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May 8, 2008

Honorable Mayor and Members of the
Board of Aldermen
City of Martin
P. O. Box 290
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Gentlemen:

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 Martin—Parks and Recreation Department. This investigative audit focused on the period July 1, 2006, through December 31, 2007. However, when the examination warranted, this scope was expanded. Our audit revealed the following items:

Personal use of park and recreation property

Auditors observed several items purchased with city funds, including a canopy tent and a garage fan, at the personal residence of the director of parks and recreation (DPR). The DPR also acknowledged to auditors that, from time to time, he used other city property, including a digital camera and a surveillance camera, for personal purposes. He indicated that he routinely used his personal property for the benefit of the city. He further advised that it was his philosophy that his property belonged to the city and city property belonged to him.

Although there does not appear to be a limitation or restriction on donating private property for city use, the city charter and state statutes are reasonably clear on the use of city funds or assets for private purposes. The Charter of the City of Martin, Section 4, allows the mayor and board to appropriate funds only for the operating expenses of the city. Section 6-56-112, *Tennessee Code Annotated*, states, "All expenditures of money made by a municipality must be made for a lawful municipal purpose."

Personal purchases charged on city account

Auditors noted that the DPR made several personal purchases using a credit card issued in the name of the city. Payments of the charges of city credit cards were paid for with city funds. In most cases, the DPR reimbursed the city for the cost of his personal purchases.

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However, auditors noted at least one personal charge that had not been reimbursed. The DPR told auditors that he had been made aware of this, it was an oversight on his part, and that he would reimburse the amount after the audit was completed.

Allowing employees to charge personal purchases on city accounts increases the risk that, either accidentally or intentionally, the personal debt will never be repaid. In addition, the city charter and state statutes do not authorize this accommodation. The Charter of the City of Martin, Section 4, allows the mayor and board to appropriate funds only for the operating expenses of the city. Section 6-56-112, *Tennessee Code Annotated*, states, "All expenditures of money made by a municipality must be made for a lawful municipal purpose."

Failure to establish and follow policies regarding credit cards

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

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

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

- a) There were at least 42 credit and charge cards in the name of the city issued to city employees or departments. Several employees had multiple cards.
- b) Some of the cards had been obtained without the authorization of the mayor and members of the board of alderman or the city recorder.
- c) There was no oversight or review by the city recorder's office to substantiate the appropriateness of purchases charged to the credit cards. All charges were apparently presumed to have been authorized by a department head and as a result, paid without further scrutiny.

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- d) Documentation, including original invoices and charge slips, was not always on file. As a result, records were insufficient to determine if the city received the benefit of some purchases.
- e) Some credit cards, such as the Wal-Mart cards, were apparently provided on a temporary basis to employees to make purchases. However, there was no record or log to show when and to whom the cards were issued and when they were returned.

Lack of purchasing policy and adequate oversight over disbursements

The city had not developed and adopted a centralized purchasing policy. In addition, the recorder did not exert adequate oversight and control over the purchasing process, particularly over credit card purchases, as his position required. The Charter of the City of Martin, Section 15, states:

The Recorder shall: develop a central purchasing policy; act as purchasing agent for the city; and authorize the purchase of all materials, supplies and equipment for the proper conduct of the city's business through the issuance of purchase orders and bidding.

Expenditures for nonmunicipal purposes

Our investigative audit of the City of Martin revealed numerous disbursements from the Parks and Recreation Department that did not appear to be for municipal purposes. The DPR traveled to various competitions of the Westwood High School and Martin Middle School cheerleading teams while on city time and at least partially at city expense. In addition, other promotional expenses, including meals, gifts, photographs, and other items related to these programs, as well as the Westwood High School girl's softball team, were paid with city funds. The DPR had apparently been providing this type of support to these programs for many years and told auditors that he felt his participation was part of his municipal duties. However, these programs appear to be sponsored activities of the Weakley County School System, not the City of Martin.

The Charter of the City of Martin, Section 4, allows the mayor and board to appropriate funds only for the operating expenses of the city. Section 6-56-112, *Tennessee Code Annotated*, states, "All expenditures of money made by a municipality must be made for a lawful municipal purpose."

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Failure to require dual signatures on checks

Municipal officials did not require that city checks had dual signatures. 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." Dual signatures reduce the risk that city funds will be used for noncity purposes.

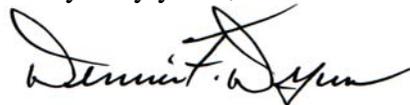
Personal use of vehicle as a fringe benefit not reflected on employee's federal Form W-2 and some vehicles did not display a city seal

Several employees used city-owned vehicles to commute to and from work. However, this fringe benefit was not properly reported on the employee's federal Form W-2. Furthermore, the city personnel policy did not specifically prohibit personal use of a city vehicle. The Internal Revenue Service (IRS) considers use of an employer-provided vehicle to be taxable as personal use of the vehicle unless personnel policies specifically prohibit such use. If a policy strictly prohibits personal use of an employer-provided vehicle, and the employee has a bona fide noncompensatory business reason for commuting in the city vehicle, then only a commuting value need be included as a fringe benefit. IRS Publication 15-B includes information for valuing this fringe benefit.

Our audit also revealed that certain city vehicles did not display the city emblem or other identifying markings to distinguish it as a city vehicle. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 4, Section 2, requires that all municipal assets be properly identified as such. Clearly marking vehicles as city property reduces the risk that city employees will use them for other than city business.

The mayor and members of the board of alderman should take immediate action to correct these deficiencies. If you have any questions concerning the above, please contact me.

Very truly yours,



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

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