

**SPECIAL PURPOSE EXAMINATION**

**CITY OF CRAB ORCHARD**

**JULY 1, 1999, THROUGH FEBRUARY 28, 2001**



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
Department of Audit  
Division of Municipal Audit**



STATE OF TENNESSEE

John G. Morgan  
Comptroller

COMPTROLLER OF THE TREASURY

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-0260

PHONE (615) 741-2501

August 21, 2001

Honorable Mayor and Members of the  
Board of Aldermen  
City of Crab Orchard  
P. O. Box 215  
Crab Orchard, TN 37723

Dear Mayor and Board Members:

Presented herewith is the report on our special purpose examination of the records of the City of Crab Orchard. This examination focused on the period July 1, 1999, through February 28, 2001. 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 1-13 of *Governmental Accounting, Auditing and Financial Reporting*. The purpose of our examination was to determine the extent of the entity's compliance with certain laws and regulations, including those in the above-mentioned manuals.

Our examination resulted in two legal issues regarding a fraudulent check scheme and the apparent fraudulent use of a credit card. Subsequent to our examination, on July 17, 2001, the Cumberland County Grand Jury indicted the former recorder on 1 count of theft over \$60,000, 5 counts of forgery, 2 counts of fraudulent use of a credit card, 3 counts of alteration of government records, and 2 counts of official misconduct.

Honorable Mayor and Members of the  
Board of Aldermen  
City of Crab Orchard  
August 21, 2001

Copies of this report are being forwarded to Governor Don Sundquist, 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

SUITE 1600  
JAMES K. POLK STATE OFFICE BUILDING  
505 DEADERICK STREET  
NASHVILLE, TENNESSEE 37243-0271  
PHONE (615) 741-1871  
FAX (615) 741-1551

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

August 21, 2001

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 special purpose examination of the records of the City of Crab Orchard. This examination focused on the period July 1, 1999, through February 28, 2001. 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 1-13 of *Governmental Accounting, Auditing and Financial Reporting*. The purpose of our examination was to determine the extent of the entity's compliance with certain laws and regulations, including those in the above-mentioned manuals.

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Mr. John G. Morgan  
Comptroller of the Treasury  
August 21, 2001

If after your review, you have any questions, I will be happy to supply any additional information which you may request.

Sincerely,



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

**SPECIAL PURPOSE EXAMINATION OF THE RECORDS  
OF THE CITY OF CRAB ORCHARD  
FOR THE PERIOD JULY 1, 1999, THROUGH FEBRUARY 28, 2001**

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**LEGAL ISSUES**

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**Fraudulent check scheme**

During a 20-month period, the former city recorder apparently diverted city checks for her personal benefit using a variety of schemes:

- ⇒ The former recorder apparently prepared checks without authority payable to herself, or to cash, and either cashed the checks or deposited the funds directly into her personal bank account. (Refer to Exhibits 1, 1a, 2, and 2a)
- ⇒ The former recorder apparently prepared checks without authority made payable to other individuals or organizations and either cashed the checks or deposited the funds directly into her personal bank account. (Refer to Exhibit 3)
- ⇒ The former recorder apparently prepared city checks without authority in payment of a variety of personal bills, including credit card charges, car loan payments, and collection agency debt. (Refer to Exhibit 4)

False invoices were included in city files to conceal the improper disbursements. In addition, in at least three instances, minutes of the meetings of the mayor and board of aldermen were falsified and signatures were apparently forged, to make disbursements appear authorized.

**The former recorder apparently embezzled at least \$66,560.76 from the city using these methods.**

**Apparent fraudulent use of a credit card**

The former recorder apparently made unauthorized personal charges on the city credit card. She apparently made a down payment of \$698 on a 7-day Florida/Bahamas cruise vacation. She also apparently charged to the city credit card repair and bodywork performed on her personal vehicle. The work was performed at a local body shop and totaled \$2,333.24. (Refer to Exhibit 5)

**The former recorder apparently made unauthorized personal charges on the city's credit card totaling \$3,031.24.**

## GLOSSARY OF STATE STATUTES

Section 39-14-103, *Tennessee Code Annotated*

### **Theft of property.**

“A person commits theft of property if, with intent to deprive the owner of property, the person knowingly obtains or exercises control over the property without the owner’s effective consent.”

Section 39-14-105, *Tennessee Code Annotated*

### **Grading of theft.**

Theft of property or services: . . .

(3) A Class D felony if the value of the property or services obtained is one thousand dollars (\$1,000) or more but less than ten thousand dollars (\$10,000) . . .

(5) A Class B felony if the value of the property or services obtained is sixty thousand dollars (\$60,000) or more.

Section 39-14-114, *Tennessee Code Annotated*

### **Forgery.**

(a) A person commits an offense who forges a writing with intent to defraud or harm another.

(b) As used in this part, unless the context otherwise requires:

(1) “Forge” means to:

(A) Alter, make, complete, execute or authenticate any writing so that it purports to:

(i) Be the act of another who did not authorize that act . . .

(B) Make false entries in books or records . . .

(c) An offense under this section is punishable as theft pursuant to § 39-14-105, but in no event shall forgery be less than a Class E felony.

Section 39-14-118, *Tennessee Code Annotated*

**Illegal possession or fraudulent use of credit or debit card.**

. . . (b) A person commits the crime of fraudulent use of a credit or debit card who uses, or allows to be used, a credit or debit card or information from such card, for the purpose of obtaining property, credit, services or anything else of value with knowledge that: . . .

(4) For any other reason the use of the card is unauthorized by either the issuer or the person to whom the credit or debit card is issued.

(c)(1) Fraudulent use of a credit or debit card is punishable as theft pursuant to § 39-14-105 depending on the amount of property, credit, goods or services obtained.

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

**Destruction of and tampering with governmental records.**

(a) It is unlawful for any person to:

(1) Knowingly make a false entry in, or false alteration of, a governmental 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 . . .

(b) A violation of this section is a Class A misdemeanor.

Section 39-16-402, *Tennessee Code Annotated*

**Official misconduct.**

(a) A public servant commits an offense who, with intent to obtain a benefit or to harm another, intentionally or knowingly: . . .

(d) Violates a law relating to the public servant's office or employment; or

(5) Receives any benefit not otherwise authorized by law.

. . .

(d) An offense under this section is a Class E felony.

## EXPLANATION OF EXHIBITS

### **Exhibit 1**

Fabricated invoices created to conceal \$5,000 payment to former recorder. No such vendor could be located in the San Antonio phone book. In addition, although the toll-free number is in operation, it belongs to a different vendor. Finally, the city never received five-foot charcoal grills.

### **Exhibit 1a**

Checks prepared by former recorder, payable to "Cash." Checks appear to have been endorsed and cashed by the former recorder.

### **Exhibit 2**

Fabricated receipt created to conceal \$330.53 payment to former recorder. According to personnel at Middle Tennessee State University (MTSU), this receipt does not conform to authentic school receipts. Based on information provided by school personnel, there was no city recorder class at MTSU in January 2000.

### **Exhibit 2a**

City check prepared by former recorder, payable to former recorder. Check appears to have been endorsed and cashed by former recorder.

### **Exhibit 3**

City checks prepared by former recorder, payable to "Cyclones." Checks appear to have been endorsed by former recorder and deposited into the former recorder's personal bank account.

### **Exhibit 4**

City check prepared by former recorder, payable to "Fast, Inc.," a collection agency in Knoxville. The account number noted on the check's memo line refers to the former recorder's personal debt.

### **Exhibit 5**

City credit card statement listing charges for a Florida/Bahamas vacation and car repair. These charges were unauthorized and apparently made without access to the physical credit card by former city recorder.

THE PARKS WAREHOUSE  
P.O. BOX 5889  
SAN ANTONIO, TX 78279-2310  
USA

**EXHIBIT 1**

**Invoice**

Invoice Number:  
32569

Invoice Date:  
Nov 3, 1999

Page:  
1

Phone: 1-800-882-1166  
Fax:

Duplicate

**Sold To:**

CITY OF CRAB ORCHARD  
P. O. BOX 215  
338 HEBBERTSBURG ROAD  
CRAB ORCHARD, TN 37723

Customer ID: 2267

Customer PO	Payment Terms	Due Date	Sales Rep ID	
	C.O.D.	11/3/99		
Quantity	Item	Description	Unit Price	Extension
2.00	894	CHARCOAL GRILL-5 FOOT	2,500.00	5,000.00

Check No:

Subtotal	5,000.00
Sales Tax	
Total Invoice Amount	5,000.00
Payment Received	0.00
<b>TOTAL</b>	<b>5,000.00</b>

PAID  
11/03/99  
10097773

PAID  
11/03/99  
10097781

EXHIBIT 1A

CITY OF CRAB ORCHARD  
GENERAL FUND  
831-484-2815  
PO BOX 215 HERRERTSBURG RD  
CRAB ORCHARD, TN 37723-0215

UNION PLANTERS BANK  
CROSSVILLE TENNESSEE 38601  
87-282841  
BRANCH 87

009777

115173704 00 110399 0000132004  
009777 Nov 3, 1999 \*\*\*\*\*\$2,500.00

Memo: CASH FOR MONEY ORDERS CHECK NO. DATE AMOUNT

PAY TO THE ORDER OF: CASH

Two Thousand Five Hundred and 0/100 Dollars

*John L. Johnson*  
*Parula Welch*  
AUTHORIZED SIGNATURE

#009777# 6064103574# #019550#

#0000250000#

ENDORSE HERE  
*Parula Welch*

DO NOT WRITE. STAMP OR SIGN BELOW THIS LINE.  
RESERVED FOR FINANCIAL INSTITUTION USE.

3500 11566

UNION PLANTERS BANK  
ATLANTA TN

MSHILLE TN 37219  
#0640022804

NOV - 3 99

Cash On-Us Check  
11/03/99 09:35AM  
0004 019550

04132004059 AM GN  
\$2,500.00

PROCESSED 844-8228-8  
UNION NASHVILLE TN  
115173704 00 110399 0000132004

FEDERAL RESERVE BOARD OF GOVERNORS REG. C.C.

CITY OF CRAB ORCHARD  
GENERAL FUND  
831-484-2815  
PO BOX 215 HERRERTSBURG RD  
CRAB ORCHARD, TN 37723-0215

UNION PLANTERS BANK  
CROSSVILLE TENNESSEE 38601  
87-282841  
BRANCH 87

009778

126968819 00 110399 0000131007  
Nov 3, 1999 \*\*\*\*\*\$2,500.00

Memo: CASH FOR MONEY ORDERS CHECK NO. DATE AMOUNT

PAY TO THE ORDER OF: CASH

Two Thousand Five Hundred and 0/100 Dollars

*John L. Johnson*  
*Parula Welch*  
AUTHORIZED SIGNATURE

#009778# 6064103574# #019550#

#0000250000#

ENDORSE HERE  
*Parula Welch*

DO NOT WRITE. STAMP OR SIGN BELOW THIS LINE.  
RESERVED FOR FINANCIAL INSTITUTION USE.

3500 11566

UNION PLANTERS BANK P.E.G.  
ATLANTA TN

MSHILLE TN 37219  
#0640022804

NOV - 3 99

PROCESSED 844-8228-8  
UNION NASHVILLE TN  
126968819 00 110399 0000131007

FEDERAL RESERVE BOARD OF GOVERNORS REG. C.C.

EXHIBIT 2

MIDDLE TENNESSEE STATE UNIVERSITY

Continuing Studies Receipt

This receipt confirms your participation for the course (s) listed below:

---

Course Title/Course Number/Place/Date/Time	Fee
City Recorder-Certification Changes RWEE-5564-LLD Garden Plaza Hotel 1850 Old Fort Pkwy January 3,2000	\$330.00

---

EXCLUDING DATE(S):

INSTRUCTOR: VARIES

BOOK/SUPPLIES: \$50.00 ADM FEE ASSESSED TO ALL CANCELLATIONS. NO REFUNDS 12/20/99

PARKING: \$0.00

INCLEMENT WEATHER: Continuing Studies and Public Service courses are cancelled if Middle Tennessee State University is closed. Information concerning MTSU closing is available by calling the MTSU Newsline at (615) 904-7000. At the instructor's request, some courses may be cancelled when MTSU is open. Call our office to verify that your course has not been cancelled due to bad weather conditions. Information about course cancellations is available by calling (615) 898-2462.

Total Cost \$330.00

Total Paid \$330.00

---

Balance Due \$ 0.00

FOR:

Pamela Hinch  
City of Crab Orchard  
PO Bx 215  
Crab Orchard, TN 37723

PAID  
9862

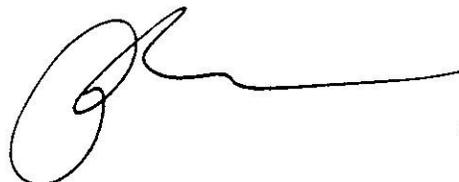


EXHIBIT 2A

CITY OF CRAB ORCHARD  
GENERAL FUND

831-484-2815  
PO BOX 215 HEBBERTSBURG RD  
CRAB ORCHARD, TN 37723-0215

UNION PLANTERS BANK  
CROSSVILLE, TENNESSEE 38601  
87-027/001  
BRANCH #

009862

110938919 00 010300 0000131008  
009862 Jan 3, 2000 \*\*\*\*\*\$330.53\*

CHECK NO.

DATE

AMOUNT

PAY  
TO THE  
ORDER  
OF:

Three Hundred Thirty and 53/100 Dollars

PAMELA W. HINCH  
P. O. BOX 1053  
CROSSVILLE, TN 38557

*[Handwritten Signature]*  
PAMELA W. HINCH  
AUTHORIZED SIGNATURE

#009862# #064103574# #019550# #0000033053#

FEDERAL RESERVE BOARD OF GOVERNORS REG. C C

988200

PROCESSED 05-10-2220-2  
LINDS WASHVILLE TN  
110938919 00 010300 0000131008

NOV - 1 1999

UNION PLANTERS BANK  
CROSSVILLE, TN  
CC4002280

0000 62700

DO NOT WRITE IN THIS SECTION SIGN BELOW THIS LINE  
ATTEMPT TO PREVENT FRAUD BY SIGNING BELOW THIS LINE  
0009 015530 \$330.53

ENDORSE HERE  
*[Handwritten Signature]*

EXHIBIT 3

CITY OF CRAB ORCHARD  
GENERAL FUND  
801-484-2815  
PO BOX 218 HEBBERTSBURG RD  
CRAB ORCHARD, TN 37723-0218

UNION PLANTERS BANK  
COLUMBIA, TENNESSEE 38002  
BR 0074  
BRANCH 01

010309 125651568 08 111500 1878664131  
Nov 15, 2000 \*\*\*\*\*\$3,500.00

010309 CHECK NO. DATE AMOUNT

Memo: 14 AND UNDER DONATION

PAY TO THE ORDER OF: Three Thousand Five Hundred and 0/100 Dollars  
CYCLONES

*John H. Hall*  
*Samela Wilson*

0000030000

FEDERAL RESERVE BOARD OF GOVERNORS REG. C.C.

UNION PLANTERS BANK  
NASHVILLE, TN  
064002280

NOV 15 01

0100 22524

DO NOT WRITE IN SPACES ON BACK OTHER THAN THE FOLLOWING: (1) ENDORSEMENTS (2) SIGNATURES (3) INITIALS

*Samela Wilson*

CITY OF CRAB ORCHARD  
GENERAL FUND  
801-484-2815  
PO BOX 218 HEBBERTSBURG RD  
CRAB ORCHARD, TN 37723-0218

UNION PLANTERS BANK  
COLUMBIA, TENNESSEE 38002  
BR 0074  
BRANCH 01

010316 126500322 08 112188 1078664131  
Nov 20, 2000 \*\*\*\*\*\$3,800.00

010316 CHECK NO. DATE AMOUNT

Memo: *Be under annual donation*

PAY TO THE ORDER OF: Three Thousand Eight Hundred and 0/100 Dollars  
CYCLONES

*John H. Hall*  
*Samela Wilson*

0000080000

FEDERAL RESERVE BOARD OF GOVERNORS REG. C.C.

UNION PLANTERS BANK  
NASHVILLE, TN  
064002280

NOV 20 01

5200 55782

DO NOT WRITE IN SPACES ON BACK OTHER THAN THE FOLLOWING: (1) ENDORSEMENTS (2) SIGNATURES (3) INITIALS

*Samela Wilson*  
*Cyclone measures*



**EXHIBIT 5**

CARDHOLDER SINCE

**PLATINUM PLUS**  
*For* **BUSINESS**

Print Change of Address or Telephone Number Below

2001

Please Make This Address Change on all our Company Accounts.

MBNA America Business Card  
 P.O. Box 15469  
 Wilmington, DE 19886-5469

REMIT AND MAKE PAYABLE TO:

<b>ACCOUNT NUMBER</b>	
5474-9756-0059-	
<b>PAYMENT DUE DATE</b>	
APR 09, 2001	
<b>NEW BALANCE</b>	\$ 3,031.24
<b>MINIMUM PAYMENT</b>	\$ 61.00
<b>AMOUNT ENCLOSED</b>	
\$	


 PAMELA W HINCH  
 TOWN OF CRAB ORCHARD  
 PO BOX 215  
 CRAB ORCHARD TN 37723-0215

10 03031240006100000547497560059

DETACH HERE AND RETURN WITH REMITTANCE

POSTING DATE	DESCRIPTION	TRANSACTION DATE	REFERENCE NUMBER	AMOUNT CR - CREDIT PY - PAYMENT
	<b>MARCH 2001 STATEMENT</b>			
02-26	CARNIVAL CRUISE/MANUAL MIAMI FL	02-13	65541861046004075222549,4411	1,975.00CR
02-26	GARY'S BODY SHOP CROSSVILLE TN	02-23	68536061055111862100022,7531	2,333.24
02-27	PRCRRAMADA PLAZA RESOR TEL8002039783 FL	02-26	68420421057500053306377,4722	698.00
YOUR TOTAL FINANCE CHARGE PAID FOR 2000 WAS 0.00				

ACCOUNT NUMBER	CREDIT LINE	CASH OR CREDIT AVAILABLE	NO OF DAYS IN LINE CYCLE	CLOSING DATE	MINIMUM PAYMENT DUE	PAYMENT DUE DATE
547497560059		00	00	28 MAR 12, 2001	61.00	APR 09, 2001

**MINIMUM PAYMENT DUE**

Past Due Amount	\$ .00
Current Payment	\$ 61.00
Minimum Payment Due	\$ 61.00

**FINANCE CHARGE SCHEDULE**

	PURCHASES	CASH ADVANCES
Periodic Rate	.04106% DLY	.01068% DLY
Corresponding Annual Percentage Rate	14.99%	3.90%
Balance Subject to Finance Charge	\$ .00	\$ .00

**SUMMARY OF TRANSACTIONS**

Previous Balance	\$ 1,975.00
Payments and Credits	\$ 1,975.00
Purchases and Adjustments	\$ 3,031.24
Cash Advances	\$ .00
FINANCE CHARGES	\$ .00
<b>New Balance Total</b>	<b>\$ 3,031.24</b>

- To speak to one of our Customer Satisfaction Representatives, call 1-800-858-3261
- For automated access to balances, payment, and credit information, call MBNA at 1-800-335-6806
- For TDD (Telecommunication Device for the Deaf) assistance, call 1-800-500-6267 Monday through Friday 8 a.m. (ET) to 8 p.m. (ET).

Please mail billing inquiries using the form on back to:  
 MBNA AMERICA P.O. BOX 15469 WILMINGTON, DE 19886-5469

MAKE CHECK PAYABLE TO

MBNA AMERICA BUSINESS CARD  
 P.O. BOX 15469  
 WILMINGTON, DE 19886-5469

5474975600591845

PLEASE SEE REVERSE SIDE FOR IMPORTANT INFORMATION