental record; or:
  - (3) Intentionally and unlawfully destroy, conceal, remove or otherwise impair the verity, legibility or availability of a government record.
- (b) A violation of this section is a Class A misdemeanor.

State auditors asked Ms. Mason to provide an explanation for the transactions noted in the Legal Issues. However, Ms. Mason failed to do so.

These matters were referred to the local district attorney general. On June 11, 2008, the Hamilton County Grand Jury returned an indictment against former city manager, Carol Sue Mason, on one count of Theft over \$10,000.

## **FINDINGS AND RECOMMENDATIONS**

1. **FINDING: Former city manager authorized payroll advances in violation of the Tennessee State Constitution**

The investigative audit revealed that the former city manager authorized payroll advances to several employees in violation of the Tennessee State Constitution. Payroll advances allowed by the former city manager took several forms. In some instances, employees received direct payments with the understanding that repayment would be made with personal funds by a predetermined date. In other instances, the former city manager allowed the unearned payment to be charged against the employees' PTO or compensatory leave balances, often resulting in deficit leave balances. City personnel stated that the former city manager routinely allowed city employees to amass deficit compensatory leave balances of up to 25 hours. City records also indicated that in February 2005, the former city manager authorized at least one employee to receive payroll advances resulting in a PTO deficit balance of (\$3,780.95).

The former city manager also allowed employees to receive payment in lieu of compensatory or PTO leave, in violation of city policy.

Article 11, Section 29, of the *Constitution of the State of Tennessee* provides:

... But the credit of no County, City or Town shall be given or loaned to or in aid of any person, company, association or corporation, except upon an election to be first held by the qualified voters of such county, city or town, and the assent of three-fourths of the votes cast at said election.

City personnel regulations, Section III-Compensation, (C), states, "[o]vertime work will be paid with compensatory time at a rate of 1½ times the hours worked in accordance with the FLSA." City of Collegedale Personnel Rules and Regulations, page 8, defines compensatory leave as, "... [t]ime off from work in lieu of monetary payment for overtime worked." City policies and regulations do not provide for employees to receive cash in lieu of PTO or compensatory time.

### **RECOMMENDATION:**

To comply with state law, city officials should prohibit payroll advances for any reason. The city manager should enforce city policy related to the accumulation, use, and compensation of PTO and compensatory time.

**MANAGEMENT’S RESPONSE:**

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

We concur, and adopt the city manager response that corrective action has been taken.

**City Manager:**

I concur and corrective action has been taken.

**Finance Director:**

I concur and corrective action has been taken.

2. **FINDING: Inadequate leave records for supervisory personnel**

Department directors were not required to maintain leave records. As a result, the city had inadequate documentation to indicate when directors used PTO to compensate for authorized leave. As noted in Finding 1, the former city manager authorized payments in lieu of PTO leave, and numerous payments in lieu of PTO were made to some of these employees. Because leave records were not maintained, we were unable to determine the total amount apparently misappropriated by the former city manager related to PTO (as noted in Legal Issue 1) and whether all payments in lieu of PTO to other department directors were appropriate.

The City of Collegedale Municipal Code authorized a personal time off leave system in which all employees, including directors, participated. PTO was earned based upon the employee’s years of service and base pay amount, and could be used for holidays, sick or annual leave, or other leave granted by the city. The City of Collegedale Municipal Code, Section 4-203, states:

The city manager shall cause to be kept, **for each officer and employee**, a record currently up to date at all times showing credits earned and leave taken under this chapter. (Emphasis added.)

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 3, Section 5, requires municipal officials to ensure that

... a cumulative employee leave record is maintained for each employee. The record should clearly show all leave of any type earned and taken for each pay period, all paid and unpaid absences, and the current leave balance.

**RECOMMENDATION:**

To help prevent unauthorized pay and/or leave, and to comply with city policy, the board of mayor and commissioners should require all employees, including department directors and other salaried employees, to maintain leave records documenting absences for holidays, sick or annual leave, etc.

**MANAGEMENT'S RESPONSE:**

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

We concur, and adopt the response of the city manager and finance director that corrective action has been taken.

**City Manager:**

I concur and corrective action has been taken.

**Finance Director:**

I concur and corrective action has been taken.

3. **FINDING: Unauthorized benefit and improper use of bulk fuel**

The investigative audit revealed tax-free bulk fuel purchased by the city was apparently improperly used for personal purposes by the former city manager in violation of state law. Based on conversation with city employees and review of city records, on numerous occasions, the former city manager directed her personal vehicle to be fueled at city fuel pumps. Records maintained at the pumps indicated that from January 1, 2004, through November 30, 2005, 724.4 gallons of tax-free bulk fuel costing the city at least \$1,089.99 was pumped into the city manager's personal vehicle. Auditors located no documentation indicating that the former city manager used this fuel for city purposes. In fact, during this same period, in addition to her regular payroll, the former city manager received \$11,700 (\$450 per month) from the city to compensate her for city-related travel. One city commissioner acknowledged that he gave Ms. Mason permission to fuel her personal vehicle one time using the city Visa card prior to traveling to a city-related conference. However, we were unable to determine that the former city manager had any authorization to use the city gas pumps to fuel her personal vehicle.

Section 67-3-401, *Tennessee Code Annotated*, states:

(d) In order to be entitled to the [petroleum tax and fee] exemption, the governmental agency shall receive, store, handle and use the petroleum products strictly in the following manner.... (4) Use

exclusively for governmental purposes, in equipment either owned or leased by the governmental agency and operated by governmental employees. (e) It is unlawful for any person to use petroleum products sold to a governmental agency for any purpose other than governmental.

The city's failure to enforce and adhere to these requirements makes the city liable for any state petroleum taxes that should have been paid on the fuel used for non-city purposes. In addition, the city's governmental agency exemption permit could be subject to revocation.

**RECOMMENDATION:**

To comply with state law and avoid possible penalties, including loss of tax-exempt status, the city should ensure that tax-free bulk fuel is used only for municipal purposes.

**MANAGEMENT'S RESPONSE:**

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

We concur, and adopt the city manager's response that corrective action has been taken.

**City Manager:**

I concur and corrective action has been taken.

4. **FINDING: Inadequate supporting documentation maintained for some disbursements and some invoices paid late**

The finance director failed to ensure that adequate supporting documentation was acquired and maintained for numerous disbursements and also failed to ensure that some invoices were paid timely. For several transactions, city files either contained no documentation or included only summarized statements. Several Visa invoices were paid late, resulting in finance charges being assessed against the city. Because supporting documentation was inadequate, auditors were unable to determine that all disbursements were for a valid municipal purpose.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, Section 4, states that “[a]ll disbursements, regardless of the accounting procedures, must be supported by invoices, cash tickets or other adequate supporting documentation. (Statements are NOT adequate supporting documentation.)”

Section 3 of this chapter of the manual requires that the related documentation accompany checks presented for approval and signing, and Title 1, Chapter 4, Section 1,

requires municipal officials to adopt policies and procedures which at a minimum include:

- (a) [A] requirement to inspect and count each incoming materials delivery, with the receiver signing each invoice as received.

Section 6-56-112, *Tennessee Code Annotated*, states, “All expenditures of money made by a municipality must be made for a lawful municipal purpose.”

**RECOMMENDATION:**

To document that each disbursement is for a valid municipal purpose, city officials should ensure that adequate supporting documentation for all disbursements is acquired and maintained in the municipality’s files. To avoid payment for goods not actually received or services not performed, the mayor and members of the board of commissioners should require each employee who receives goods or services on behalf of the municipality to inspect each delivery and sign the related invoice to document that the goods or services have been received as ordered. Before signing a check, authorized individuals should review adequate supporting documentation to determine that the disbursement is for a valid municipal purpose. Also, when applicable, board approval should be sought and documented in the minutes of the meetings of the mayor and board of commissioners. To avoid the unnecessary expenditure of public money, city personnel should ensure that all invoices are paid when due.

**MANAGEMENT’S RESPONSE:**

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

We concur, and adopt the response of the city manager and finance director that corrective action has been taken.

**City Manager:**

I concur and corrective action has been taken.

**Finance Director:**

I concur and corrective action has been taken.

5. **FINDING: Failure to maintain separate bank account for confidential funds**

The police chief did not maintain a separate bank account for money received from the city’s drug fund for undercover investigative operations. Additionally, the chief maintained confidential fund cash on hand for over six months.

*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*, requires that a separate bank account be maintained for confidential funds. The manual also sets forth required procedures related to confidential cash transactions, including prescribed forms. The manual, Section 3.0, page 2, states:

The amount at which the account is established will be determined by the chief law enforcement official but should not exceed the amount of funds expected to be used within forty-five days.

**RECOMMENDATION:**

To comply with the state law and to properly account for confidential funds, the police chief should ensure that cash obtained for undercover investigative operations is maintained in a separate bank account and that only amounts estimated to be needed within 45 days are requested. The police chief should ensure that all personnel responsible for confidential fund cash thoroughly understand and apply all requirements of the manual.

**MANAGEMENT'S RESPONSE:**

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

We concur, and adopt the response of the city manager and the chief of police that corrective action has been taken.

**City Manager:**

I concur and such account will be established within 30 days.

**Police Chief:**

I concur and such account will be established within 30 days.

6. **FINDING: Deposits not made intact**

The finance director failed to ensure that deposits were made intact (in the form and amount in which they are collected). The investigative audit revealed that city employees used cash collections to pay for some postage and other miscellaneous purchases, apparently treating the collections as petty cash. In addition, city employees were allowed to cash city checks payable to them from collections maintained in the city cash drawer. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 5, states:

... Collections should be deposited promptly and intact and only in designated depositories. The bank's night depository should be used, if necessary, to avoid large accumulations of currency overnight.... The municipality should make daily deposits when large amounts of money are involved.

Title 2, Chapter 4, of the manual establishes rules governing petty cash and requires that a petty cash fund be established at a "fixed sum" for purchases only as needed.

**RECOMMENDATION:**

To ensure that all collections are properly accounted for, the city finance director should require all collections to be deposited intact into an official city bank account. City officials should establish procedures that would prohibit cash collections being used to make disbursements or to cash city, third party, or personal checks.

**MANAGEMENT'S RESPONSE:**

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

We concur, and adopt the response of the city manager and finance director that corrective action has been taken.

**City Manager:**

I concur and corrective action has been taken.

**Finance Director:**

I concur and corrective action has been taken.

7. **FINDING: Collections not deposited within three days**

The finance director failed to ensure that city collections were deposited into a city bank account within three days as required by state law. City records indicated that in many instances, deposits were made only once each week, even though some collections were usually made each day. Section 6-56-111, *Tennessee Code Annotated*, states:

Every municipal official handling public funds shall be required to, as soon as practical, but no later than three (3) working days after the receipt by such municipal official of any public funds, deposit the funds to the credit of such municipality's official bank account, or bank accounts.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 5, requires that “Collections should be deposited promptly and intact and only in designated depositories.... The municipality should make daily deposits when large amounts of money are involved.”

**RECOMMENDATION:**

To minimize the risk of loss or misuse of town funds, the mayor and members of the board of commissioners should ensure that all collections are deposited within three days into an official municipal bank account.

**MANAGEMENT’S RESPONSE:**

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

We concur, and adopt the response of the city manager and finance director that corrective action has been taken.

**City Manager:**

I concur and corrective action has been taken.

**Finance Director:**

I concur and corrective action has been taken.

8. **FINDING: Failure to comply with city travel policy**

The finance director failed to require and retain adequate records to document that amounts paid to employees and officials for travel were authorized. Several disbursements for travel were not supported by a properly completed travel authorization form attached with necessary supporting documents. In addition, in several instances, the authorized U.S. General Services Administration CONUS rate of per diem was incorrectly paid for the designated city of travel. Also, the city failed to adhere to the 75 percent rule for per diem on the first and last day of travel.

The City of Collegedale Municipal Code, Section 4-504, states that the mayor and members of the board of commissioners adopted the administrative travel procedures set forth by the Municipal Technical Advisory Service (MTAS). These procedures outline required documentation and authorized rates.

**RECOMMENDATION:**

To ensure that disbursements for travel are made only for authorized purposes and amounts, the finance director should ensure that adequate supporting documents are attached to a properly completed travel authorization form before authorizing payment. In addition, city officials should ensure that authorized travelers adhere to the appropriate rates for the designated city and specific days of travel. City officials should confirm that the travel policy is understood by all individuals traveling on city business and enforce the policy requirements.

**MANAGEMENT'S RESPONSE:**

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

We concur, and adopt the response of the city manager and finance director that corrective action has been taken.

**City Manager:**

I concur and corrective action has been taken.

**Finance Director:**

I concur and corrective action has been taken.

9. **FINDING:    **Incorrect federal Form W-2****

City officials failed to ensure that all applicable compensation was properly reported. A review of city payroll records revealed that over \$5,000 in taxable compensation was not included on the former city manager's federal Form W-2 for calendar year 2004. Also, over \$900 in taxable compensation in calendar year 2003 and over \$2,000 in taxable compensation in calendar year 2004 to the former city accountant was not properly reported. The *Federal Tax Code* regulations require that employers must report to the Internal Revenue Service all taxable compensation paid to employees.

**RECOMMENDATION:**

To comply with federal tax regulations and avoid possible penalties and fines, the mayor and members of the board of commissioners should ensure that all taxable compensation is included and accurately reported to the Internal Revenue Service.

**MANAGEMENT'S RESPONSE:**

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

We concur, and adopt the response of the city manager and finance director that corrective action has been taken. Commissioner Hodgdon notes that he does not view this as a direct responsibility of the city commission.

**City Manager:**

I concur and corrective action has been taken.

**Finance Director:**

I concur and corrective action has been taken.