

# INVESTIGATIVE AUDIT REPORT

CITY OF EAGLEVILLE  
JULY 1, 2006, THROUGH FEBRUARY 29, 2008



## 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

September 12, 2008

Honorable Mayor and Members of  
the City Council  
City of Eagleville  
P. O. Box 68  
Eagleville, TN 37060

Gentlemen:

Presented herewith is the report on our investigative audit of selected records of the City of Eagleville. The audit was conducted in cooperation with agents of the Tennessee Bureau of Investigation. In addition, auditors received vital assistance from agents with the special investigations section of the Department of Revenue. The investigative audit focused on the period July 1, 2006, through February 29, 2008. 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 that the former city recorder, Michelle Bennett, apparently charged personal purchases to credit cards issued in the name of the city. The former recorder prepared and issued city checks, or made payment by telephone from city bank accounts, totaling at least \$21,492 to pay personal charges. Ms. Bennett also wrote city checks to pay for at least \$5,430 of her personal charges on the city's Wal-Mart credit card. On two occasions, Ms. Bennett issued duplicate payroll payments to herself in the gross amount of \$3,523. In addition, our investigative audit revealed that on October 31, 2007, Ms. Bennett issued a payroll payment in the gross amount of \$2,315 to herself which she was not entitled.

Honorable Mayor and Members of the  
City Council  
City of Eagleville  
September 12, 2008

Our investigative audit identified at least three Wal-Mart invoices that although they had the names of city representatives written on them, the individuals advised auditors they had neither signed nor had they authorized anyone else to sign the invoices on their behalf. The former city recorder improperly utilized the city's tax exempt status for personal purchases.

This matter was referred to the local district attorney general. On September 3, 2008, the Rutherford County Grand Jury indicted Michelle Bennett on one count of Theft over \$10,000, one count of Fraudulent Use of a Credit Card, two counts of Official Misconduct, one count of Sales Tax Evasion, and four counts of Forgery.

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 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

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

September 12, 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 Eagleville. The audit was conducted in cooperation with agents of the Tennessee Bureau of Investigation. In addition, auditors received vital assistance from agents with the special investigations section of the Department of Revenue. This investigative audit focused on the period July 1, 2006, through February 29, 2008. However, when the examination warranted, this scope was expanded.

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Our investigative audit revealed that the former city recorder, Michelle Bennett, apparently charged personal purchases to credit cards issued in the name of the city. The former recorder prepared and issued city checks, or made payment by telephone from city bank accounts, totaling at least \$21,492 to pay personal charges. Ms. Bennett also wrote city checks to pay for at least \$5,430 of her personal charges on the city's Wal-Mart credit card. On two occasions, Ms. Bennett issued duplicate payroll payments to herself in the gross amount of \$3,523. In addition, our investigative audit revealed that on October 31, 2007, Ms. Bennett issued a payroll payment in the gross amount of \$2,315 to herself which she was not entitled. Our investigative audit identified at least three Wal-Mart invoices that although they had the names of city representatives written on them, the individuals advised auditors they had neither

Mr. John Morgan  
Comptroller of the Treasury  
September 12, 2008

signed nor had they authorized anyone else to sign the invoices on their behalf. The former city recorder improperly utilized the city's tax exempt status for personal purchases.

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

1. Inadequate separation of duties
2. Unaccounted for high-risk property
3. Inadequate support for disbursements
4. Failure to establish and follow policies regarding credit cards
5. Premiums from city vendor
6. Payment for finance charges
7. Inadequate supervision of city employees
8. No comprehensive written purchasing policy adopted

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  
CITY OF EAGLEVILLE  
FOR THE PERIOD JULY 1, 2006, THROUGH FEBRUARY 29, 2008**

**LEGAL ISSUES**

1. **ISSUE: Personal charges totaling \$21,492 made on city credit card paid with city funds**

Our investigative audit revealed that the former city recorder, Michelle Bennett, apparently charged personal purchases to credit cards issued in the name of the city. The former recorder prepared and issued city checks, or made payment by telephone from city bank accounts, totaling at least \$21,492 to pay personal charges.

Auditors determined that the city had a credit card account with a single credit card number since 1999, issued in the name of the recorder at that time. However, when Ms. Bennett became city recorder in January 2005, she obtained two additional credit card numbers on the city account. One of the new cards was in the mayor's name and was apparently never activated or used. The other new city card was issued in Ms. Bennett's name. Almost immediately after issuance, the former recorder began making nonmunicipal charges with this city card. Those charges were made from vendors which clearly were not justifiable for lawful municipal purposes, such as Victoria's Secret, Venus Swimwear, Limited Too, and an adult gift store. The former recorder paid for the vast majority of these charges with city checks. Auditors did not locate any statements or invoices for this credit card in city records.

In addition, Ms. Bennett made inappropriate charges for her personal benefit on the city's original credit card. The former recorder did occasionally maintain statements and, in some instances, invoices on file for this card. However, she made misleading handwritten notations on the statements apparently to conceal the true nature of some of her charges. For instance, Ms. Bennett made a handwritten note beside a charge on the credit card statement to "VSI", indicating the purchase was for helmets for the fire department. However, "VSI" is an abbreviation for Venus Swimwear, which evidently did not sell fire department equipment.

Finally, our investigative audit revealed that, around the time she left city employment at the end of October 2007, Ms. Bennett changed the billing address for the credit cards from the city's post office box number to her personal post office box number. Also, around that time, the bank that issued the credit cards froze both the active accounts due to delinquency or nonpayment. Although one of the credit cards had been closed with no balance owing, the city card issued in Ms. Bennett's name was closed with a balance due in excess of \$1,000. That card continued to be assessed finance fees; however, since the statements were not being delivered to city hall, city officials were unaware of the

situation. Then, in February 2008, according to the issuing bank, the billing address for this card was changed to Ms. Bennett's personal street address.

2. **ISSUE: Personal charges totaling \$5,430 made at Wal-Mart and Sam's on the city's Wal-Mart card and paid for with city funds**

Our investigative audit revealed that the former city recorder, Michelle Bennett, wrote city checks to pay for at least \$5,430 of her personal charges on the city's Wal-Mart credit card. Our review identified substantial items, such as a digital camcorder and a LCD television, that she purchased apparently for her own personal benefit. In addition, we noted purchases of supplies for a child's 8<sup>th</sup> birthday party, a baby shower, and personal health and hygiene items which she charged to her city Wal-Mart credit card.

3. **ISSUE: Duplicate payroll payments to former recorder totaling \$3,523**

Our investigative audit revealed that, on two occasions, Ms. Bennett issued duplicate payroll payments to herself in the gross amount of \$3,523. Employees were paid every two weeks, and it was Ms. Bennett's responsibility to compile and calculate the city's payroll payments. She also prepared and signed the payroll checks. However, city records reveal that in both December 2006 and January 2007, Ms. Bennett issued herself two checks covering the same pay period.

4. **ISSUE: Payment of \$2,315 for accumulated sick leave in violation of approved policy**

Our investigative audit revealed that on October 31, 2007, Ms. Bennett issued a payroll payment in the gross amount of \$2,315 to herself which she was not entitled. The mayor and city council had adopted a personnel policy on final reading in December 2006. That policy did *not* allow accumulated sick leave to be taken as compensation upon an employee's resignation or termination. A review of the official minutes of the meetings of the mayor and city council revealed Ms. Bennett signed the policy and the minutes of the meeting at which the policy was adopted. However, when the former recorder resigned, she apparently prepared a check payable to herself for the balance of her accumulated sick leave, contrary to city policy. The mayor told auditors that when the former recorder notified him of her resignation, he asked her to determine what the city owed her. The mayor stated that he had trusted Ms. Bennett to make the appropriate calculation and simply signed the city check.

In December 2007, a different version of the personnel policy, which allowed such a payout, surfaced. At first glance, it appeared to legitimize the payment the former

recorder had made to herself. However, since that revision had never been approved by or even brought before the city council, it was not the City of Eagleville’s policy and therefore, ultimately had no impact on the inappropriate payment to the former recorder.

5. **ISSUE:      Apparent forgeries**

Our investigative audit identified at least three Wal-Mart invoices that although they had the names of city representatives written on them, the individuals advised auditors they had neither signed nor had they authorized anyone else to sign the invoices on their behalf. The invoices were charged to the city’s Wal-Mart credit card assigned to the former recorder, Michelle Bennett. In addition, these apparent forgeries were on invoices that included merchandise for which the city did not receive the benefit.

6. **ISSUE:      Improper use of the city’s tax exempt status**

Our investigative audit revealed that personal purchases made by the former city recorder improperly utilized the city’s tax exempt status. The former city recorder failed to pay sales tax on the purchase of personal items totaling at least \$6,718, and as a result evaded taxes payable to the State of Tennessee of at least \$584. Section 67-1-1440(g), *Tennessee Code Annotated*, prohibits anyone from intentionally avoiding any tax due the State of Tennessee.

Source	Amount
Personal credit card charges paid for with city funds	\$ 21,492
Personal purchases from Wal-Mart & Sam’s	5,430
Duplicate payroll checks	3,523
Improper compensation for accumulated sick leave	<u>2,315</u>
<b>Total Loss</b>	<b><u>\$32,760</u></b>

This matter was referred to the local district attorney general. On September 3, 2008, the Rutherford County Grand Jury indicted Michelle Bennett on one count of Theft over \$10,000, one count of Fraudulent Use of a Credit Card, two counts of Official Misconduct, one count of Sales Tax Evasion, and four counts of Forgery.

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## **FINDINGS AND RECOMMENDATIONS**

### 1. **FINDING: Inadequate separation of duties**

City officials failed to provide for adequate separation of duties. The former city recorder had the capability of preparing and issuing city checks without any oversight. She prepared and printed city checks, was an authorized signature on the city's dual signature checks, and reconciled the bank statements. In addition, she had access to the mayor's signature stamp. Although the mayor indicated that he had not given anyone permission to use his signature stamp on city checks except on specific and rare occasions, our investigative audit revealed that a large number of city checks were transacted containing only the former recorder's signature and the mayor's signature apparently applied with the signature stamp. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 2, Section 2, states:

Municipal officials should enforce division of duties to provide a system of checks and balances so that no one person has control over a complete transaction from beginning to end. Work flow should be established so that one employee's work is automatically verified by another employee working independently....

Title 1, Chapter 2, Section 4, of the manual further states:

Municipal officials should ensure that automatic proof techniques are applied whenever possible. These techniques include the use of an employee without prior access to the records to ... reconcile bank accounts ... periodically test ... daily balancing of cash receipts ... open mail and prelist mail receipts ... perform routine duties of other employees ... for at least one vacation period per year.

### **RECOMMENDATION:**

To decrease the risk of undetected errors and irregularities, management should review employees' responsibilities to ensure that no employee has control over a complete transaction. In addition, elected officials should exert increased oversight, where necessary. City officials should ensure that all checks are issued with two authorized signatures. Finally, signature stamps should be safeguarded.

**MANAGEMENT’S RESPONSE:**

**Honorable Mayor and Members of the City Council:**

We concur. City officials will develop policy and procedure to ensure that all checks are issued with two authorized original signatures. The mayor’s signature stamp is currently in the possession of state investigative authorities, if it is returned, the city intends to destroy said stamp, so that there will be no further instances in which a city check is transacted containing only the recorder’s signature and the mayor’s signature applied with a signature stamp.

2. **FINDING: Unaccounted for high-risk property**

City officials failed to ensure that a complete and accurate listing of high-risk, movable property was maintained, or that all property purchased was available for municipal use. Auditors discovered that certain high-risk, movable items purchased by the former recorder were not available for city use at city hall. These items included a palm pilot,<sup>1</sup> a combination copier/printer/fax machine, a scientific calculator, and several other items. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 4, Section 1, states, “Municipal officials should adopt policies and procedures that provide safeguards for inventories of materials and supplies.” Section 3 of this chapter requires that a record be maintained of high-risk, sensitive property and that an annual inventory be performed.

**RECOMMENDATION:**

To safeguard and account for high-risk, movable property, city officials should ensure that an accurate and complete inventory of this property be maintained. A physical inventory should be performed at least annually and documentation of that inventory should be maintained.

**MANAGEMENT’S RESPONSE:**

**Honorable Mayor and Members of the City Council:**

We concur. A complete physical inventory and tagging of property will be completed. Additionally, the city will develop a policy for performance of periodic physical inventories to ensure a complete and accurate listing of the property is maintained and that all property is available only for city use at city hall in accordance with the *Internal Control and Compliance Manual for Tennessee Municipalities*.

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<sup>1</sup> This device had been assigned user name “mbennett1” on the city hall computer.

**Recorder:**

I concur with the mayor and members of the city council.

**3. FINDING: Inadequate support for disbursements**

The municipality's files did not include adequate supporting documentation for each disbursement. For many disbursements, the files contained no documentation. For most credit card charges and Wal-Mart purchases, when there was documentation, it routinely consisted of only a statement. As detailed in Legal Issues 1 and 2, some charges were clearly not for valid municipal purposes. However, there were many other charges to the city credit card which, based on the limited information in city files, auditors could not determine whether the purchases made were for a valid municipal purpose. These included fuel and restaurant charges, among other things. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, Section 4, states:

Municipal officials should ensure ... that supporting documentation is filed alphabetically by vendor or by date paid.... All 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 requires that the related documentation accompany checks presented for approval and signing.

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 was for a valid municipal purpose, officials should ensure that adequate supporting documentation is maintained in the municipality's files in accordance with the *Internal Control and Compliance Manual for Tennessee Municipalities*. Before signing a check, authorized individuals should review adequate supporting documentation to determine that the disbursement is for a valid municipal purpose.

**MANAGEMENT’S RESPONSE:**

**Honorable Mayor and Members of the City Council:**

We concur. The city will review its current policy regarding documentation and verification of city expenses and supplement that policy as needed in accordance with the *Internal Control and Compliance Manual for Tennessee Municipalities*. Additionally, the city will put a policy in place for the expenses and associated documentation to be reviewed to provide redundancy in the oversight of payment of city expenses.

**Recorder:**

I concur with the mayor and members of the city council.

4. **FINDING: Failure to establish and follow policies regarding credit cards**

The mayor and members of the city council failed to establish policies related to credit cards issued in the city’s name. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 1, Section 1, states:

Municipal officials should ensure that a policies and procedures manual is part of the written record system of the municipality. The municipality’s manual should incorporate or reference all the policies and procedures required in this manual and should include any additional policies and procedures specific to the municipality.

We noted numerous deficiencies in internal controls and procedures related to city credit cards:

- a) City officials had not adopted guidelines on what type of transactions were permissible for charge on the city credit card.
- b) There was no thorough oversight or review of credit card charges by any official other than the former city recorder to substantiate the appropriateness of purchases. As noted in Legal Issue 1, there were numerous credit card charges that were clearly not for a valid municipal purpose and would have been regarded as suspicious even after a cursory review.
- c) There was no effort by city officials to ensure that they monitored all credit cards issued in the name of the city. Our investigative audit revealed that none of the statements or invoices for one of the city credit cards was on file at city hall.

- d) Even when credit card statements were available, documentation, including original invoices and charge slips, was rarely on file. As a result, records were insufficient to determine if the city received the benefit of numerous purchases.
- e) Officials had not addressed custody and safekeeping of the physical credit card. The authorized city credit card may have been given to other city officials from time to time. However, if this happened, there was no log or other record to document that some other user made a particular charge.

**RECOMMENDATION:**

To ensure only authorized, permissible charges are made on city credit cards, municipal officials should formulate clear, comprehensive credit card policies and procedures.

**MANAGEMENT'S RESPONSE:**

**Honorable Mayor and Members of the City Council:**

We concur. All general city credit card accounts have been closed and the cards destroyed. The city does retain certain vendor-specific cards, which cards are used at those specific vendors to purchase supplies for the city. The city council will formulate a comprehensive credit card policy and procedure to ensure that all transactions are permissible for a valid municipal purpose, that documentation such as original invoices and charge slips is on file, and that a log is maintained to document the custody and safekeeping of the physical credit card by authorized city officials using the card.

5. **FINDING: Premiums from city vendor**

Documentation in city files indicated city personnel received premiums based on the volume of the city's purchases from one vendor. In April 2007, the vendor, a company that sells office supplies, shipped a set of luggage to city hall. Then, in following months, the vendor shipped a spa set, more luggage items and a wine holder to city hall. The last item was shipped in September 2007. Auditors did not observe these items at city hall. When employees or officials receive gifts from vendors, it increases the risk that purchasing decisions will not be made based on the city's needs and interest.

Section 5 of the Eagleville Code of Ethics, adopted in August 2006, states:

An official or employee may not accept, directly or indirectly, any money, gift, gratuity, or other consideration or favor of any kind from anyone other than the municipality

(1) For the performance of an act, or refraining from performance of an act, that he would be expected to perform, or refrain from performing, in the regular course of his duties; or

(2) That might reasonably be interpreted as an attempt to influence his action, or reward him for past action, in executing municipal business.

**RECOMMENDATION:**

To avoid the possibility of actual or apparent undue influence, the mayor and members of the city council should make its employees aware of the provisions of the city's adopted code of ethics. This includes prohibiting employees from accepting gifts from vendors.

**MANAGEMENT'S RESPONSE:**

**Honorable Mayor and Members of the City Council:**

We concur. City employees will be instructed that they are prohibited from accepting ANY gifts from vendors so that the city can avoid even the possibility of perceived undue influence.

**Recorder:**

I concur with the mayor and members of the city council.

6. **FINDING:**    **Payment of finance charges**

Our review of city credit card statements indicated that, due to the delinquency of payment in many instances, the city incurred finance charges and late fees on a routine basis. In fact, over \$3,800 in late fees were added to city credit card accounts in the three years ended March 2008. We also noted that at least one other city vendor account had incurred late fees and finance charges. The Charter of the City of Eagleville, Article III, Section 4, allows the mayor and city council to appropriate and expend money only for lawful corporate or public purposes. Section 50 requires that the recorder install and maintain an efficient system of accounting. 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 ensure that public funds are used wisely, the mayor and members of the city council should hire competent and capable employees who are conscientious in their management

of city money. City personnel should pay debts to take advantage of all discounts and avoid any penalties.

**MANAGEMENT’S RESPONSE:**

**Honorable Mayor and Members of the City Council:**

We concur. The city will review existing policies and develop new procedures as are necessary to ensure that all city debts will be paid in a timely manner to avoid any penalties and interest. The city has closed all credit card accounts which were the source of most, if not all, finance charges incurred by the city.

**Recorder:**

I concur with the mayor and members of the city council.

7. **FINDING: Inadequate supervision of city employees**

Our review of payroll and other records indicated that there was insufficient or ineffective supervision of the former city recorder, Michelle Bennett. There were no time records for the former recorder in city files. It also appears she had been paid not only for duties she *was not* performing, but also for activities she *should not* have been performing.

- According to minutes of the mayor and city council meeting from September 2004, the former fire chief reported that the city was going to put the Tennessee Fire Incident Reporting System in place in October 2004. However, he also indicated that “it would be very time consuming to enter all the reports and recommended that Michelle [Bennett] work extra hours for the Fire Department, with payment coming from the Fire Department account.” According to State Fire Marshal records, the former recorder did file reports with them. However, those state records indicate that the former recorder quit filing the reports in May 2005. Despite that, she continued to give herself additional pay from the fire department bank account until May 2007.<sup>2</sup>
- A review of records and information obtained from Victoria’s Secret indicated that the former recorder was performing online transactions with that vendor during city office hours.

Specifically Title 2, Chapter 3, Section 7, states, “Time cards or honor system time sheets (approved by department heads) should be maintained for all employees in order to eliminate unauthorized pay....”

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<sup>2</sup> The former recorder did keep the accounting records for the fire department. However, those duties should have been, and now are, ordinary duties of the recorder’s position, not something that would warrant additional pay.

**RECOMMENDATION:**

To decrease the risk of improper payroll, the mayor and members of the city council should require that the recorder establish and maintain complete payroll and personnel records, including time records. City officials should provide additional oversight to ensure that the duties that city employees are being compensated for are actually being performed. In addition, city officials should ensure that duties that are not related to city business are not being performed during office hours.

**MANAGEMENT'S RESPONSE:**

**Honorable Mayor and Members of the City Council:**

We concur. The city will develop a policy that ensure all compensation and reimbursements paid to the city employees or officials are reviewed and verified by a city official in addition to the employee or official to whom the payments are made such that said payments are consistent with the compensation and reimbursement policies of the city. Additionally, the city will develop a procedure for oversight of the duties of the city recorder.

8. **FINDING:** No comprehensive written purchasing policy adopted

The mayor and the members of the city council failed to develop and 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, requiring approval by the finance officer, outlining procedures for emergency and small-item purchases without prior approval, and requiring bids for purchases over a stated amount.

**RECOMMENDATION:**

To ensure that the city purchases items at the best price and in the most advantageous manner, the mayor and members of the city council should adopt and enforce compliance with a comprehensive written purchasing policy.

**MANAGEMENT'S RESPONSE:**

**Honorable Mayor and Members of the City Council:**

We concur. The city will develop a comprehensive purchasing policy consistent with the mandates of the *Internal Control and Compliance Manual for Tennessee Municipalities*.