



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

Justin P. Wilson
Comptroller of the Treasury

BANK OF AMERICA PLAZA
414 UNION STREET, SUITE 1100
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 532-4460
FAX (615) 532-4499

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

April 19, 2010

Honorable Mayor and Members of the
Board of Aldermen
Town of Oliver Springs
P. O. Box 303
Oliver Springs, TN 37840

Gentlemen:

We have completed our investigative audit of selected records of the Town of Oliver Springs. This investigative audit focused on the period July 1, 2009, through March 31, 2010. However, when the examination warranted, this scope was expanded. Our investigative audit was limited to a review of employee payroll deductions, other payroll issues, and town credit card usage.

Our investigative audit revealed that the mayor and the treasurer each received insurance coverage paid by the town which they were not entitled to totaling \$1,490 and \$1,110, respectively. Employees were provided with individual dental coverage by the town. However, if an employee chose to receive family dental coverage, the employee was responsible for the difference in cost between the two plans. Both the mayor and the treasurer received family dental coverage but did not reimburse the town for the upgrade. The mayor told state auditors that he was periodically reimbursing the town for enhanced health insurance coverage and believed those reimbursements included his expanded dental coverage. The treasurer told state auditors that she believed she had been given permission for the town paid expanded coverage by a former (now deceased) mayor. Both officials have since reimbursed the town for this unauthorized benefit. Care should be taken to ensure that officials and employees receive only those benefits authorized by the mayor and members of the board of aldermen.

We also noted that the city manager placed personal charges on the city credit card. It appears that his practice was to reimburse the city for the personal charges. However, in one instance, there was no documentation in city files that he had repaid one charge totaling \$376. Although the city manager told state auditors that he believed he had already reimbursed the city for this personal expense, he has since paid the town for the charge in question. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 17, Section 6, requires town officials to adopt a purchasing policy that would:

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... designate individuals who are authorized to make purchases with municipal debit or credit cards. Clearly define the types of purchases permitted to be made using debit or credit cards. Such purchases must be approved in the same manner as any other purchase. If municipal officials authorize the use of credit and/or debit cards, the number of cards maintained should be kept to a minimum and should be properly accounted for. A record of the current holder(s)/user(s) should be maintained in the municipality's files. Personal charges should be strictly prohibited.

Finally, our audit revealed that town officials advanced and then paid employees for vacation time they had not yet earned. This created a loan from the town to the employee that not only violated state regulations, but subjected the government to risk of non-repayment. In fact, in at least two instances, employees who were advanced pay for unearned vacation leave left employment with the town prior to actually accruing the vacation leave. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 24, Section 1, states, "Municipal officials should ensure that ... the municipality's credit is not given or loaned to or in aid of any person...." Section 6-56-112, *Tennessee Code Annotated*, states, "All expenditures of money made by a municipality must be made for a lawful municipal purpose."

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,

A handwritten signature in black ink, appearing to read "Dennis F. Dycus". The signature is fluid and cursive, with a large initial "D" and "F".

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

DFD/RAD