

**SPECIAL PURPOSE EXAMINATION OF THE RECORDS
OF THE TOWN OF HENNING
FOR THE PERIOD JULY 1, 2000, THROUGH JUNE 30, 2001**

During the period of our examination, Sheila Dillard was the town's recorder, referred to in our report as the "former recorder," and James Treadway was the town's police chief. The current recorder, Carolyn Nichols, and the current police chief, John Watson, have been asked to respond to those findings for which they will implement recommendations.

FINDINGS AND RECOMMENDATIONS

1. **FINDING: Inadequate separation of duties and lack of collection controls resulted in collections of at least \$2,039.67 not accounted for**

Officials failed to require the former recorder to assign responsibility so that duties were adequately separated. One employee opened the mail, performed most of the daily cashier duties, and also posted to subsidiary ledgers, prepared deposits, and made utility adjustments. Accountability was further compromised because relief cashiers were not required to use a separate cash drawer, daily cash reports were not signed, some daily cash report totals did not include all applicable receipts, and utility stubs and property tax receipts were not marked to indicate whether the form of payment was cash or check. These internal control deficiencies contributed to the failure of town personnel to account for property tax collections of at least \$1,060.52 and utility collections of at least \$979.15.

In addition, although the building inspector issued prenumbered building permits for collections he accepted in the field, town office personnel did not issue a prenumbered receipt to him when he turned over the collections for deposit. Also, other personnel infrequently received collections outside the office without issuing receipts to the customer or receiving a receipt when they turned over the collections for deposit.

The *Internal Control and Compliance Manual for Tennessee Municipalities* (the manual), 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 3, Chapter 1, Section 4, of the manual states:

Municipal officials should ensure that . . . office mail is delivered intact (unopened) to an employee who is assigned the duty of immediately opening the mail and preparing an itemized bank deposit slip in duplicate for all money received. All checks should be stamped “FOR DEPOSIT ONLY.” The deposit slip and checks received through the mail should be given to the cashier.

Title 3, Chapter 3, Section 3, of the manual states, “Adjustments should never be made by the employee who collects or posts the accounts as paid.”

Title 3, Chapter 1, Section 2, of the manual requires prenumbered receipts for every revenue source and notes that a receipt should be issued anytime custody of money changes from one employee to another with both employees signing the receipt to indicate concurrence with the amount transferred. This same section also requires that each bill stub be marked to identify whether the form of remittance is cash or check.

In addition, Title 3, Chapter 1, Section 6, of the manual requires the total on the daily collection report to agree with the total of all applicable receipts, requires the cashier to sign the daily collections report, and states that each cashier should be assigned a separate cash drawer.

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. The employee who posts to the subsidiary utility and property tax ledgers should not receive collections or make adjustments to customer accounts. To document and account for all money paid to the municipality, officials and employees should issue duplicate, prenumbered receipts for all money they receive in their official capacity, including when they accept collections turned over to them by another employee. We have provided the recorder with detailed internal control recommendations.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur.

Recorder:

Separation of duties was set up by the State Comptroller’s Office in August. The recorder’s office has been following the separation of duties recommendations that were given to us.

2. **FINDING: Inadequate controls over property tax collections**

Property tax collections of \$3,794.52 were not posted to the property tax roll, and all prenumbered tax receipts for three collections dates were missing. Penalty and interest was assessed beginning April 1 each year, but a later date was specified in the town's municipal code with no amending ordinance on file to support the change. In a few instances, penalty and interest were not assessed or collected although the payment date appeared to be after April 1. Finally, although a list of delinquent tax had been prepared, officials have not had the information filed for collection in Chancery Court as specified by the town's board. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 4, lists several property tax requirements, including promptly posting payments to the tax roll and filing one copy of the property tax receipt numerically and another copy by date paid. Section 6-102 of the town's municipal code states, "All real property taxes shall become delinquent on and after the first day of July next after they become due and payable . . ." Currently interest and penalty is assessed on April 1. Per the minutes of the mayor and board of aldermen, tax delinquent two years or more is to be filed in Chancery Court.

RECOMMENDATION:

To provide accurate, up-to-date property tax records and to ensure the town receives all funds due, the recorder should ensure that payments are promptly recorded in the property tax roll and copies of all issued property tax receipts should be filed both numerically and by date paid. The correct assessment date for penalty and interest should be properly documented and enforced. Delinquent property taxes should be filed in Chancery Court as required by the mayor and board of aldermen.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur.

Recorder:

This is being done.

3. **FINDING: Missing utility accounting records**

The former recorder failed to ensure that adequate utility department accounting records were maintained in the town's files. Utility stubs for three collection dates were missing. The receipt books used for recording tap fee collections during our time period were also missing. Section 9-2-102, *Tennessee Code Annotated*, requires the Comptroller of the Treasury to 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*.

RECOMMENDATION:

To document the payment of utility bills and to provide a record of the amount of related collections which should be deposited in the town's account, municipal officials should ensure that adequate accounting records and other documentation, including the stubs of paid bills and receipt books are correctly and consistently marked or completed and maintained in the town's files.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur.

Recorder:

This is being done.

4. **FINDING: Failure to file unclaimed property report**

Although town personnel attempted to refund all deposits when customers terminated service, an annual unclaimed property report as required by the state treasurer was not filed. The "Uniform Disposition of Unclaimed Property Act," as presented in Sections 66-29-101—66-29-152, *Tennessee Code Annotated*, authorizes the state treasurer to make necessary rules and regulations to carry out the provisions of the act. Accordingly, the state treasurer has instructed that an annual unclaimed property report be filed for municipal utility departments whether or not unclaimed property is being held.

RECOMMENDATION:

To comply with state law, an unclaimed property report for the municipality's utility department must be filed annually with the state treasurer. To obtain reporting forms and additional information, municipal personnel should contact the Treasury Department, Unclaimed Property Division, 9th Floor, Andrew Jackson Building, Nashville, Tennessee 37243-0242, (615)741-6499.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur.

Recorder:

This will be done.

5. **FINDING: Failure to adopt written adjustment policy and enforce cutoff policy**

The mayor and members of the board of aldermen failed to adopt a written adjustment policy. In addition, neither the adjustment calculation nor approval was documented, nor was the adjustment recorded on the billing register. In addition, the mayor and members of the board of aldermen did not ensure consistent enforcement of the municipality’s utility cutoff policy. Apparently, many delinquent customers who promised payment after the cutoff date were allowed to continue service until payment was received. In addition, some customers paid only the reconnect fee and not the overdue amount to restore service, while others were allowed to pay the reconnect fee later. Finally, the mayor and members of the board of aldermen adopted a “cold weather” extended payment policy as a result of the high gas prices; however, the mayor and former mayor appeared to have allowed some customers to add to their balances and extend their balance due date long after the period for which the policy was adopted.

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.”

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 3, Section 3, states:

Municipal officials should ensure that . . . charges disputed by customers are investigated and adjustments are approved, in accordance with the municipality’s policy, by someone other than the bookkeeper handling receipt and payment records.

Section 4 of the cited manual requires municipal officials to ensure that

. . . documentation of each adjustment is required and retained. Adjustments to billings for meter reading and other errors should be recorded in the billing register. All adjustments to customers' bills should be approved by the governing body or its designee.

RECOMMENDATION:

To help avoid misunderstandings, to help ensure that the town's citizens will be fairly treated, and to minimize loss of revenue, the mayor and members of the board of aldermen should adopt a written adjustment policy which specifies the circumstances under which adjustments are allowed, the method of computing the adjustments, and the persons who have the authority to approve adjustments. In addition, the policy should require the recorder to obtain documented approval before making any adjustment and require her to prepare and retain detailed documentation of each adjustment. The approval should be adequately documented and maintained in the municipality's records. Officials should insist that the municipality's cutoff policy is strictly and consistently enforced.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

Everyone whose account is delinquent will be cut off on the cut-off date.

6. **FINDING: Property tax and utility accounts receivable not periodically reconciled**

The municipality's records did not include documentation that the property tax receivable balance in the general ledger was periodically reconciled to both the total amount of property tax not marked as paid on the tax roll, and to the total of the unpaid property tax receipts. Similarly, there was no documentation that the town's utility accounts receivable balances in the general ledger were reconciled monthly to the total amount of utility billings not marked as paid on the utility billing register. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 4, Section 4, and Title 3, Chapter 3, Section 10, requires periodic reconciliation of property tax and utility accounts receivable.

RECOMMENDATION:

To help detect errors or irregularities promptly, municipal officials should ensure that the recorder periodically perform and document a reconciliation of property tax and utility accounts receivable.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur.

Recorder:

A monthly reconciliation of property tax as well as utilities will be done.

7. **FINDING:** **Comprehensive written purchasing policy not adopted**

The mayor and members of the board of aldermen failed to adopt a comprehensive written purchasing policy. Lack of purchasing guidelines resulted in the town’s failure to use purchase orders consistently and correctly. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 1, states that municipalities should adopt a written purchasing policy that includes designating persons authorized to make purchases, **requiring** the use of prenumbered purchase orders, outlining procedures for emergency and small-item purchases without prior approval, requiring approval by the finance officer, and requiring bids for purchases over a stated amount. In applying the purchasing policy, officials should ensure that all purchases meet the requirements of Section 6-56-112, *Tennessee Code Annotated*, which states, “All expenditures of money made by a municipality must be made for a lawful municipal purpose.”

RECOMMENDATION:

To ensure that the municipality purchases items at the best price and in the most advantageous manner, the mayor and members of the board of aldermen should adopt and enforce compliance with a comprehensive written purchasing policy which requires the use of prenumbered purchase orders.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur.

8. **FINDING:** **Conflict of interest**

The town purchased repair services from a current alderman which created a direct conflict 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 . . . 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 the sole proprietor, a partner, or the person having the controlling interest.

RECOMMENDATION:

To provide impartial decisions regarding the municipality’s contracts, officials should ensure that unlawful conflicts of interest, as defined by Section 12-4-101, *Tennessee Code Annotated*, are avoided.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur.

9. **FINDING: Inadequate documentation for disbursements**

The municipality’s files did not include adequate supporting documentation for some disbursements. For several disbursements the files contained no documentation, other disbursements were supported only by summarized statements, and some documentation was incomplete because employees had not signed or initialed the invoice to indicate that goods or services were received as ordered. In addition, a review of disbursements in the current fiscal year revealed that an official was reimbursed for donations for which there was no documentation on file. This disbursement also failed to comply with the requirements in state law for municipal contributions. 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.)

Title 1, Chapter 4, Section 1, of the same manual requires that the receiver sign each invoice to document that goods or service results were inspected and found to be as ordered. Section 6-54-111, *Tennessee Code Annotated*, lists the requirements for

contributions made by a municipality, including listing the proposed donation in the current budget and requiring a copy of an annual report from the recipient organization.

RECOMMENDATION:

To document that each disbursement is for a valid municipal purpose, officials should ensure that adequate supporting documents are maintained in the municipality's files in accordance with the *Internal Control and Compliance Manual for Tennessee Municipalities*. Officials should also ensure that the town complies with all state statutes regarding donations.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

This is now being done.

Recorder:

Each check will have an invoice or supporting documentation as well as an alderman's signature.

10. **FINDING:** **Failure to document that bids were obtained for applicable purchases**

There was no documentation in the town's files that bids were requested for applicable purchases. Sections 6-56-301 to 6-56-306, *Tennessee Code Annotated*, requires that all applicable purchases of \$2,500 or more (\$10,000 if the municipality chooses to increase the limit by ordinance) be let out for bid. Title 2, Chapter 1, Section 7, of the *Internal Control and Compliance Manual for Tennessee Municipalities* requires that personnel retain sufficient documentation to substantiate that competitive bids were requested when applicable.

RECOMMENDATION:

To obtain the best price and comply with *Tennessee Code Annotated*, the board should ensure that required bidding procedures are followed for all purchases or contracts over \$2,500. Adequate documentation should be maintained as evidence of correct bidding procedures. Applicable invoices which have not been bid should be rejected and the official or employee who is responsible for the purchase should be held liable.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur.

Recorder:

Correct bidding procedures will be followed.

11. **FINDING:** **Failure to comply with requirements for signing town checks**

The former recorder issued several checks that were signed by only one person. In addition, in many other instances, checks were not signed by the individuals designated as check signers by the town’s charter. Furthermore, it appeared that check signers sometimes failed to require that supporting documentation for disbursements be presented before they signed the related checks. In at least one instance, a check was signed, and the amount was later completed by the individual making the purchase. 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.” *Private Acts 1959*, Chapter 23, Section 2 of the town’s charter, designates the mayor and recorder to co-sign checks. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, Section 2, states, “Both the checks and attached documentation should be submitted to the designated officials for examination and signature.”

RECOMMENDATION:

To help reduce the risk of undetected errors and irregularities, and to help ensure that disbursements accurately reflect management’s decisions, are for a valid municipal purpose, and are for a charge which has not been previously paid, authorized check signers should request and review all supporting documentation prior to signing. Incomplete checks should not be signed. In addition, unless the charter is amended, only those persons designated to do so in that document should sign the town’s checks. To decrease the risk of unauthorized disbursements, municipal officials should require that every issued check be signed by both persons authorized in the town’s charter.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur.

Recorder:

This is being done.

12. **FINDING: Contracts and agreements not on file**

Town officials failed to execute an agreement with the separate not-for-profit corporation known as Palmer Turner Community Center, allowing the group to use the Palmer Turner school building owned by the town for community activities. In addition, the town's files did not contain copies of agreements with the town's cable television provider, which left town officials without documentation of the municipality's right to verify that the franchise fees it received from the company were correct. Similarly, the town did not have contracts with the preparer of state reports for the town's water system, the provider of water testing services during the period, and the town's provider of natural gas consulting services. Finally, although county sheriff's department officers currently electronically fingerprint all persons delivered by the municipality's police officers for incarceration in the county's detention facility, the town does not have a written agreement with the county for these services. Such an agreement is required in lieu of setting aside 20 percent of funds received by the town pursuant to Section 39-17-420, *Tennessee Code Annotated*, for the purchase of an electronic fingerprinting system. 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, regardless of whether payment is involved, including the following:

(1) contract labor and consultant agreements, including computer services, day labor and similar work. . . .

Section 39-17-420(h) (1), *Tennessee Code Annotated*, states:

. . . [I]n order to comply with state and federal fingerprinting requirements such as those in 42 U.S.C.A. § 14071, effective July 1, 1997, twenty percent (20%) of the funds a sheriff or municipal police department receives pursuant to this section shall be set aside and earmarked for the purchase, installation, and maintenance of and line charges for an electronic fingerprint imaging system that is compatible with the federal bureau of

investigation's integrated automated fingerprint identification system. Prior to the purchase of such equipment, the sheriff or municipal police department shall obtain certification from the Tennessee bureau of investigation that such equipment is compatible with the federal bureau of investigation's integrated automated fingerprint identification system. Once the electronic fingerprint imaging system has been purchased, a sheriff or municipal police department may continue to set aside up to twenty percent (20%) of the funds received pursuant to this section to pay for the maintenance of and line charges for the electronic fingerprint imaging system. Instead of purchasing such fingerprinting equipment, a local law enforcement agency may enter into an agreement with another law enforcement agency that possesses such equipment for the use of such equipment. Such agreement may provide that the local law enforcement agency may use the fingerprinting equipment for identifying persons arrested by that agency in exchange for paying an agreed upon portion of the cost and maintenance of the fingerprinting equipment. If no such agreement exists, it shall be the responsibility of the arresting officer to obtain fingerprints and answer for the failure to do so.

RECOMMENDATION:

Municipal officials should ensure that the town maintains copies of all current contracts, including lease agreements, as required by the *Internal Control and Compliance Manual for Tennessee Municipalities*. In addition, to ensure that the police department will have access to equipment which complies with federal and state requirements, the town should either have a written agreement with the county for the use of such equipment or should set aside money to purchase the equipment as directed by state statute.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur.

Recorder:

This is being done.

13. **FINDING:** **Supplementary records not adequately organized or managed**

The former recorder failed to adequately maintain and organize supplementary records to facilitate efficient municipal operations. Minutes of the governing body's meetings were

not maintained in a permanent form in the municipality's files, and minutes of meetings for periods prior to FYE June 2001 were totally unorganized. Copies of related documentation such as budgets and ordinances were not on file. Various minutes did not clearly explain action apparently taken at the respective meetings, such as the method for paying board members. In addition, at the time audit fieldwork began, none of the minutes were signed to document approval. One result of the disorganization was that the town's files did not contain documentation of board approval for current policies and utility charges which could be accessed in a timely manner.

Section 8-44-104, *Tennessee Code Annotated*, states:

The minutes of a meeting of any such governmental body shall be promptly and fully recorded, shall be open to public inspection, and shall include, but not be limited to, a record of persons present, all motions, proposals and resolutions offered, the results of any votes taken, and a record of individual votes in the event of roll call.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 1, Section 4, requires that complete minutes of actions taken by the legislative body be maintained and provides a list of items which should be included in the minutes.

The manual cited above, 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.

RECOMMENDATION:

To document action taken by the governing body, officials should assist the recorder in maintaining complete minutes which clearly describe all actions taken by the officials at all board meetings. The minutes should be kept in permanent, organized files at the municipality's office and be available for public inspection. The mayor and recorder should sign the minutes to document approval. In addition, town officials should ensure that all rates and policies and other board authorizations under which the town operates are maintained in the town's files and are adequately referenced so that documentation of official approval can be readily accessed.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur.

Recorder:

This is being done.

14. **FINDING:** **Utility department did not utilize work orders**

Utility department personnel did not utilize work orders when repairing or installing municipal utility lines, installing utility taps or performing other work. A work order is a written record authorizing and directing the performance of a certain task. In addition, a work order documents that each nonadministrative job performed by municipal employees has a valid municipal purpose. The information recorded on a work order should include the nature and location of the job, specifications of the work to be performed, and job number, which can be used to allocate the cost of the related labor, materials, and equipment. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, Section 5, states:

Municipal officials should ensure . . . the use of prenumbered work order forms to document all nonadministrative jobs performed by municipal employees. The work order information should include the date, nature and location of the job, specifications of the work to be performed, and a job number which can be used to accumulate the related labor, materials and equipment costs.

RECOMMENDATION:

To document the authorization and municipal purpose of all work performed by the utility department and to ensure that costs can be correctly allocated, the mayor and members of the board of aldermen should establish and require the use of a work order system.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur.

Recorder:

Work orders are being used.

Utility Department Superintendent:

Jobs are being written up on work orders. I then pick up job orders and then write the work performed by myself or my men.

15. **FINDING: Town expenditures for nonmunicipal purpose**

Our examination revealed that in the current fiscal year, the town paid fees totaling \$498.75 for disposal of materials owned by a private citizen. During the time they were being paid by the town, town employees apparently used town equipment to perform clean-up work on private property for a citizen of the town, then disposed of the materials at town expense. 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 comply with state law, officials should ensure that all expenditures of the town are for a lawful municipal purpose.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur.

16. **FINDING: Failure to perform and document loss detection procedures for utilities and gasoline supplies**

Town employees did not document a periodic reconciliation of gallons of water pumped through the master meter to gallons of water sold. Similarly, the amount of natural gas purchased was not reconciled to the amount of natural gas sold. In addition, although records were maintained for fuel pumped and these records were used to allocated fuel cost, the amount of gasoline and diesel fuel purchased for official use was not reconciled to the amount of fuel pumped into town vehicles per the records. Our reconciliation of fuel purchase and usage information revealed that for the period January through May 2001, 719 gallons of gasoline were unaccounted for. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, Section 7, and Title 3, Chapter 3, Section 2, requires reconciliation of these products to determine any loss.

RECOMMENDATION:

To provide accountability and prevent undetected losses, the mayor and members of the board of aldermen should ensure that periodic reconciliations of water pumped and natural gas and gasoline purchased to the related amounts of these products used or sold is performed and documented. Unexplained fluctuations should be investigated.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur.

Recorder:

Monthly reconciliations are being done.

17. **FINDING:** **Lack of written policy and documentation for some payroll payments**

As noted in Finding 13, the minutes of the applicable board meetings failed to clearly define the specific requirements for pay for the mayor and board. In practice, members of the board appeared to have been paid according to meetings attended: \$100 for regular and called meetings and \$35 for committee meetings. However, there was no documentation (minutes or advertisements of meetings) in the town's files to support payroll payments of \$1,540 to members of the board during the year ending December 31, 2000. In addition, town personnel were allowed to receive payment for accrued vacation time in lieu of taking the leave. However, there was no authorization for this practice in the town's files. Similarly, the recorder or her designee was paid a fee for duties performed during meetings of the board, but no written authorization for the amount of this fee was found in the town's records. Finally, some personnel records were inadequate and some time cards were not signed to indicate supervisor authorization. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, Section 4, states that all disbursements must be supported by adequate supporting documentation. Title 1, Chapter 1, Section 1, of the same manual requires the municipality to have a manual which incorporates or references all policies and procedures specific to the municipality. Title 2, Chapter 3, lists the required payroll and personnel documentation.

RECOMMENDATION:

To help ensure that all disbursements are for a valid municipal purpose, meetings for which board members are paid should be documented by complete, signed minutes which list officials in attendance, as well as copies of newspaper announcements, where applicable, in the town's files. In addition, all payment policies should be adequately referenced to authorizations in the town's files. The authorizations should provide detailed information regarding the requirements for officials' pay. Officials should ensure that adequate personnel records are maintained and all time cards are signed to document supervisory authorization.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur.

Recorder:

This is being done.

18. **FINDING: Federal Form 1099s not filed with the Internal Revenue Service**

The municipality paid \$600 or more to several noncorporate recipients within a calendar year, but did not always report those payments to the Internal Revenue Service on the required federal Form 1099. Section 6041A, *Federal Tax Code*, requires anyone in business who pays one or more noncorporate recipients \$600 or more in a calendar year to report those payments to the Internal Revenue Service.

RECOMMENDATION:

To comply with federal law and avoid substantial penalties, the mayor and members of the board of aldermen should require the recorder to ensure that a federal Form 1099 is filed with the Internal Revenue Service for all noncorporate recipients to whom the town paid \$600 or more. The town should contact the Internal Revenue Service for additional information.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur.

Recorder:

This will be done.

19. **FINDING: Inadequate control over fixed assets and other property and lack of current insurance documentation**

Officials did not require adequate internal control over the municipality’s fixed assets and high-risk, moveable property. The former recorder did not maintain complete, updated records of such items, and many of these items were not permanently marked to indicate

the municipality's ownership. The municipality's files did not include documentation of an annual physical inventory of either fixed assets or utility department supplies. During the period, the former recorder failed to ensure that insurance premiums were paid, leaving the town without property liability and other insurance coverage for a period of two months. In addition, although coverage was reinstated, the former recorder failed to maintain current property liability and other insurance policies on file. Generally accepted accounting principles and the *Internal Control and Compliance Manual for Tennessee Municipalities* require that fixed asset records be maintained. Title 1, Chapter 4, of the manual states:

Municipal officials should . . . require that all fixed assets are located, identified (tagged or marked), and recorded using a separate card for each property item or group of similar items, such as chairs, purchased at the same time. The record should be retained at the municipality and should include up-to-date purchase and disposal information. An annual inventory should be performed and documented . . . a record of moveable, high-risk, sensitive property, such as TVs, VCRs, and small office machines, as well as furnishings and works of art, be established and maintained and an annual inventory be performed.

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. . . .

RECOMMENDATION:

To better control and account for individual fixed assets and high-risk, moveable property, the recorder should maintain complete, updated records of those items in accordance with the *Internal Control and Compliance Manual for Tennessee Municipalities*. Officials should require that each of the items is permanently marked or tagged to indicate the municipality's ownership. Also, officials should require that an annual physical inventory of the fixed assets and of the high-risk, moveable property is performed and documented. In addition, to help protect the town's assets, officials should ensure that adequate insurance coverage is maintained at all times and that copies of current policies are on file in the town's offices.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur.

Recorder:

This will be implemented.

20. **FINDING: Earnings not maximized in some bank accounts**

The municipality had cash balances, greater than those necessary to maintain adequate liquidity, in several low-interest-bearing bank accounts. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 3, Section 7, states:

Municipal officials should ensure that . . . the forecasting system works effectively to minimize idle checking account balances and that the investment program yields a maximum return considering all available legal investments with adequate liquidity and security.

RECOMMENDATION:

To efficiently manage the town’s funds, officials should develop a plan to maintain account balances at the minimum necessary to meet current obligations. Additional cash should be invested to achieve the maximum return, taking into account the city’s security and liquidity needs.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur.

Recorder:

This will be done.

21. **FINDING: Lack of controls over traffic citations and court records missing**

During the period, the former police chief failed to follow certain prescribed procedures for the issuance and disposition of traffic citations. He did not document accountability

for the blank citations he issued to officers, including voided and unissued citations as well as citations issued to defendants. The former recorder failed to ensure that the court docket and the police fine receipt book for the period of our examination were maintained in the town's files, or to facilitate accountability for issued citations by filing one copy of them numerically. As a result of these control deficiencies, we could not determine that all fine collections were deposited into the town's bank account. Further, the current court docket did not constitute a complete, official record of all transactions related to the court because the judge had not signed each case disposition, and the date and amount of each payment was not recorded individually. Finally, court collections were held from the collection date to the next weekly court date to facilitate a refund if the judge dismissed the case.

Section 18-1-105(a), *Tennessee Code Annotated*, states:

It is the duty of the clerk of each of the courts to: . . . (4) Keep an execution docket, in which shall be entered, within the time after the adjournment of each court prescribed for issuing executions, all judgments or decrees, in the order of their rendition, with the names of all the plaintiffs and defendants in full, the day and year of rendition, the amount of the recovery and the amount of costs, the character and number of the execution, the date of its issuance and to what county issued, the person to whom delivered and the date of delivery, the date and substance of the return, and the dates and amounts of money paid into and paid out of the clerk's office.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 5, provides guidance on the information to be recorded in the court docket including the requirement that the judge sign all dispositions. The same title and chapter also describes the procedures for maintaining control over traffic citations, including physically controlling unissued citations, accounting for all issued and voided citations, filing citations numerically, issuing prenumbered receipts for fines, recording dispositions of all citations, and establishing efforts to collect all outstanding fines. Title 3, Chapter 1, Section 5, of the manual states, "State law requires that public funds be deposited within three days of receipt."

RECOMMENDATION:

To maintain adequate control over court cases, including the collection of fines, and to provide a permanent record of all court proceedings, the municipality's judge or court clerk should record detailed information of all court-related transactions in the court docket and maintain the docket in the town's files in accordance with *Tennessee Code Annotated* and the *Internal Control and Compliance Manual for Tennessee Municipalities*. The judge should sign the record of each disposition in the docket. To decrease the risk of loss of revenue, municipal officials should ensure that all citations are accounted for, receipts are issued, and duplicate receipt copies maintained.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur.

Court Clerk:

The State Comptroller’s Office set up procedures to be followed to bring this into compliance and it is being implemented.

Police Chief:

This is being done.

22. **FINDING: Failure to maintain adequate arrest documentation and obtain required arrest authorization**

Department personnel issued only Tennessee Uniform Citation forms in both continued custody as well as noncontinued custody situations. However, in continued custody situations, because officers failed to state on the citation form that the defendant was placed in such custody, it did not appear that the citation was documenting a continued custody arrest. Continued custody arrests were not recorded on the citations issued in such situations, and the department did not maintain any other records of those persons placed in continued custody. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 5, states, “Accurate and detailed documentation is an important aspect of public service and public trust.”

In addition, although county records show that some of these defendants taken into continued custody posted bond, the department’s files contained no arrest warrants for these cases. Rule 5(a) of the Rules of Criminal Procedure states:

Any person arrested . . . shall be taken without unnecessary delay before the nearest appropriate magistrate of the county from which the warrant for arrest issued, or the county in which the alleged offense occurred if the arrest was made without a warrant unless a citation is issued pursuant to Rule 3.5. If a person arrested is brought before a magistrate, an affidavit of complaint shall be filed forthwith. . . .

RECOMMENDATION:

To ensure that the department maintains adequate records of all police activity, and that all cases are heard in the applicable court, the police chief should require officers to

complete and maintain in the department's files documentation of all arrests made. In addition, the police chief should ensure that arrest warrants are obtained and maintained in the department's files for all applicable arrests.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur.

Police Chief:

This is being done.

23. **FINDING: No follow up of cases referred to county courts and lack of related records**

The police department referred certain court cases to the county courts, including drug offenses and driving under the influence (DUI) cases. However, the department did not maintain records of the cases turned over to the county courts, and could not assign responsibility for identifying and following up the cases turned over to the county court. Therefore, the department did not determine that the municipality received all fines due from the county courts. Attorney General's Opinion 91-85 states that all or part of the fines collected from drug and DUI cases should go to the jurisdiction initiating the arrest.

RECOMMENDATION:

To help ensure that all applicable cases are referred to the county court and that the municipality receives all related revenue due from the county, municipal officials should assign responsibility for the recordkeeping and follow up of those cases. The police chief should require department personnel to keep copies of all police department activity, systematically file the necessary documentation with the county courts, and periodically compare the cases referred to the county higher courts with the monthly reports and fines received from the county.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur.

Police Chief:

This is being done.

24. **FINDING: Confiscated drugs and weapons not adequately accounted for**

The police department maintained custody of drugs and drug paraphernalia seized pursuant to Section 53-11-451, *Tennessee Code Annotated*. However, the department did not follow the procedures set forth in state statutes for the disposal of those items. A complete, updated inventory of evidence was not maintained and applicable seized drugs and drug paraphernalia were not destroyed annually as required by state law. Also, seized evidence was not adequately labeled, and no log was maintained recording every transaction with each item of evidence. The police department also maintained custody of weapons seized in arrests, but most of these were not labeled in any way to identify the case to which they belonged. It appeared that no effort had been made to determine if the weapons needed to be maintained for evidence. There were no copies of receipts issued to the owners of the confiscated property in the department's files. Finally, the police chief recently requested confidential funds, apparently for the first time, from the recorder. However, the chief failed to create a separate bank account for these confidential funds and to properly document the related transactions through the use of prescribed forms.

Section 53-11-451(j), *Tennessee Code Annotated*, states:

Any property of the type set forth in subdivisions (a)(1) and (7) which is in the custody and possession of a clerk of any court of this state by virtue of the property having been held as evidence or exhibits in any criminal prosecution where all appeals or potential appeals of a judgment have ended, or when the case has been dismissed or otherwise brought to a conclusion, shall be disposed of as follows:

(1) The clerk of the court having custody of the property to be disposed of shall, no less than once annually, inventory the same and prepare a list of the property proposed to be destroyed with references to the cases involved and the name of the case, the case number and date when such property was used;

(2) The clerk shall submit the inventory list with a filed petition to the court and shall serve a copy of the petition upon the district attorney general. After determining that the listed property is not needed as evidence in any pending or potential judicial proceeding, the court shall order the property to be destroyed; and

(3) The clerk, or such deputy as the clerk may designate, shall completely destroy each item by cutting, crushing, burning or melting and shall file, together with the petition and order relating to the destroyed property, an affidavit concerning such destruction, showing a description of each item, the method of destruction, the

date and place of destruction, and the name and addresses of all witnesses to the destruction.

Section 39-17-1317(b), *Tennessee Code Annotated*, states, “Any weapon declared contraband shall be sold in a public sale, destroyed, or used for legitimate law enforcement purposes, at the discretion of the court, by written order.” Section 39-17-1317, *Tennessee Code Annotated*, further states:

A weapon that may be evidence in an official proceeding shall be retained or otherwise preserved in accordance with the rules or practices regulating the preservation of evidence. Any such weapon shall be sold, destroyed or retained for legitimate law enforcement purposes not less than sixty (60) days nor more than one hundred eighty (180) days after the last legal proceeding involving the weapon. . . . No weapon seized by law enforcement officials shall be used for any personal or law enforcement purposes, sold or destroyed except in accordance with this section.

Section 40-33-203(c), *Tennessee Code Annotated*, states, “Upon the seizure of any personal property subject to forfeiture. . . the seizing officer shall provide the person found in possession of the property, if known, a receipt titled a ‘Notice of Seizure.’” This section includes the requirement that the notice contain a general description of the property, the reason for seizing the property, and the date of the seizure.

Finally, “Procedures for Handling Cash Transactions Related to Undercover Investigative Operations of County and Municipal Drug Enforcement Programs,” developed pursuant to Section 39-17-420(f), *Tennessee Code Annotated*, requires that a separate bank account be maintained for confidential funds. The manual also includes prescribed forms for the proper documentation of confidential funds transactions.

RECOMMENDATION:

To comply with state statutes and to alleviate the responsibility for safeguarding property not needed as evidence, the police chief should ensure the annual inventory and destruction of applicable seized drugs, drug paraphernalia, and weapons. Procedures set forth in the *Tennessee Code Annotated* sections cited above should be followed for the disposal of such property. Documentation of compliance with state law should be maintained. To properly account for confidential funds, such funds should be handled in accordance with the “Procedures for Handling Cash Transactions Related to Undercover Investigative Operations of County and Municipal Drug Enforcement Programs.”

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur.

Recorder:

This is being done.

Police Chief:

These procedures will be followed.