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October 5, 2006

Honorable Mayor and Members of the  
City Council  
City of New Johnsonville  
323 Long Street  
New Johnsonville, TN 37134

Mayor and City Council:

Presented herewith is the report on our investigative audit of selected records of the New Johnsonville Fire Department for the period January 1, 2000, through April 30, 2006. However, when the examination warranted, this scope was expanded.

**Background**

The City of New Johnsonville fire department was established by Article III, Section 3.01, of the city charter, which states, "That the city government shall be organized into a department of finance, police department, fire department, and department of public works and utilities, unless otherwise provided by ordinance." City ordinance, Section 7-301 states, "The fire department shall be composed of a chief appointed by the governing body...." In addition, all fire department equipment was titled and insured by the city. However, for several years, the New Johnsonville Fire Department was operated, in many respects, as an independent volunteer fire department.<sup>1</sup>

The New Johnsonville Fire Department established a separate bank account entitled "New Johnsonville Fire Department" in January 1984. An additional fire department bank account was opened in 1997 under the name of the "New Johnsonville Firefighters

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<sup>1</sup>The scope of the investigative audit only went back to January 2000. We did not evaluate the financial operations of the fire department prior to that date.

Honorable Mayor and Members of the  
City Council  
City of New Johnsonville  
October 5, 2006  
Page 2

Association.”<sup>2</sup> Both these bank accounts were initially established using the city’s tax identification number. However, these bank accounts were maintained by fire department officials, not the city’s finance department.

The city provided budget appropriations for the department for various operating and capital expenditures. However, since at least 1984, through the use of the separate bank accounts, certain revenue-generating activities had been operated outside city oversight. The major sources of this revenue were “run money,” TVA hose testing, insurance service charges, and fundraisers. Although fire department personnel were strictly “volunteer,” they received compensation from the city for each fire call out or “run” at \$4.50 per run per firefighter. In addition, by agreement with the county, each firefighter received \$10 per run for services outside the city limits but within Humphreys County. Also, by agreement of the firefighters, the compensation they received for fire service calls was deposited into the primary fire department bank account. The fire department used the revenue generated and deposited into the noncity bank accounts to purchase various firefighting equipment and provide firefighter training.

Our investigative audit revealed that a major segment of the New Johnsonville Fire Department financial activity was not subject to the oversight of the responsible city officials. As a result, recordkeeping and internal control and compliance requirements established for the proper handling and accounting for all city funds were not adhered to by fire department officials. Based on our review of available records, our investigative audit detected no instances of misuse of funds from these separate fire department bank accounts. However, records were not always adequate to provide complete assurance that funds were properly used in all instances. Our investigative audit did reveal numerous instances in which required financial procedures were not in place. As a result, there was a high risk that errors or irregularities could occur and not be detected promptly.

The major sources of collections during the 64-month audit period that would not be considered under the discretion and oversight of the City of New Johnsonville were firefighter pay from city fire calls and county fire calls. The approximate totals for each were as follows:

City Fire Calls	\$ 8,900
County Fire Calls	<u>25,000</u>
<b>Total</b>	<b><u>\$33,900</u></b>

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<sup>2</sup>Shortly after the inquiries into these noncity bank accounts by the former mayor in 2006, fire department officials opened a third account under the name “Firefighters Freedom Fund.”

Major sources of collections other than firefighter compensated fire calls:

TVA Hose Testing/Firefighting	\$25,000
Excalibur Fundraiser	6,000
Miscellaneous	5,700
Insurance Service Charge	<u>5,300</u>
<b>Total</b>	<b><u>\$42,000</u></b>

Auditor's Note: Miscellaneous collections primarily consisted of donations from various sources (TVA, Service Electric, and DuPont) and reimbursements from city for training, dinners, etc.

Our investigative audit revealed several instances of noncompliance with laws, rules or regulations and weaknesses in the internal controls of the fire department's financial operations.

1. **Prenumbered receipts not issued for collections**

Fire department officials who received collections for the fire department did not issue a duplicate, prenumbered receipt for each source of revenue. 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 9-2-102, *Tennessee Code Annotated*, requires the department of audit to "prescribe a uniform system of bookkeeping designating the character of books, reports, receipts, and records, and method of keeping same, in all state, county, and municipal offices ... which handle public funds." The *Internal Control and Compliance Manual for Tennessee Municipalities*, requires municipal officials to ensure that **prenumbered** receipts are issued for each revenue source.

2. **Inadequate accounting records**

The fire department's financial activity was not made part of the city's books and records. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 1, Section 2, states:

Municipal officials should ensure that ... a complete, self-balancing account group is established and maintained for each fund. This

group should include all general ledger accounts and subsidiary records necessary to comply with legal provisions and generally accepted accounting principles and to present the financial position and the results of financial operations of the fund.

3. **Checks issued with only one signature**

The fire department maintained bank accounts that required 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."

4. **Inadequate documentation for disbursements**

The fire department's files did not include adequate supporting documentation for most disbursements. Most disbursements had no support or support too vague to serve as adequate. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, Section 4, states:

Municipal officials should ensure ... 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.)

Section 3 requires that the related documentation accompany checks presented for approval and signing.

5. **Failure to follow city's written purchasing policy**

The fire chief failed to adhere to the city's comprehensive written purchasing policy. The fire chief purchased several assets such as rescue tool, rescue vehicle, and boat without the use of sealed bids. Several other small purchases (firefighter instructional programs) over \$500 did not have approval from the city council.

Section 4.07 (b) of the Charter for the City of New Johnsonville states:

Purchases or contracts of more than \$500 shall require approval of the council. All purchases and contracts, except for minor items used infrequently or items which must be obtained immediately to avoid disruption of services, shall be by competition, subject to such regulations as may be provided by ordinance. Any expenditure or contract for more than \$1,500 shall be made only after sealed bids have been invited by notices published at least two times in the official city newspaper and at the city hall, the last such notice to be published not less than 15 days in advance of the date set for receiving bids.

**6. Failure to use purchase orders**

The fire chief did not use prenumbered purchase orders to initiate purchases. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 1, outlines recommended purchasing policies which require the use of prenumbered purchase orders.

**7. Failure to comply with city travel policy**

Several disbursements for travel were not adequately supported by forms or receipts. In at least one instance, cash for a travel advance was obtained, and the subsequent travel expenditures were not supported by invoices or receipts. Section 4-403 (4) of the City of New Johnsonville city ordinance states, "Travel advances are available only for special travel and only after completion and approval of the travel authorization form." Section 4-403 (7) states, "Claims of \$5 or more for travel expense reimbursement must be supported by the original paid receipt for lodging, vehicle rental, phone call, public carrier travel, conference fee, and other reimbursable costs."

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, Section 4, states that "[a]ll disbursements, regardless of the accounting procedures, must be supported by invoices, cash tickets, or other adequate supporting documentation."

Honorable Mayor and Members of the  
City Council  
City of New Johnsonville  
October 5, 2006  
Page 6

8. **Lack of policy and procedures for fire service charge insurance claims**

Fire department officials had not established policies and procedures for recording and collecting fire call service charges from homeowner's insurance companies. Several insurance service charges for fire protection were not supported by sufficient documentation to determine if the claim had been submitted to the insurance company for payment or if proper follow-up procedures were initiated for nonpayment. As a result, auditors were unable to determine if claims for all funds due the fire department had been collected.

Management should take immediate action to correct these weaknesses. If you have any questions concerning the above, please contact me.

Very truly yours,



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

DFD/RAD

xc: Steve McCoy, Fire Chief  
New Johnsonville Fire Department