

INVESTIGATIVE AUDIT REPORT

CITY OF HARRIMAN



State of Tennessee



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



STATE OF TENNESSEE

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

John G. Morgan
Comptroller

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

February 22, 2007

Honorable Mayor and Members of
the City Council
City of Harriman
P. O. Drawer 433
Harriman, TN 37748

Gentlemen:

Presented herewith is the report on our investigative audit of selected records of the City of Harriman.

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 audit revealed that a model 943000 toolbox purchased by the city was apparently misappropriated by Fire Chief Wayne Best for his personal use. While this matter has been referred to the local district attorney general, our office is aware that the statute of limitations may prohibit any criminal prosecution.

The findings and recommendations in this report 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
City Council
City of Harriman
February 22, 2007

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

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

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

February 22, 2007

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 Harriman.

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 audit revealed that a model 943000 toolbox purchased by the city was apparently misappropriated by Fire Chief Wayne Best for his personal use. While this matter has been referred to the local district attorney general, our office is aware that the statute of limitations may prohibit any criminal prosecution.

Mr. John G. Morgan
Comptroller of the Treasury
February 22, 2007

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

1. Apparent conflicts of interest of mayor and councilmember
2. Failure to request bids as required and city funds expended on private enterprise in apparent violation of state constitution
3. Failure to obtain written contract for services and obtain proper council approval
4. Sick leave donated in violation of leave policy
5. Collections not turned over for deposit within three working days, disbursements not made by prenumbered check, and deposit slips not itemized
6. Recreation department account controlled by recreation department director in violation of city charter
7. Receipts not issued for each collection
8. Harriman Athletic Association Board not in compliance with required guidelines
9. Disbursements issued with only one signature
10. Utility cutoff policy not enforced
11. Time cards not signed to indicate concurrence with hours worked

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 HARRIMAN**

LEGAL ISSUE

1. **ISSUE: Apparent misappropriation of toolbox by fire chief**

Our audit revealed that a model 943000 toolbox purchased by the city was apparently misappropriated by Fire Chief Wayne Best for his personal use. No model 943000 toolbox could be located at either of the department's two fire halls or attached to any fire equipment. However, auditors located and photographed a model 943000 toolbox attached to the back of the chief's personal truck. (Refer to Exhibits 1 and 2.) At least two individuals stated that they had observed the toolbox on the back of the chief's personal truck repeatedly since the date of its purchase. Chief Best claimed that he purchased it using his own money. However, he was unable or unwilling to provide any documentation of its purchase and, when asked, failed to disclose the whereabouts of the toolbox purchased using city credit and paid for with city funds.

Per the vendor invoice, Chief Best purchased a model 943000 toolbox for \$199.99, **on city credit**, from AutoZone on August 27, 2003. The fire chief apparently failed to submit the invoice to the city clerk for processing, although the city clerk indicated that Chief Best ordinarily submitted invoices for payment, as required by city policy. As a result of the chief's apparent withholding of the invoice, the city's credit was temporarily suspended at AutoZone. Subsequently, the city clerk received a faxed copy of the invoice from AutoZone and paid the invoice on April 29, 2004.

When initially questioned about the model 943000 toolbox, Chief Best indicated that it was located at firehouse 2. Although an auditor observed a toolbox at that location, subsequent investigation revealed that it had been donated to the department by AutoZone and apparently was subsequently sold. The purchaser stated that he paid the chief between \$75 to \$100 cash for the donated toolbox. However, auditors could not locate any record of this money being deposited into city accounts.

While this matter has been referred to the local district attorney general, our office is aware that the statute of limitations may prohibit any criminal prosecution. We recommend that the city seek legal counsel regarding possible civil recovery of misappropriated funds or any possible disciplinary action that may be contemplated.

Fire Chief's Verbatim Response to Legal Issue:

In the first part of 2003, I, Wayne Best, bought a Ford Ranger pick-up truck for my exterminating business. When I bought it, it had no toolbox on it. So my brother and myself went to AutoZone to look at them to see what they cost. We spoke to a salesman about the price and whether they had one in stock, and he said they have one that they took off display and he could sell it to me at a good price with me being a fireman, so he priced it at \$200.00 and so we bought it. We also bought screws and nuts to bolt it down, and car cleaning equipment to clean the truck. We had just got through treating a house for termites and were paid cash so that is what we bought with it. Now if they charged the city for it also, I am not aware of it. I have never taken anything that was not mine that I know of.

(Refer to Exhibit 4 for response from Patrick Shane Best.)

AUDITOR'S REBUTTAL TO FIRE CHIEF'S RESPONSE:

Fire chief Wayne Best states in his response that he purchased the toolbox on the back of his personal truck using cash and that "if they charged the city for it also, I am not aware of it." However, the invoice obtained from AutoZone by city personnel for purchase of the toolbox clearly indicates that the chief signed for the purchase, charging the toolbox to the city's credit. Refer to Exhibit 3. At the top of the invoice, under the heading "Customer Information," the invoice clearly indicates the customer is the City of Harriman. It would appear extremely unlikely under these circumstances that the chief was unaware the city was being charged for the purchase of the toolbox.

Chief Best also states in his response that when he purchased his Ford Ranger, it had no toolbox on it, so he and his brother purchased one at AutoZone. According to the Department of Safety, the chief purchased the Ford Ranger on the same date that the toolbox in question was purchased using city credit. It appears, therefore, that the toolbox referred to by Chief Best in his response and the toolbox purchased using city credit are one and the same.

Finally, an AutoZone employee confirmed Chief Best's purchase of the city-owned toolbox, stated that he helped place the toolbox in the chief's personal truck, and subsequently observed, on several occasions, the truck with the toolbox still on it.

FINDINGS AND RECOMMENDATIONS

Accompanying the responses of the HUB manager was a letter and copies of various Harriman Utility Board policies and board minutes. The letter accompanying the HUB manager's responses has been included as Exhibit 5. For purposes of brevity, we have elected to not include copies of the policies and board minutes.

1. **FINDING: Apparent conflicts of interest of mayor and councilmember**

Mayor Jerry Davis and Councilmember Chris Mason had apparent conflicts of interest between their official duties and personal interests. Mayor Davis appeared to have some ownership interest in a local business, Davis Welding, which also did business with the city. The mayor's brother, in his capacity as water, sewer, and gas supervisor for the Harriman Utility Board (HUB), approved all but one of the Davis Welding invoices for payment by HUB. Payments to Davis Welding from HUB and the city's General Fund account during the period July 1, 2002, through December 31, 2003, totaled \$10,078. In a July 12, 2005, interview with auditors, Mayor Davis denied any ownership interest in Davis Welding but admitted that he had endorsed the backs of many of the checks payable to Davis Welding and that he was the direct recipient of at least one of the checks. The mayor also indicated that the situation would be corrected. However, from the date of our interview through April 30, 2006, Davis Welding received additional payments totaling at least \$1,065 from HUB. Minutes of meetings of the city council did not indicate that the mayor publicly disclosed his conflicts of interest during any open meetings, as required by law for indirect conflicts of interest.

Councilmember Chris Mason owns a local business, Yebo! Wireless, which also did business with the city. During the period July 1, 2003, through February 28, 2005, payments from HUB and the city's General Fund account to Yebo! Wireless totaled at least \$3,429.35. State law provides no remedy for direct conflicts of interest.

Section 12-4-101(a)(1), *Tennessee Code Annotated*, states:

It is unlawful for any officer, committee member, director, or other person whose duty it is to vote for, let out, overlook, or in any manner to superintend any work or any contract in which any municipal corporation, county, state, development district, utility district, human resource agency, or other political subdivision created by statute shall or may be interested, to be directly interested in any such contract. "Directly interested" means any contract with the official personally or with any business in which the official is sole proprietor, a partner, or the person having the controlling interest....

Section 12-4-101(b), *Tennessee Code Annotated*, states:

It is unlawful for any officer, committee member, director, or other person whose duty it is to vote for, let out, overlook, or in any manner to superintend any work or any contract in which any municipal corporation, county, state, development district, utility district, human resource agency, or other political subdivision created by statute shall or may be interested, to be indirectly interested in any such contract unless the officer publicly acknowledges such officer's interest. "Indirectly interested" means any contract in which the officer is interested but not directly so, but includes contracts where the officer is directly interested but is the sole supplier of goods or services in a municipality or county.

Finally, Section 12-4-102, *Tennessee Code Annotated*, states:

Should any person, acting as such officer, committee member, director, or other person referred to in § 12-4-101, be or become directly or unlawfully indirectly interested in any such contract, such person shall forfeit all pay and compensation therefor. Such officer shall be dismissed from such office the officer then occupies, and be ineligible for the same or a similar position for ten (10) years.

RECOMMENDATION:

To provide impartial decisions regarding the city's contracts, the mayor and members of the city council should ensure that unlawful conflicts of interest, as defined by Section 12-4-101, *Tennessee Code Annotated*, are avoided. In the event of an indirect conflict of interest, a public acknowledgment of the conflict should be made and documented in the city's records.

MANAGEMENT'S RESPONSE:

Mayor:

I concur. I agree that conflict of interest should be avoided. Part of the written documentation in your finding is incorrect with respect to the mayor receiving additional payments after confirming to you that the situation would be corrected. The payment you refer to was made to my brother Eddie Davis Welding. To the best of my knowledge, there have been no payments to me from the Harriman General Fund. In fact, I have donated my time and welding materials to the city, particularly in emergencies when equipment failure needed immediate attention. I did this to better serve the citizens of Harriman.

Councilmember Chris Mason:

HUB was an account that was started with my company before I took office as a city councilman. Shortly after I took office, I asked another council member if it was all right for my company to continue doing business as usual. I was advised that the charter stated that it was okay as long as I personally or my company didn't hold a contract with the city or an entity thereof.

After being informed of the ethics and conflict of interest in this matter, I understand. My employees have been informed not to sell any product to the City of Harriman or an entity thereof.

Note: Any product sold to HUB or the City of Harriman was done so at a highly discounted rate.

Councilmembers Jackie Gallaher, Garvin Morris, Lonnie Wright, and Chase Tedder:

We concur. Council has taken steps to improve communication and educate employees about conflict of interest and general ethical standards to apply as employees of the city. We have provided a copy of the city charter to each department head and asked them to review the provisions as guidance for managing their departments. We have adopted an ethics policy as dictated by the Tennessee Legislature and developed by the Municipal Technical Advisory Service (Ordinance No. 6-8-01). We require each department head to review the ethics policy with all employees once a year emphasizing the avoidance of private use of city time, facilities, and equipment except where the governing body deems to be in the best interests of the city (Ordinance No. 6-8-01, Section 7). New hires will be briefed on the ethics policy when reporting for work.

Councilmember J. D. Sampson:

I concur with your finding that all conflicts of interest should be avoided.

HUB Manager:

You state in your finding that we continued the practice of doing business with companies with which the mayor and a councilman have personal interest after an interview of July 12, 2005. That interview was with the mayor, not with me or another member of HUB management. I had a conversation with your auditor at some date after that and he advised me to change our practice. HUB has been doing business with *Eddie Davis Welding*, and written checks to this business, not the mayor. Also, other HUB employees contacted *Eddie Davis Welding* to do work. The "mayor's brother" signed the invoices as he is in charge of the gas, water, and sewer crews, and responsible for purchase approvals.

I have also taken steps to change the practice of doing business with Yebo! Wireless. I think it is important to note that we were doing business with these companies prior to the time these gentlemen began their service as mayor and councilman. HUB does have a policy about doing business with companies in which our board members have a financial interest or from which they receive a profit, and we will extend this policy to city council members and the mayor.

Based on your recommendation, we have ceased doing business with companies where a city official has a direct interest in the business and I will propose to our board that we modify our purchasing policy to include the city officials.

AUDITOR'S CLARIFICATION:

The mayor's and the HUB manager's responses correctly noted the checks for additional payments totaling \$1,065 were actually made payable to Eddie Davis Welding rather than Davis Welding. Per the city clerk and county clerk, no separate municipal or county business license has been issued for Eddie Davis Welding. Therefore, this appears to be the same business operating under a different name. As noted in the finding, it appears that the mayor has acted as an owner or agent of this business on multiple occasions. The mayor has not provided any documentation that he has divested himself of any and all control of Davis Welding. Therefore, as we mentioned in our interview with the mayor during fieldwork, the issuance of city checks to Davis Welding, whether drawn on the Harriman Utility Board's primary bank account or the city's general fund bank account, creates, at a minimum, the appearance of impropriety.

City records indicated at least one payment to Davis Welding, check no. 3323 issued October 11, 2003, for \$760, was paid from the general fund.

We reiterate our finding and recommendation.

2. **FINDING:** Failure to request bids as required and city funds expended on private enterprise in apparent violation of state constitution

The Harriman City Council voted on December 3, 2002, to approve passage of a resolution authorizing a \$3 million bond issuance to finance the Pinnacle Pointe project. More specifically, the resolution authorized use of the bond issuance proceeds to finance "certain public works projects at the Pine Ridge Road/Interstate 40 Interchange, consisting of infrastructure development and improvements within the municipality, including streets, roads, sidewalks, utilities, drainage, and the acquisition of all other property real and personal appurtenance thereto ..."

On January 29, 2003, the city entered into an agreement with Prestige Land Company (Prestige). The agreement called for the city “to engage the Company to perform the work authorized by the Resolution ... including the payment of all legal, fiscal, administrative and engineering costs related thereto ...” The agreement also called for Prestige to

contract for and oversee the design and construction of all Municipal Projects authorized by the Resolution. Developer shall negotiate the contracts for Municipal Projects, sign the construction contracts, and shall be responsible to oversee its completion.... City hereby grants to Developer the authority to engage all contractors deemed necessary by Developer for the completion of the Municipal Projects.

Pursuant to the agreement, Prestige hired an engineering firm which, in turn, was authorized to let the project out for bid. It appears that by entering into such an agreement, the city council abrogated its responsibility to oversee the bidding process.

A review of paid invoices on the Pinnacle Pointe project revealed that, in addition to expenditures on infrastructure, the city paid \$753,860 for improvements to property owned by Prestige in preparation for sale of the property to Lowe’s. Prestige, in turn, “contributed” \$519,175 to the city, leaving a balance of \$234,685 paid by the city for the development of the property, financed through the issuance of municipal bonds.

Title 5, Chapter 5, of the city’s municipal code states, in part, “If the amount of expenditure is estimated to exceed \$2,000.00, sealed bids shall be solicited. The city treasurer shall solicit sealed bids ...”

Article II, 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.

Absent the aforementioned election, municipalities may not incur indebtedness on behalf of any private enterprise.

RECOMMENDATION:

To ensure the city receives the best possible price on services rendered and to comply with the city’s charter, the city council and treasurer should oversee bidding on all municipal projects. To avoid an unconstitutional giving or lending of the town’s credit, the mayor and members of the city council should cease appropriating money or incurring indebtedness on behalf of private businesses, absent the required election. The

mayor and members of the city council should consider seeking legal counsel regarding any amounts outstanding that were contributed by the city for the development of private property in the Pinnacle Pointe project.

MANAGEMENT'S RESPONSE:

Mayor:

I concur. Since 2003, the city council and treasurer regularly oversee competitive bidding on municipal purchases and contracts as described in the city charter. None of the work performed under council's contract with Prestige Land Company was intended as giving or lending the town's credit for private land development. Invoice payments exceeded the scheduled infrastructure estimates, and that leaves that open to the audit report interpretation. Alternatively, the infrastructure costs might have exceeded estimates. In either case, no further payments were made after the completion and opening of the Lowe's store. Before taking any legal action, we will discuss your audit findings with Prestige Land Company and, if necessary, have an independent audit.

Councilmember Chris Mason:

I concur. I have already worked with some department heads in question to help correct the problems and will support the advice of the state, the department head and/or the council to make sure these problems are corrected.

Councilmembers Jackie Gallaher, Garvin Morris, and Lonnie Wright:

We concur. Since 2003, the city council and treasurer regularly oversee competitive bidding on municipal purchases and contracts as described in the city charter.

Councilmember Chase Tedder:

Since 2003, the city council and treasurer regularly oversee competitive bidding on municipal purchases and contracts as described in the city charter. At the time this project was initiated, we had an office staff member serving as interim treasurer. Our city attorney's guidance was primarily utilized due to the complex legal and contractual issues involved with the project. The current level of expertise in the treasurer's office with respect to purchasing leads us to use that office in contracting processes for all projects, regardless of size.

None of the work performed under council's contract with Prestige Land Company was intended as giving or lending the town's credit for private land development. Invoice payments exceeded the scheduled infrastructure estimates, and that leaves the calculated excess payment open to the audit report interpretation. Alternatively, the infrastructure costs might have exceeded estimates. In either case, no further payments were made after the completion and opening of the Lowe's store. Because your calculations are consistent

with the treasurer's findings based on his review of the scheduled project activities and invoices, we will investigate this further. Before taking any legal action, we will discuss your audit findings with Prestige Land Company and if appropriate, request repayment of \$234,685.

Councilmember J. D. Sampson:

I concur that the city needs to ensure the best possible price for services rendered and should oversee all bidding.

Treasurer:

I concur. Your calculations are consistent with my review of the invoices and project schedule values for infrastructure outlay. To correct this issue, the amount of \$234,685 should be collected from Prestige Land Company.

AUDITOR'S CLARIFICATION:

The analysis was not based on payments exceeding budgeted costs, but rather a review of invoices submitted by the contractor. These invoices clearly indicate \$753,860 was used for private land development, of which \$234,685 remained unreimbursed.

3. **FINDING: Failure to obtain written contract for services and obtain proper council approval**

The mayor stated that, in 2002, he entered into a verbal agreement with a private contractor to swap dirt removed from the industrial park in exchange for services to be performed for the city by the contractor. Information obtained by our office indicated that between 50 to 90 truck loads of dirt were removed pursuant to the agreement. However, there was no contract enumerating both parties' rights and obligations and the mayor did not obtain council approval prior to entering into the agreement.

The mayor's failure to obtain a written contract for these services has led to an apparent misunderstanding between the city and the contractor regarding the nature of the contract service to be provided in exchange for the dirt, as well as a misunderstanding regarding whether the service has already been performed. In an interview with the auditors, the mayor stated that the agreement called for the contractor to perform excavation work on a new city ball park in exchange for the dirt. The mayor also stated that the agreed upon work had not yet been performed. However, in a separate interview with auditors, the contractor stated that he agreed to excavate a hill located at the end of the high school's football field. He further stated that he had performed the required work prior to

receiving the industrial park dirt. Other information received by our office indicated that the excavation at the high school football field was performed pursuant to the contractor's membership in the school's Quarterback Club.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 1, Section 4, states:

Municipal officials should ensure that ... complete minutes of actions taken by the legislative body are maintained. The minutes should include the following ...

(i) copies of contracts entered into by officials, who must obtain a written contract for all agreements with other entities or individuals for services received or provided ...

Article II, Section 18, of the city charter states:

The city council shall have the management and control of the city finances and all property of the corporation, real, personal, and mixed, and shall have power by ordinance: ...

(4) Contract and be contracted with ...

RECOMMENDATION:

To prevent misunderstandings and avoid loss of city assets, the mayor and members of the city council should require the use of written contracts for all municipal agreements with third parties and ensure that all such contracts are approved by the city council, as required by the city's charter. The city should seek legal counsel to determine any action necessary to ensure the city receives the benefit of the value of the dirt obtained by the contractor.

MANAGEMENT'S RESPONSE:

Mayor:

I concur. I agree that contracts with third parties should be written and reviewed before approval by council. I have spoken with the contractor, and he has indicated by letter that he intends to fulfill all his obligations under the agreement. The property mentioned in the finding may be private property not owned by the city and not part of the industrial park.

Councilmember Chris Mason:

I concur. I have already worked with some department heads in question to help correct the problems and will support the advice of the state, the department head and/or the council to make sure these problems are corrected.

Councilmembers Jackie Gallaher, Garvin Morris, and Lonnie Wright:

We concur. Council agrees that contracts with third parties should be written and reviewed before approval by council.

Councilmember Chase Tedder:

I concur. Council agrees that contracts should be written and reviewed before approval by council.

Councilmember J. D. Sampson:

I concur with your finding that city council should require written contracts for all municipal agreements with third parties and ensure that all such contracts are approved by city council.

Treasurer:

I concur.

4. **FINDING: Sick leave donated in violation of leave policy**

City employees were allowed to donate excess sick leave to other employees in violation of the city's leave policy. At his retirement, the former assistant police chief apparently donated 385 hours of sick leave to a police department clerk, with the expressed intention that the donated leave would, in turn, be donated to other police department employees as needed. At least 28 hours of the donated sick leave was apparently used by the clerk. Another 165 hours of sick leave was donated by the clerk to other police department employees. City administrative personnel and HUB personnel confirmed that they were also allowed to donate sick leave to other employees and that such donations had been made. Donations of sick leave are expressly prohibited in the city's personnel policy, unless approved by the full city council. Even then, only for unusual and/or extenuating circumstances are such exceptions allowed.

Regarding the transfer or donation of sick leave, the city's personnel policy states:

Employees may not borrow against future sick leave or transfer earned sick leave to another employee. An employee, upon exhausting all earned sick leave, may use earned annual leave or take leave without pay, if approved. Only the governing body, by a majority vote in a regular meeting, may make exceptions to leave policy due to unusual and/or extenuating circumstances.

RECOMMENDATION:

To prevent abuse, avoid misunderstandings, and comply with the city's leave policy, city officials should forbid donations of sick leave without prior city council approval or an amendment to the leave policy authorizing such donations of leave.

MANAGEMENT'S RESPONSE:

Mayor:

I concur. The mayor and council have instructed the new city clerk to allow no sick leave donations until policy is changed. We are evaluating making a change to the personnel policy to help employees with long-term illnesses.

Councilmember Chris Mason:

I concur. I have already worked with some department heads in question to help correct the problems and will support the advice of the state, the department head and/or the council to make sure these problems are corrected.

Councilmembers Jackie Gallaher, Garvin Morris, and Lonnie Wright:

We concur. Council has instructed the new city clerk to allow no sick leave donations until policy is changed. We are evaluating making a change to the personnel policy to help employees with long-term illnesses.

Councilmember Chase Tedder:

I concur. Council has instructed the new city clerk to allow no sick leave donations until policy is changed. The former clerk, now deceased, obviously made a mistake in assuming that the policy had been changed. A previous council had approved an exception to the policy and allowed employees to donate sick leave to her. (She had a long extended battle with cancer lasting a year or more.) We are evaluating making a change to the personnel policy to help employees with long-term illnesses.

Councilmember J. D. Sampson:

I concur with your finding that the city council should forbid donations of sick leave without prior city council approval and only in extreme circumstances.

Treasurer:

I concur. No sick leave donations have been allowed by the new city clerk. Current thinking is that the city would like to allow sick leave donations to those who have used up sick leave due to catastrophic illness. I have recommended that council align their intent with personnel policy by considering a change to the personnel policy. One option to consider is the creation of a sick leave pool.

City Clerk:

I concur that the City of Harriman allowed city employees to donate excess sick time to other employees which violated the city's leave policy; however, this was done under the former city clerk, Margaret Evans, who passed away on November 24, 2004. I was hired on January 24, 2005, and since I have been the city clerk, I have enforced this policy and no one has been allowed to donate any sick time.

Police Chief:

I concur that the City of Harriman allowed Harriman Police Department employees to donate excess sick time to other city employees which violated the city's leave policy; however, this was done under the former chief of police, Jack Stockton, who no longer is employed by the City of Harriman due to winning the election for sheriff. I was hired on September 1, 2006, and since I have been the chief of police, I have enforced this policy and no one has been allowed to donate any sick time.

HUB Manager:

You state in your findings that HUB personnel donated sick leave in violation of the city's sick leave policy. The city and the Harriman Utility Board operate as separate entities with separate governing bodies and separate sets of policies. The Harriman Utility Board does have a policy which allows the donation of sick leave, and HUB management has followed these policies.

AUDITOR'S CLARIFICATION:

As mentioned in the HUB manager's response, the Harriman Utility Board has adopted its own sick leave donation policy allowing employees to elect to donate sick leave to other individuals suffering from long-term illnesses. To avoid misunderstandings and possible legal issues, we recommend the Harriman Utility Board seek legal counsel to ensure the policy can be equitably applied to both donors and recipients.

5. **FINDING:** Collections not turned over for deposit within three working days, disbursements not made by prenumbered check, and deposit slips not itemized

Our audit revealed some city money was not deposited timely, some disbursements were not made by prenumbered check, and deposits for some accounts were not itemized. Money received during the fire department's 2004 Halloween haunted house fundraiser was not turned over to city hall administrative personnel for deposit until more than six weeks after collection. Proceeds from both the 2002 and 2004 Halloween haunted house fundraisers were used to reimburse firemen that had purchased items for the fundraisers.

The parks and recreation department director maintained a separate bank account, called the Recreation Department Special Account. In at least one instance, a check issued to the athletic association was not deposited into the account until almost two months after issuance. Another account, called the Harriman Athletic Association Youth account, was maintained by a member of the Harriman Athletic Association Board. Cash collections from ball park concessions were frequently used to make small disbursements, instead of being deposited into the account. Finally, checks deposited into the Harriman Athletic Association Youth account were not itemized on the applicable deposit slips.

Section 6-56-111, *Tennessee Code Annotated*, states:

- (a) 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.... (Emphasis added.)
- (c) Every municipal official authorized to disburse public funds shall be required to make disbursements of such public funds by consecutively prenumbered checks, warrants or other generally accepted negotiable instruments drawn on the municipality's

official bank account or accounts. Disbursements may also be made by electronic transfer, if such transfer is properly documented and recorded.

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

Article III, Section 15, of the city's charter states:

Every officer or agent of the city, or other person who shall receive or have in his hands any money belonging to the city, shall immediately pay the same over to the city treasurer and take his receipt therefor in duplicate, one of which receipts shall be delivered to the city clerk by the party paying over the money. For every failure to pay over moneys to the city treasurer, or to deliver the treasurer's receipt therefor to the city clerk, for more than forty-eight hours after the moneys shall have been received by such officer, agent, or other person, or as provided by city ordinance, such officer, agent, or other person shall forfeit to the city double the amount of money not paid over as herein specified.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, provides additional guidance for disbursing municipal funds. Regarding collections, Title 3, Chapter 1, Section 5, of the manual states, "Municipal officials should ensure that ... at the end of the day, the cashier counts the cash and checks on hand, leaving only the predetermined amount in the change fund. Collections should be deposited promptly and **intact**..." (Emphasis added.)

Title 3, Chapter 1, Section 4, of the manual requires that each check deposited be listed separately on an itemized deposit slip.

RECOMMENDATION:

To help prevent the misappropriation, misuse, or other loss of collections, city officials should ensure that all collections are deposited intact within three working days into an official city bank account as required by state law. Under no circumstances should collections be used for the purpose of making disbursements. Checks deposited should be listed separately on an itemized deposit slip.

MANAGEMENT'S RESPONSE:

Mayor:

I concur.

Councilmember Chris Mason:

I concur. I have already worked with some department heads in question to help correct the problems and will support the advice of the state, the department head and/or the council to make sure these problems are corrected.

Councilmembers Jackie Gallaher, Garvin Morris, and Lonnie Wright:

We concur.

Councilmember Chase Tedder:

I concur.

Councilmember J. D. Sampson:

I concur with your finding and if the board is to continue operating, it needs to follow the guidelines that were set out in the resolution that was passed by city council. Collections should be deposited within three days. Deposit slips need to be itemized so we can be in compliance with Section 6-56-111, *Tennessee Code Annotated*.

Treasurer:

I concur. The treasurer's office complies with Section 6-56-111, *Tennessee Code Annotated*; Article III, Section 15 of the city charter; and Title 3, Chapter 1, Section 4 of the *Internal Control and Compliance Manual for Tennessee Municipalities*. I can verify that the parks and recreation director has closed his account and deposited the funds with the city treasurer. I have set up a balance sheet reserve account for the softball account funds.

City Clerk:

I concur. I agree with the recommendations made by the State of Tennessee.

Fire Chief:

I concur. The 2004 Halloween haunted house fundraiser money was not turned in on time; it was an oversight on my part. I had left the day before it ended and went on vacation and Assistant Chief Brad Daniels locked the money up in a locker. When I returned to work, I had thought the money had been turned in. This will not happen again.

The 2002 and 2004 Halloween haunted house fundraiser proceeds were used to buy the costumes for the haunted house. The men at the fire department had bought the costumes and were reimbursed by the fundraiser money. The reason we did that is because that is how it was done in the past, but we will not do it again.

All money will go straight to the city treasurer within three working days to be deposited into an official city bank account as required by state law.

Parks and Recreation Department Director:

The bank account that adult softball money was deposited in has been closed. I concur with this finding. All further collections for the account will be deposited in the city's bank account by the city treasurer. Any money spent out of this account will be done so through its own line item in the fiscal budget for the Harriman Recreation Department.

Members of the Harriman Athletic Association Board:

J. D. Sampson:

I concur with your finding and if the board is to continue operating, it needs to follow the guidelines that were set out in the resolution that was passed by city council. Collections should be deposited within three days. Deposit slips need to be itemized so we can be in compliance with Section 6-56-111, *Tennessee Code Annotated*.

Franklin Brannon:

Failed to respond.

6. **FINDING: Recreation department account controlled by recreation department director in violation of city charter**

As previously mentioned, the director of the recreation department maintained a separate bank account. The recreation department director had sole control over the account, in apparent violation of the city's charter. Further, several months' bank statements could not be located for the account and this account was not included in the city's accounting records. The city's charter provides no apparent authority for the recreation department director to open or control any city accounts.

Article II, Section 18, of the city's charter states, "The city council shall have the management and control of the city finances and all property of the corporation ..."

Article III, Sections 13 and 14, of the charter state:

The treasurer shall, for and on behalf of the city, purchase all furniture, books, stationery, tools, materials, and supplies and all things necessary for the use of the several departments, offices, and employees of the city.

It shall be the duty of the city treasurer to receive, receipt for, and keep the money of the city, and pay out the same only on warrants drawn by order of the city council, signed by the mayor, registered and attested by the city clerk under the seal of the corporation.

Article III, Section 21, of the charter states, “No money shall be paid out by the city treasurer for any purpose except upon warrants drawn upon him by order of the city council, signed by the mayor, countersigned and registered and attested by the clerk ...”

RECOMMENDATION:

To ensure proper oversight of city funds, unauthorized municipal accounts should be turned over to the city treasurer, as required by the city’s charter.

MANAGEMENT’S RESPONSE:

Mayor:

I concur. The parks and recreation director has closed his account and deposited the funds with the city treasurer.

Councilmember Chris Mason:

I concur. I have already worked with some department heads in question to help correct the problems and will support the advice of the state, the department head and/or the council to make sure these problems are corrected.

Councilmembers Jackie Gallaher, Garvin Morris, Lonnie Wright, and Chase Tedder:

We concur. The parks and recreation director has closed his account and deposited the funds with the city treasurer.

Councilmember J. D. Sampson:

I concur with your finding that all unauthorized municipal accounts should be turned over to the city treasurer.

Treasurer:

I concur with qualification. The treasurer’s office complies with Article II, Section 21 of the city charter. I can verify that the parks and recreation director has closed his account and deposited the funds with the city treasurer. No funds from the Harriman Athletic Association (HAA) youth account have been received as of the date of this letter. I stand ready to receive such funds as with the earlier mentioned account.

Qualification: As a footnote, none of the volunteers that are associated with the HAA organization are providing services as city employees. The city does not pay them for the time and resources they bring to the program. Do the provisions of the city charter regarding deposit of funds with the treasurer apply to members of this organization? I am not a lawyer, and therefore unqualified to comment on their status but it seems to me that the charter provisions, regarding city employees, being applied to the HAA funds should be further reviewed by your legal staff.

City Clerk:

I concur. I agree with the recommendations made by the State of Tennessee.

Parks and Recreation Department Director:

I concur. I requested all documentation from the bank that was advised for me to get and subsequently gave the auditor all information that was provided to me by the bank. This bank account has been closed and all money from this account has been turned over to the city treasurer. This account was used to make improvements to the softball facilities using the entry fee money raised by the adult softball league.

AUDITOR'S CLARIFICATION OF QUALIFICATION BY CITY TREASURER:

City officials should ensure that all city money is handled in accordance with state law, regardless to whom city officials assign responsibility.

7. **FINDING: Receipts not issued for each collection**

Prenumbered receipts or other collection records, such as cash register tapes or ticket reconciliations, were not maintained for collections received from athletic events. No record of collections could be located for either the Recreation Department Special Account or the Harriman Athletic Association Youth account. As a result, we could not determine whether all recreation collections were deposited into city accounts.

Section 9-2-103, *Tennessee Code Annotated*, states, "Each ... municipal official who receives any sum or sums in such official's capacity shall issue to the payer thereof a receipt and shall retain a duplicate thereof in the office of such official..."

Section 9-2-106, *Tennessee Code Annotated*, states, "Any person violating any of the provisions of §§ 9-2-103 – 9-2-105 commits a Class C misdemeanor."

Guidelines established August 10, 1983, for the Harriman Athletic Association Board require that “Receipts of funds should be documented as to amount, source, date and person responsible for submitting funds.”

The *Internal Control and Compliance Manual for Tennessee Municipalities* requires municipal officials to ensure that prenumbered receipts are issued for each revenue source.

RECOMMENDATION:

To better account for all revenue, city employees or officials who receive collections should issue duplicate, prenumbered receipts for all collections or maintain other contemporaneous documentation of collections received. Collection records should provide adequate details to identify revenue sources.

MANAGEMENT’S RESPONSE:

Mayor:

I concur. I will recommend to council that better documentation and collection records be maintained by Harriman Athletic Association.

Councilmember Chris Mason:

I concur. I have already worked with some department heads in question to help correct the problems and will support the advice of the state, the department head and/or the council to make sure these problems are corrected.

Councilmembers Jackie Gallaher, Garvin Morris, Lonnie Wright and Chase Tedder:

We concur.

Councilmember J. D. Sampson:

I concur with the finding and if the board is to continue operating, it needs to follow the guidelines that were set out in the resolution that was passed by the city council. The concessions stand can purchase a cash register so we can produce cash register tapes for receipts. We are not sure if it is possible to run a gate with a set of 2, 4, and 6 duplicate tickets because there will be more than one gate at a time at some ballgames, but we will do our best to follow procedure.

Treasurer:

I concur. You point out that the HAA has not followed good business practice in maintaining full committee membership, electing officers, and having regular meetings

along with using standard receipting and deposit practices. That would put any organization at risk of not being eligible to run the program. I will suggest to the mayor that the association either be reconstituted or the activities be placed with another organization. I am available to help them apply good accounting practices if asked to do so.

City Clerk:

I concur. I agree with the recommendations made by the State of Tennessee.

Parks and Recreation Department Director:

I concur. This money was directly controlled by the Harriman Youth Association Board. This account and these transactions were operated without my direct control. However, after being informed of this finding, I have become directly involved and new accounting practices have been implemented to satisfy this finding.

Members of the Harriman Athletic Association Board:

J. D. Sampson:

I concur with the finding and if the board is to continue operating, it needs to follow the guidelines that were set out in the resolution that was passed by the city council. The concessions stand can purchase a cash register so we can produce cash register tapes for receipts. We are not sure if it is possible to run a gate with a set of 2, 4, and 6 duplicate tickets because there will be more than one gate at a time at some ballgames, but we will do our best to follow procedure.

Franklin Brannon:

Failed to respond.

8. **FINDING: Harriman Athletic Association Board not in compliance with required guidelines**

The Harriman Athletic Association Board failed to comply with certain required guidelines. For all practical purposes, the current board consists of only two members. When the board was first established in 1979, five board members were appointed. The following guidelines, adopted by the Harriman Athletic Association Board on August 10, 1983, were not followed by the present board:

1. The board will have regularly scheduled meetings, which should be publicized in the local paper. Items coming before the board should be included in notification to the paper, along

with time, date and place of scheduled meetings. All called meetings should be handled in the same manner.

2. A majority of the board members presence will be required for business to be conducted.
3. All business of the board should be reduced to writing as a permanent record for the board.
4. Approval of any business by the board will require a 2/3^{rds} majority of the board members.
5. The 2/3^{rds} majority vote of the membership will be the governing factor in all business and will be final.

RECOMMENDATION:

To provide proper oversight and comply with board guidelines, the Harriman Athletic Association Board should be comprised of five members as established when the board was founded. Board meetings should be held regularly and advertised in the local paper. All business should be brought before the board and a two-thirds majority should be required for approval of any business.

MANAGEMENT'S RESPONSE:

Mayor:

I concur. I will ask council to evaluate reestablishing the board to address the recommendations in your audit report.

Councilmember Chris Mason:

I concur. I have already worked with some department heads in question to help correct the problems and will support the advice of the state, the department head and/or the council to make sure these problems are corrected.

Councilmembers Jackie Gallaher, Garvin Morris, Lonnie Wright, and Chase Tedder:

We concur.

Councilmember J. D. Sampson:

I concur with your finding and if the board is to continue operating, it needs to follow the guidelines that were set out in the resolution that was passed by city council. The two board members that exist now operated the board to the best of their ability, being they

were the only two board members left. We regret we didn't follow procedure, maybe with new board members and with understanding of guidelines, it can be run more proficiently.

Treasurer:

I concur. You point out that the HAA has not followed good business practice in maintaining full committee membership, electing officers, and having regular meetings along with using standard receipting and deposit practices. That would put any organization at risk of not being eligible to run the program. I will suggest to the mayor that the association either be reconstituted or the activities be placed with another organization. I am available to help them apply good accounting practices if asked to do so.

Parks and Recreation Department Director:

I concur and am in the process of streamlining all concession money through the city treasurer. The Harriman Youth Board will be reviewed by the mayor and city council. Changes will be made to satisfy this finding.

Members of the Harriman Athletic Association Board:

J. D. Sampson:

I concur with your finding and if the board is to continue operating, it needs to follow the guidelines that were set out in the resolution that was passed by city council. The two board members that exist now operated the board to the best of their ability, being they were the only two board members left. We regret we didn't follow procedure, maybe with new board members and with understanding of guidelines, it can be run more proficiently.

Franklin Brannon:

Failed to respond.

9. **FINDING: Disbursements issued with only one signature**

Checks issued on the Recreation Department Special Account and the Harriman Utility Board's payroll account required only one signature. Further, many HUB Power Department checks were issued with only one signature.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, Section 2, states, "Municipal officials should require two signatures on all checks."

RECOMMENDATION:

To decrease the risk of unauthorized disbursements, city officials should require that every issued check be signed by two authorized individuals. Authorized signatures should review supporting documentation prior to signing checks.

MANAGEMENT'S RESPONSE:

Mayor:

I concur. The Harriman Utility Board is governed by a separate board that establishes policy on signature requirements. The City of Harriman applies the requirement of having two signatures on checks drawn on the city.

Councilmember Chris Mason:

I concur. I have already worked with some department heads in question to help correct the problems and will support the advice of the state, the department head and/or the council to make sure these problems are corrected.

Councilmembers Jackie Gallaher, Garvin Morris, Lonnie Wright, and Chase Tedder:

We concur.

Councilmember J. D. Sampson:

I concur with your finding that all city checks and HUB checks should have at least two signatures.

Treasurer:

Failed to respond.

City Clerk:

I concur. I agree with the recommendations made by the State of Tennessee.

Parks and Recreation Department Director:

I concur. As stated above, this account was established in the 1990s to handle money from the adult softball league to make improvements on the facilities and to aid the Youth Association. I, as well as the Harriman Recreation Committee, was unaware that checks for this account needed two signatures. After this finding, I have immediately closed the account and all money is handled through the city treasurer which requires two signatures for all expenditures.

HUB Manager:

Our board has an established policy of not requiring multiple signatures on checks that do not exceed certain amounts. The original board policy set the limit at \$300. In 1979, this amount was raised to \$1,200. There has been no independent audit finding recommending that the policy needed to be changed; therefore, management has continued to follow the policy established by our governing board.

Upon advice of the HUB auditors, individual payroll checks only require one signature, even if they exceed the \$1,200 limit. Funds are transferred from the power department account into the payroll account from which only payroll checks are written. The checks transferring these funds are typically more than \$1,200 and are issued with two signatures.

AUDITOR'S REBUTTAL:

Although HUB may be organized separately from the rest of the city, it is still a component part of the city. As such, compliance with state laws and regulations governing municipalities is required. As mentioned in the finding, Title 2, Chapter 2, Section 2, of the *Internal Control and Compliance Manual for Tennessee Municipalities* requires dual signatures on all checks, regardless of the check amount. Merely requiring two signatures for transfers from one account to another does not meet the requirements set forth in the manual. All checks on all accounts, regardless of amount, must have two signatures.

We reiterate our finding and recommendation.

10. **FINDING: Utility cutoff policy not enforced**

HUB's manager did not enforce the board's utility cutoff policy. Apparently, delinquent customers were allowed to continue service for weeks or months past the mandatory cutoff date. HUB's cutoff policy states:

Customers whose accounts are unpaid on the twenty-seventh (27th) day after the bill is mailed will be placed on a cut off list... Once the services have been terminated, all past due charges, including any old accounts, must be paid before services are restored.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 3, Section 9, states, "Municipal officials should ensure that ... if accounts remain unpaid on the municipality's cutoff date, service is discontinued in compliance with the municipality's policy."

RECOMMENDATION:

To help minimize loss of revenue, officials should insist that the board's cutoff policy is enforced.

MANAGEMENT'S RESPONSE:

Mayor:

I concur. The Harriman Utility Board is governed by a separate board that establishes policy.

Councilmember Chris Mason:

I concur. I have already worked with some department heads in question to help correct the problems and will support the advice of the state, the department head and/or the council to make sure these problems are corrected.

Councilmember Jackie Gallaher:

I do not feel qualified to respond to this issue. It is governed by the Harriman Utility Board.

Councilmembers Garvin Morris and Chase Tedder:

Failed to respond.

Councilmember Lonnie Wright:

I agree with the recommendations set forth in the preliminary audit report.

Councilmember J. D. Sampson:

I concur with your finding that to help minimize loss of revenue, officials should insist that the board's cutoff policy is enforced. City council should be more involved and oversee the utility board.

HUB Manager:

In special circumstances, HUB allows the customer service/credit manager the flexibility beyond the normal cutoff date. This can have a positive effect on collections of debt. Our primary purpose is to collect what is owed the utility. By working with the customer within reasonable constraints, we are usually able to get delinquent accounts caught up. Without this flexibility, we would cut off all customers on their scheduled cutoff date causing a loss of usage revenue from that date forward until full payment is received.

Some customers will opt to move from our system to another and we may never collect any portion of the balances owed.

We will revise some extension provisions and guidelines to make our practice a part of our policy. This will ensure that the same considerations are afforded equitably to all customers.

11. **FINDING: Time cards not signed to indicate concurrence with hours worked**

Time records for a utility board superintendent were not signed by his supervisor to indicate approval of hours worked. The *Internal Control and Compliance Manual for Tennessee Municipalities*, 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 ..."

RECOMMENDATION:

To help ensure that time recorded as worked is accurate and that all pay is authorized, supervisors should document that they have reviewed and approved time records.

MANAGEMENT'S RESPONSE:

Mayor:

I concur. However, the Harriman Utility Board is governed by a separate board that establishes policy.

Councilmember Chris Mason:

I concur. I have already worked with some department heads in question to help correct the problems and will support the advice of the state, the department head and/or the council to make sure these problems are corrected.

Councilmember Jackie Gallaher:

I concur. I agree that time cards should be reviewed by supervisors.

Councilmembers Garvin Morris and Chase Tedder:

Failed to respond.

Councilmember Lonnie Wright:

I agree with the recommendations set forth in the preliminary audit report.

Councilmember J. D. Sampson:

I concur with your finding that all time cards should be reviewed and signed and city council should oversee more of the utility board's activities.

Treasurer:

I concur. I agree that time cards should be reviewed by supervisors.

HUB Manager:

The board has an established policy that all time cards and records for nonexempt employees are signed by the appropriate supervisor and this policy has been consistently enforced. The procedure we've been using for exempt employees is that, at the end of each month, the employee e-mails their time sheet to the general manager for review. If approved, the general manager forwards the time sheet to the HR Department for placement in the employee's file and entry on a master pay spreadsheet.

In order to comply with your recommendation, we will modify our procedure slightly. In the future, the general manager will print out the time sheets e-mailed from the staff members and provide HR with a hard copy with his signature affixed in order to have documented approval of the time sheets in addition to the e-mailed ones.

APPENDIX

THIS PAGE LEFT BLANK INTENTIONALLY.



Exhibit 1 – Toolbox located on Chief Best’s personal vehicle



Exhibit 2 – Model 943000 toolbox located on Chief Best’s personal vehicle



serial 13 X

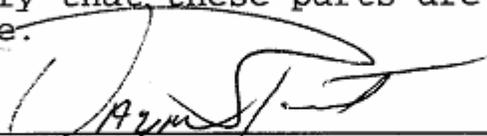
Page: 1 of 1
 609 S ROANE ST
 HARRIMAN, TN 37748
 865 882-7466

Customer Information	Order Information
CITY OF HARRIMAN 1002 N ROANE ST HARRIMAN, TN 37748- PHONE.....865 882-9414 PO NUMBER..FIREDPT7	INVOICE NUMBER.. 0366931275 2 COMM SPECIALIST. ORDER DATE..... 8/27/2003 7:28p QUOTE DELIVERY.. MANAGER SIGNATURE. _____

Items						
Qty	SKU	Description	Sugg. List	Cost	Core	Amount
1	993014	TOOL BOX 943000	398.00	199.99	0.00	199.99
1	191113	MW 51634 5-16 WEAT	14.97	5.97	0.00	5.97
1	098206	RTA9218 FLAT BLACK	7.96	3.98	0.00	3.98
1	098206	RTA9218 FLAT BLACK	7.96	3.98	0.00	3.98

NO VEHICLE GIVEN For The Above Items

I certify that I have received the part(s) listed above, and further certify that these parts are for resale.

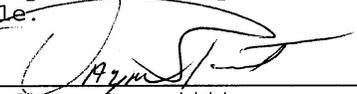
By: 

**** Store Copy ****



0366931275082703S

I certify that I have received the part(s) listed above, and further certify that these parts are for resale.

By: 

**** Store Copy ****



0366931275082703S

Payment	Apprv	Amount
6035 3030 0026 6134 X41273		213.92
Subtotal		213.92
Tax		0.00
Total		213.92
MSDS can be ordered upon request		

Enlarged section

Exhibit 3 – Invoice billed to city for toolbox

I am writing in response to an allegation that Wayne Best purchased a utility box for the Ford Ranger that belongs to Best Exterminating with city funds. I was in charge of finances and daily operations of Best Exterminating during the months prior of March 2003 and afterwards.

We recently had won a contract with the Roane County government which gave us the monetary gain to purchase a new vehicle for the business. The truck was a Ford Ranger single cab. We needed a truck box to go on the back to hold the chemical and tools in compliance with state law.

We had searched a few places and found that Auto Zone had the one closest and cheapest. The business was giving my brother an emergency service discount. We purchased the box, cleaning supplies and different screws at the same time. We paid cash for the purchase that came of the company's profits from a previous termite job that I had completed.

I am positive that the box was paid in cash due to the fact that I counted the money out and that we were being given a discount due to the employment of myself as a police officer. I am sure that there was some sort of communication breakdown in this process and in no time was the exterminating company at need for funds due to the fact that the bug season had just picked up along with the school contract.

Exhibit 4 – Patrick Shane Best's response to Legal Issue

This letter is in response to a meeting held in our offices on December 27, 2006, and furnished copies of your office's findings and recommendations with regard to several City of Harriman and Harriman Utility Board practices and procedures. I will be addressing only those findings which relate to the Harriman Utility Board and will leave it to the City or their representative to respond to all others.

First, let me clarify that the Harriman Utility Board, though an arm of the City of Harriman, Tennessee, is organized under the Electric Plan Act of 1935 and governed by the applicable TCA sections. The governing Board consists of five members appointed by the Mayor and approved by a majority vote of the City Council. The members of the Board serve staggered four-year terms with the exception of one member who is a member of the City Council and serves as their representative. This person serves a term at the will of the Mayor but is typically one to two years depending on when City elections fall. This Board sets the policies for the Harriman Utility Board while the City Council sets the policies for the City employees and, as a result, the policies of the two entities differ significantly.

It is the responsibility of the Board to hire the General Manager who, by law, hires all other HUB employees and determines their duties as well as their compensation. Among the General Manager's duties is the enforcement of Board policies. HUB management's responses to the audit findings will reflect the policies of the Harriman Utility Board and copies of such policies (as applicable) will be enclosed.

Exhibit 5 – Letter from HUB General Manager sent with responses