



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

John G. Morgan
Comptroller of the Treasury

BANK OF AMERICA PLAZA
414 UNION STREET, SUITE 1100
NASHVILLE, TENNESSEE 37219-1718
PHONE (615) 532-4460
FAX (615) 532-4499

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

November 7, 2008

Honorable Mayor and Members of
the Board of Aldermen
City of Manchester
P. O. Box 209
Manchester, TN 37309

Ladies and Gentlemen:

In response to a request from District Attorney General C. Michael Layne, this office performed certain specialized audit procedures related to the City of Manchester Public Works Department. These procedures were performed in conjunction with the Tennessee Bureau of Investigation and the Manchester Police Department, who were involved in a concurrent investigation. The procedures included an analysis of documentation maintained in city files to support disbursements charged to the public works department during the period July 1, 2006, through June 30, 2007.

As a result of the law enforcement investigation, on February 5, 2008, the Coffee County Grand Jury returned an indictment for Theft of property over \$10,000 against former Manchester Public Works Director, Ed Anderson, as well as Mr. Anderson's son, former Manchester Public Works Department employee, Jeff Anderson. The subjects were convicted on June 16, 2008, and are now serving a two-year and three-year sentence, respectively.

While performing the specialized procedures related to the Manchester Public Works Department, the following internal control deficiencies came to our attention:

- City files contained no documentation for at least 268 of the disbursements reviewed for the period July 1, 2006, through June 30, 2007. In addition, we noted that other payments were supported only by bid proposals or work orders, instead of vendor invoices. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, Section 4, requires that all disbursements must be supported by adequate supporting documentation, and that documentation should accompany checks presented for approval and signing.
- In many instances, documentation was insufficient to determine that purchases made with city checks were for a valid municipal purpose or that the city received the benefit of the

Honorable Mayor and Members of
the Board of Aldermen
City of Manchester
November 7, 2008
Page 2

purchase. Section 6-56-112, *Tennessee Code Annotated*, requires that all expenditures of municipal money must be made for a municipal purpose.

- Based on conversation with finance department employees, city officials authorized purchase/debit cards for all department directors in the City of Manchester, allowing them to spend up to \$1,500 without prior approval. However, city officials failed to establish written policies related to these purchasing cards. We noted that statements related to these cards were not reconciled with detailed invoices for many months after the cards were issued. As a result, there was no documentation that someone other than the individual responsible for the purchases determined that related purchases were appropriate and adequately supported. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 1, Section 1, requires municipal officials to establish necessary policies, including those specific to the municipality.
- Documentation in city files indicated city personnel received premiums based on the volume of the city's purchases from one vendor. These premiums included a radio, tool kit, food items, etc. Although finance department employees stated that the premiums were used as door prizes for the employee Christmas dinner, city files had no documentation to indicate the disposition of these items. Section 6-56-112, *Tennessee Code Annotated*, requires that all expenditures of municipal money must be made for a municipal purpose. If the city chooses to authorize vendor premiums or gratuities, the disposition of the premiums and/or gratuities should be documented.

During the timeframe of our work, the City of Manchester hired a new finance director. In a meeting on November 4, 2008, the new city finance director stated that internal control was an area she specialized in, and all of the issues noted above had been addressed.

If you have any questions concerning this matter, please contact me.

Very truly yours,



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