

INVESTIGATIVE AUDIT REPORT

CITY OF LOUDON

JULY 1, 2002, THROUGH DECEMBER 31, 2005



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

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-0260

PHONE (615) 741-2501

John G. Morgan

Comptroller

August 1, 2006

Honorable Mayor and Members of the
City Council
City of Loudon
P. O. Box 189
Loudon, TN 37774

Gentlemen:

Presented herewith is the report on our investigative audit of selected records of the City of Loudon and Loudon Utilities. This investigative audit focused on the period July 1, 2002, through December 31, 2005. However, when the examination warranted, this scope was expanded. The audit was limited to a review of payments for workers compensation and property and casualty insurance.

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.

Honorable Mayor and Members of the
City Council
City of Loudon
August 1, 2006

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.

Copies of this report are being forwarded to Governor Phil Bredesen, the State Attorney General, the District Attorney General, certain state legislators, and various other interested parties. A copy is available for public inspection in our office.

Very truly yours,

A handwritten signature in black ink that reads "John G. Morgan". The signature is written in a cursive style with a long horizontal flourish at the end.

John G. Morgan
Comptroller of the Treasury



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF MUNICIPAL AUDIT**

John G. Morgan
Comptroller of the Treasury

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

August 1, 2006

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

Dear Mr. Morgan:

As part of our on-going process of examining the records of municipalities, we have completed our investigative audit of selected records of the City of Loudon and Loudon Utilities. This investigative audit focused on the period July 1, 2002, through December 31, 2005. However, when the examination warranted, this scope was expanded. The audit was limited to a review of payments for workers compensation and property and casualty insurance.

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 examination resulted in findings and recommendations related to the following:

1. Inadequate disclosure due to apparently altered documents

Mr. John G. Morgan
Comptroller of the Treasury
August 1, 2006

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", is written over a light gray rectangular background.

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

**INVESTIGATIVE AUDIT OF SELECTED RECORDS
OF THE CITY OF LOUDON
FOR THE PERIOD JULY 1, 2002, THROUGH DECEMBER 31, 2005**

FINDINGS AND RECOMMENDATIONS

1. **FINDING: Inadequate disclosure due to apparently altered documents**

Our investigative audit revealed that invoices located in city files appeared to be documents submitted by the insurance carrier, the Tennessee School Boards Risk Management Trust (TSB-RMT). However, auditors determined that the insurance invoices had actually been prepared by the city's local insurance agent, Grayling Littleton, doing business as Full Line Insurance. Mr. Littleton told auditors that he had obtained an authentic rate sheet from TSB-RMT (Refer to Exhibit 1.) and then retyped and created his own version of that document, altering the rates and estimated premium amounts.¹ (Refer to Exhibit 2.) He indicated that he did this in order to include on the document his fee and the fee that he passed on to a second insurance firm, Public Entity Insurance. He further explained to auditors that he intended this to be helpful to city officials. However, since fees were not separately shown on the invoice, or included in some other written contract, the additional costs the city incurred by using two local insurance companies were not disclosed.² (Refer to Exhibit 3.)

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 ...

¹Representatives of the Tennessee School Boards Risk Management Trust stated they had not authorized the alterations to their documents.

²Mr. Littleton had previously notified the city manager, by letter, of his fee for placing the policies for the city the previous two years. However, the fee which was passed on to Public Entity Insurance was not disclosed.

RECOMMENDATION:

To provide adequate disclosure, the mayor and members of the council should obtain and include written contracts for all agreements, including insurance consulting agreements, in the minutes of their board meetings. Vendors should be required to submit invoices with adequate detail for city personnel to determine compliance with the contracts.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Council:

We concur with the finding. All contracts and agreements will be approved by the mayor and council and will be included in the minutes of the council meetings. All invoices from vendors will be required to contain adequate detail for city personnel to determine contract compliance.

EXHIBITS

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Exhibit 1

TENNESSEE SCHOOL BOARDS-RISK MANAGEMENT TRUST
(TSB-WCT)
2005 -2006

CITY OF LOUDON AND LOUDON PUBLIC UTILITIES

CONFIDENTIAL

CLASS CODE	CATEGORIES DUTIES, CLASSIFICATIONS	# EMP	ESTIMATED PAYROLL	RATE	ESTIMATED PREMIUM
8380	Automobile Repair Shop	4	\$ 163,465	3.24	\$ 5,296
8810	Clerical Office Employees	17	\$ 849,508	0.32	\$ 2,718
8742	City Manager/Elected Officials	1	\$ 105,510	0.58	\$ 612
7539	Electric Distrib. Employees (exc cler)	14	\$ 1,078,414	4.03	\$ 43,460
7704	Firefighters (fulltime incl. volunteers)	24	\$ 554,530	8.31	\$ 46,081
9403	Garbage/Ref Coll/Drvr (incl landfill)	3	\$ 96,649	5.35	\$ 5,171
7502	Gas Department	8	\$ 526,051	3.09	\$ 16,255
9102	Parks	9	\$ 268,221	3.37	\$ 9,039
7720	Police Officers incl Auxiliary & Vol	31	\$ 769,001	3.02	\$ 23,224
7580	Sewage Disposal Plant Operation	12	\$ 666,258	3.12	\$ 20,787
9402	Sewer Cleaning (incl street clean) Maint	9	\$ 317,557	4.26	\$ 13,528
7520	Waterworks (except Clerical)	12	\$ 604,611	2.83	\$ 17,110
	TOTALS	144	\$ 5,999,775		\$ 203,282
	POOL LOSS ADJUSTMENT FACTOR				1.05787
	TOTAL PREMIUM				\$215,044

**TENNESSEE SCHOOL BOARDS – RISK MANAGEMENT TRUST
(TSB-WCT)
2005 – 2006**

CITY OF LOUDON AND LOUDON UTILITY

<u>CLASS CODE</u>	<u>CATEGORIES DUTIES, CLASSIFICTIONS</u>	<u>ESTIMATED PAYROLL</u>	<u>RATE</u>	<u>ESTIMATED PREMIUM</u>
8380	Automobile Repair	163,465	4.04	\$ 6,604
8810	Clerical Office Employees	849,508	.40	\$ 3,398
8742	City Manager/Elected Official	105,510	.68	\$ 717
7539	Electric Distrib. Employees	1,078,414	5.03	\$ 54,244
7704	Firefighters	554,530	10.07	\$ 55,841
9403	Garbage/Ref Coll/Drivers	96,649	6.67	\$ 6,446
7502	Gas Department	526,051	3.85	\$ 20,253
9102	Parks	268,221	4.17	\$ 11,185
7720	Police Officers	769,001	3.72	\$ 28,607
7580	Sewage Disposal Plant Operation	666,258	3.88	\$ 25,851
9402	Sewer Cleaning(incl street clean)	317,557	5.33	\$ 16,926
7520	Waterworks	604,611	3.53	\$ 21,343
	Totals	5,999,775		\$251,415
	Pool Loss Adjustment Factor			1.00
	TOTAL PREMIUM			\$251,415

Exhibit 3

Policy Year	City's Payment	Full Line Insurance Fee	Public Entity Insurance Fee	Total Local Fee for Policy	Total Local Fee For Policy - Percentage
2002-2003	\$435,366	\$54,550	\$59,444	\$113,994	35.5 %
2003-2004	\$528,439	\$77,356	\$68,371	\$145,727	38.0 %
2004-2005	\$565,579	\$57,364	\$78,261	\$135,625	31.5 %
2005-2006	\$621,915	\$64,762	\$57,594	\$122,356	24.5 %