

# INVESTIGATIVE AUDIT REPORT

CITY OF SPRING HILL  
MAY 1, 2007, THROUGH OCTOBER 31, 2007



## 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

John G. Morgan

Comptroller

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-0260

PHONE (615) 741-2501

August 26, 2008

Honorable Mayor and Members of the  
Board of Aldermen  
City of Spring Hill  
P. O. Box 789  
Spring Hill, TN 37174

Gentlemen:

Presented herewith is the report on our investigative audit of selected records of the City of Spring Hill. This investigative audit focused on the period May 1, 2007, through October 31, 2007. However, when the examination warranted, this scope was expanded.

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.

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.

Honorable Mayor and Members of the  
Board of Aldermen  
City of Spring Hill  
August 26, 2008

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 26, 2008

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

Dear Mr. Morgan:

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 Spring Hill. This investigative audit focused on the period May 1, 2007, through October 31, 2007. However, when the examination warranted, this scope was expanded.

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. Unapproved transfers of \$2,985,900 from utility funds to governmental funds
2. Failure to properly segregate and oversee expenditures of adequate facilities tax
3. Multiple instances of ignored bid requirements—no documentation of allowable exceptions
4. No professional services contracts on file for city attorney and engineer
5. Inadequate separation of duties

Mr. John G. Morgan  
Comptroller of the Treasury  
August 26, 2008

6. No purchasing policy
7. City library bank account not accounted for in city records
8. Checks issued with a single signature
9. Inadequate support for disbursements
10. Inadequate control over fixed assets
11. Inadequate minutes for meetings
12. Authorized salaries not in budget
13. Inadequate personnel records
14. No documented approval for utility adjustments
15. No itemized deposits slips
16. \$174,000 cashier's check not deposited promptly

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". The signature is fluid and cursive, with a large initial "D" and "F".

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

## Executive Summary

### Transfers from Utilities to City Government

Between July 1, 2006, and October 31, 2007, city employees transferred \$2,985,900 from water and sewer funds to general government accounts, in apparent violation of state law. The transfers, which are more correctly described as loans, were completed without the advice and consent of the board of mayor and aldermen (BOMA) and without the approval of the Division of Local Finance. The city's records indicated that the money transferred was used to pay invoices for contractors and general expenses and to cover the city government's payroll.

The city already had over \$1 million of similar outstanding transfers prior to July 1, 2006.

Transfers of this sort are repayable immediately. However, the city has been allowed a five-year repayment period.

Transfers (Loans) by Utilities to City Government	
FY 2007	\$ 2,730,900
FY 2008	\$ 255,000
	\$ 2,985,900
Prior years' total	\$ 1,071,387
	<u>\$ 4,057,287</u>

City officials who are found to be in violation of the statute are subject to ouster.

### Adequate Facilities Tax

The City of Spring Hill collects adequate facilities tax (AFT), sometimes referred to as impact fees, on new construction. AFT collections must be deposited to a separate account from all other city collections. AFT expenditures must be spent on projects and facilities related to new development. The BOMA is required to adopt a detailed five-year plan for AFT expenditures.

In practice:

- City employees transferred \$915,054 from water and sewer accounts to AFT.
- The city used a portion of the AFT collections to pay for ongoing expenses, such as replacing worn-out police cars.
- The BOMA never approved a plan for spending AFT between fiscal years 2003 and 2006.
  - Between FY 2003 and FY 2006, the city spent over \$5.8 million of AFT.
  - The AFT account had a \$614,929 **DEFICIT** balance at the end of FY 2006.
- The 2006 plan neglected to prioritize the projects for which AFT would be spent.
- On May 15, 2006, the board doubled the variable component of AFT from \$.25 per square foot to \$.50 per square foot.

### Bid requirements

The City of Spring Hill routinely ignored the bid requirements for purchases costing at least \$2,500, established by the Municipal Purchasing Law of 1983. The only evidence of competitive

bidding found was for some of the major infrastructure projects that were overseen by the city’s engineer.

The following projects are examples of questionable nonbid expenditures:

<b>Project</b>	<b>Summary</b>
<b>Winchester Community Building</b>	The BOMA agreed to spend \$180,000 for facility expansion. The former city administrator hired an unlicensed contractor to erect the structure. The project cost grew to over \$250,000.
<b>Cherry Grove Sewer Line</b>	The former city administrator agreed to pay over \$248,000 to a contractor, selected by a developer, for the cost of installing larger pipe across a subdivision based on the city's infrastructure requirements. The city attorney had no opportunity to approve the agreement. The BOMA was never informed of the proposal.
<b>Miles Johnson Parkway Phase III</b>	The project was initially bid, but the successful bidder withdrew after the project was delayed. A replacement contractor was hired for the redesigned project without competitive bids.
<b>McCormack Creek Sewer Phase I</b>	The board voted to approve a \$747,000 change order to an adjacent project, which was this section of the McCormack Creek project in its entirety. Before the vote, the board was incorrectly informed that prices would be unchanged.

**Professional services contracts**

The City of Spring Hill paid its attorney over \$139,000 and its engineer over \$762,000 between July 2006 and October 2007. The city had no professional services contract on file for either.

Apparently, no contract was ever drafted for the city attorney’s services.

The city engineer presented copies of two different contracts pertinent to different services provided. Both contracts were signed by the former city administrator; one was also signed by the then-mayor. Neither contract was approved by the board of mayor and aldermen.

**INVESTIGATIVE AUDIT OF SELECTED RECORDS  
OF THE CITY OF SPRING HILL  
FOR THE PERIOD MAY 1, 2007, THROUGH OCTOBER 31, 2007**

**BACKGROUND**

On behalf of the mayor and members of the board of aldermen, the city attorney for the City of Spring Hill, Tennessee, mailed a letter of disclosure, dated October 3, 2007, to the Tennessee Comptroller of the Treasury. The city attorney found that the board never ratified or even considered amended budgets for fiscal years 2002, 2003, 2004, 2005, and 2006. However, the city's contract auditor received copies of what were purported to be approved amended budgets for each of those years. Except for fiscal year 2003, the copies that the contract auditor relied upon were unsigned. Although the 2003 ordinance bore the signatures of the then-mayor, the former city attorney, and the city recorder, the present city attorney's research indicated that it had not been presented to the board either.

Subsequently, it was determined that the problem extended back to fiscal year 2001. On December 17, 2007, the mayor and members of the board of aldermen passed on second reading Ordinances 07-49, 07-50, 07-51, 07-52, 07-53, and 07-54, retroactively amending the budgets for each of the applicable years.

The Division of Municipal Audit undertook this investigative audit at the request of the mayor and members of the board of aldermen.

The Division of Municipal Audit released a letter dated April 24, 2003, that detailed the findings of an investigative audit performed in the months leading up to that date. The letter briefly summarized several conditions related to contracts that the city entered. The problems included:

- City officials failed to prepare and retain written records of several business agreements
- The then city administrator and the then mayor changed details of contracts without the advice or consent of the board of mayor and aldermen
- The then city administrator failed to comply with the requirements of Resolution 96-8, which provides for and places limits upon entering contracts with developers to provide infrastructure.

Although findings of investigative audits issued in the form of a letter do not require written responses from officials and responsible employees, we do expect the governing body to take corrective actions to the conditions documented. We also expect that the municipality will implement improved controls to prevent recurrence. Although the Division of Municipal Audit mails the results of investigations directly to the members of the governing body at their home addresses, it is unclear what corrective and preventative measures, if any, that board or any

subsequent board implemented. A copy of the same letter was mailed directly to the former city administrator as well.

The city administrator from the period covered by the 2003 audit continued to serve in that capacity until his retirement, September 14, 2007. Many of the findings in this report reflect that the former city administrator apparently continued to conduct the city's business in the same manner cited in our earlier investigative audit, often entering agreements on behalf of the city without any record that the board had approved. In many cases, there is no indication that the former city administrator even made the board aware of his actions.

Section 11-101 of Ordinance 95-1 (section 4-101 of the *Municipal Code of Spring Hill, TN*), which created the position of city administrator for Spring Hill, clearly states, "The City Administrator shall be appointed by the Board of mayor and aldermen and shall serve at the pleasure of this board."

Section 11-102 of the same ordinance (section 4-102 of the *Municipal Code*) begins, "The City Administrator shall be under the control and direction of the Board of Mayor and Aldermen to whom he shall report and be responsible."

## **FINDINGS AND RECOMMENDATIONS**

1. **FINDING: Unapproved transfers of \$2,985,900 from utility funds to governmental funds**

On numerous occasions, apparently acting upon instructions from the former city administrator, the recorder transferred money from checking accounts established for city utilities to accounts established for governmental activities. Documents, prepared by the recorder, indicated that such transfers were routinely transacted when balances in the general checking and the adequate facilities tax checking accounts were insufficient for upcoming obligations, often contractor payments and general fund payroll. In one instance, utility money was transferred to the general account to cover a city payment for construction of the Longview Rec. Center, a joint venture with Williamson County.

The minutes of meetings of the board of mayor and aldermen lacked any documentation to indicate that the board had considered or authorized any of these transfers. There was also no indication that the city sought or received approval for these transactions from the Division of Local Finance. It is the Division of Municipal Audit's understanding that interfund receivables and payables must be approved by the Division of Local Finance in the same manner as capital outlay notes.

During the period between July 1, 2006, and October 31, 2007, city and bank records documented \$2,985,900 of transfers of this type. In addition, the audited<sup>1</sup> fiscal year 2006 financial statements indicated that on June 30, 2006, governmental accounts already owed \$1,071,387 to utility accounts.

According to Section 7-34-115(a), *Tennessee Code Annotated*:

No public works shall operate for gain or profit or as a source of revenue to a governmental entity, but shall operate for the use and benefit of the consumers served by such public works and for the improvement of the health and safety of the inhabitants of the area served.

Subsection (b) adds: "Any surplus remaining, after establishment of proper reserves, if any, shall be devoted solely to the reduction of rates."

Subsection (f) states:

If a municipality violates the provisions of this section, it must repay any funds illegally transferred. If the municipality does not have sufficient funds to repay any funds illegally transferred, the municipality is required to submit a plan covering a period not to

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<sup>1</sup> This reference is to financial audits, conducted by CPA firms under contract with the City of Spring Hill.

exceed five (5) years in which to repay the funds. The plan shall be submitted to and approved by the director of local finance in the office of the comptroller of the treasury. Upon discovery of such violation through an audit, any city official in violation of this section is subject to ouster under title 8, chapter 47.

**RECOMMENDATION:**

To comply with state law and to fulfill its fiduciary responsibility to the utility customers of the City of Spring Hill, the board should prohibit any additional transfers from utility accounts to governmental accounts without prior approval from the Division of Local Finance. Transfers that have already been completed, which would be more accurately described as loans, are repayable immediately. If the city is unable to make immediate repayment, the board must formulate a repayment plan that complies with the provisions of Section 7-34-115, *Tennessee Code Annotated*, and have that plan approved by the Director of Local Finance of the Comptroller of the Treasury.

**MANAGEMENT'S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur. As allowed by law, the Board of mayor and aldermen for the City of Spring Hill has approved a repayment plan and adopted in the General Fund, money to pay back the amount due to the water/sewer fund in a five-year period, approximately \$800,000 per year. It is our intention to pay semi-annually in January and June. The reason for these time periods is to allow property tax revenue to begin flowing into the city before the payments are made. This repayment plan will be submitted to the Director of Local Finance of the Comptroller of the Treasury for approval and has not yet been approved.

**City Administrator:**

Response is the same as that of the mayor and board of aldermen.

**Recorder:**

Response is the same as that of the mayor and board of aldermen.

**Auditor's Note:** Officials and employees of the City of Spring Hill have customarily used the term "impact fees" to describe privilege tax collected for new construction and intended to offset the cost of additional infrastructure required to serve the expanding population. During the period covered by this audit, based on the establishing private act and city ordinance, such collections would be more properly described as adequate facilities tax.

2. **FINDING:** Failure to properly segregate and oversee expenditures of adequate facilities tax

Officials and employees of the City of Spring Hill failed to properly segregate and oversee expenditures of money collected from adequate facilities tax (AFT). Some city expenditures violated restrictions under the private act that allowed the tax and the ordinance that enacted it. As a result of the lack of oversight, the account developed a significant deficit balance, which was followed by a material tax rate increase.

The transfers described in Finding 1 apparently violated pertinent sections of the *Spring Hill Municipal Code* that govern the deposit and use of AFT. In all, city employees transferred \$915,054 from water and sewer accounts to the accounts established for AFT and impact fees.

The examination also revealed several disbursements from AFT that appeared to be for ongoing operations, including replacing worn-out police vehicles. The practice of funding continuing activities with adequate facilities tax appears to conflict with the private act that granted the City of Spring Hill authority to collect privilege taxes on new development. According to Section 9 of *Private Acts 1988*, Chapter No. 173 (HB 2436) of the Tennessee General Assembly, "All tax funds collected shall be used for the purpose of providing public facilities, the need for which is reasonably related to new development." While it could be argued that increasing the size of the fleet would be consistent with the intent of the act, expenditures that maintain the current size probably would not.

In addition to the restrictions imposed by the private act, the board that implemented the AFT required detailed planning for the expenditure of the money collected.

According to the *Spring Hill Municipal Code*:

**5-610. Use and segregation of tax funds.** All taxes on new development collected pursuant to this chapter shall be deposited in a separate account. Funds of the account shall be expended solely for those capital improvements identified in the city's Capital Improvements Plan. (Ord. #94-2, Feb. 1994)

The *Municipal Code* specifies that the Capital Improvements Plan is required to provide a detailed and prioritized list of capital improvements projects over a five-year period, with the anticipated costs and funding sources for each project. The Capital Improvement Plan is also supposed to be forward looking by listing anticipated long-term needs over a 20-year period.

However, the 2006 Capital Improvements Plan (Resolution 06-36) listed several very general areas of proposed spending over a five-year period; the list was not prioritized. Regarding funding sources, the 2006 plan provided that the listed projects would be funded “in whole or in part by certain revenues realized by the imposition of development fees on new development...” Frequently, resolutions that approved certain pertinent expenditures did not specify that adequate facilities tax would be used. The board has not required the city’s business office to account for the expenditure of adequate facilities tax with enough detail to ensure and monitor compliance with the Capital Improvements Plan.

In addition, Resolution 06-36 states that it amends the Capital Improvements Plan set forth in Resolution 97-34, which covered the years between 1997 and 2001<sup>2</sup>. This indicates that the city had no approved Capital Improvements Plan for fiscal years 2003, 2004, 2005, and most of 2006. In light of the previously quoted section 5-610 of the *Municipal Code*, expenditures of adequate facilities tax during the period between the expiration of the 1997 plan and the adoption of the 2006 plan were not compliant with the *Municipal Code* since no current Capital Improvements Plan existed during those years.

According to audited financial statements<sup>3</sup> from fiscal year 2003 through fiscal year 2006 (roughly the same period for which the city had no current Capital Improvements Plan), the “Impact Fees” account reported inflows of \$5,022,260 from “impact fees” and interest. From the beginning of fiscal year 2003 to the end of fiscal year 2006, the “Impact Fees” account balance decreased from \$181,455 to a **DEFICIT** of (\$614,929)<sup>4</sup> – a total decrease of \$796,384. In total, this indicates that the city **expended “impact fees” totaling \$5,816,644** during the period fiscal year 2003 through fiscal year 2006 (\$5,022,260 + \$794,384).

On May 15, 2006, the board of mayor and aldermen passed Ordinance 06-35 on second reading. This ordinance doubled the variable component of the adequate facilities tax rate from \$.25 per square foot to \$.50 per square foot.

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<sup>2</sup> As previously explained, the *Municipal Code* provides for a five-year window for each Capital Improvements Plan. This means that the 1997 plan (Resolution 97-34) could apply to 2002 as well.

<sup>3</sup> This reference is to financial audits, conducted by CPA firms under contract with the City of Spring Hill.

<sup>4</sup> This was money borrowed from other funds.

**RECOMMENDATION:**

To comply with the requirements of the authorizing private act and with the enacting ordinance, the board should prohibit the commingling of money received from any other source with adequate facilities tax collections. The board should adopt a Capital Improvements Plan that includes all of the provisions required by the *Municipal Code* and by *Private Acts 1988*, Chapter No. 173 (HB 2436) of the Tennessee General Assembly. All expenditures of adequate facilities tax must be restricted to the prioritized projects that comprise the Capital Improvements Plan. The board should monitor the city's changing needs and routinely update the Capital Improvements Plan.

**MANAGEMENT'S RESPONSE:****Mayor and Members of the Board of Aldermen (except Alderman Mitchell):**

We concur. The Board of Mayor and Aldermen for the City of Spring Hill is currently updating the current Capital Improvements Plan for a five-year period, previously adopted as Resolution 06-36 to ensure that the required provisions as required by law, are met.

**Aldermen Eliot Mitchell:**

I do not concur with Finding 2. Statements made by the state clearly show that the city did in fact segregate adequate facilities tax (AFT) from other revenue streams. The fact that the state was able to identify the total amount of AFT funds collected from 2003-2006 is in itself an indication of the segregation of funds. The issue of supplementing the AFT account from other funds does not invalidate the segregation of the AFT. Had AFT funds themselves been deposited in other accounts or AFT funds moved to other accounts, then the claim of improper segregation could be made. The bottom line here is that the AFT funds were in fact kept in a separate account and were in fact accounted for independent of other revenue streams. Therefore, they were segregated as required by code.

The second statement that AFT funds were improperly spent is not accurate either. The only example given by the state for inappropriate use was the purchase of "worn-out" police vehicles. Around 2003, the board voted to change city policy as it pertained to police vehicles. Prior to 2003, all police vehicles were used by three different shifts during a single 24-hour period. The board approved a new vehicle policy where each policeman on the force was assigned his or her own personal vehicle. Vehicles were no longer shared across shifts. As the city grew in population and geographical size, the police force in turn grew in staff by approximately three per year (one per shift). This growth in police staff corresponded to growth in the city's fleet of police vehicles. The state admits that organic growth of the fleet meets the test for appropriate use of AFT funds. Since the state did not provide any additional examples of disbursement for on-going operations, I contend that this finding is not valid.

Lastly, the lack of a current Capital Improvements Plan (CIP) is immaterial to this finding. The state does NOT claim that the CIP of 1997 was fully realized. The state only claims that it was not renewed in 2002. The lack of renewal would not in itself eliminate the validity of the plan unless all items on the plan had been accomplished leaving the city with zero items on its CIP. I contend that the natural intent of the Capital Improvements Plan would still be in effect until all the items had either been completed or removed from the plan. Furthermore, the state claims that the CIP of 1997 contained “long-range” items that were anticipated needs for the next 20 years. Therefore, I do not concur with the state’s contention that Spring Hill did not have a CIP for the years 2003-2006.

**City Administrator:**

Response is the same as that of the mayor and board of aldermen.

**Recorder:**

Response is the same as that of the mayor and board of aldermen.

**AUDITOR'S REBUTTAL TO ALDERMAN MITCHELL'S RESPONSE:**

Prior to preparing this report, auditors interviewed eight of the nine members of the board of mayor and aldermen, including Mr. Mitchell. The board members' responses indicated that, as a body, they were unaware of certain requirements pertaining to adequate facilities taxes (AFT) set forth in the *Spring Hill Municipal Code*, including the restriction limiting AFT expenditures to items on the Capital Improvements Plan.

On more than one occasion, the City of Spring Hill spent AFT for projects and purchases that were not part of a Capital Improvements Plan. For example, in August 2007 the board approved Resolution 07-36, to replace eight police cars (three annual payments in excess of \$100,000 each); the 2006 Capital Improvements Plan did not include ANY allocation for the police department. Also, the 2006 audited financial statements<sup>5</sup> disclosed over \$1.3 million of AFT spent on the library; the Capital Improvements Plan had NO allocation for the library. We restate that the "Impact Fees" (AFT) account had a (\$614,929) DEFICIT balance at the end of fiscal year 2006. The board's approval of the library project is documented by Resolution 05-17.

Finding 2 included no opinion whatsoever about the adequacy of the 1997 Capital Improvements Plan. No such opinion should be implied by the reader. In actuality, the 1997 plan contained many of the same deficiencies cited pertinent to the 2006 plan. The 1997 plan (Resolution 97-34) does not indicate that it considered the city's 20-year requirements.

The Division of Municipal Audit did not express an opinion on the "realization" of the 1997 Capital Improvements Plan. No such opinion should be implied. Monitoring the progress of completion of a Capital Improvements Plan is the responsibility of management; we found no evidence that Spring Hill officials and employees have attempted to do this. The existence of an outdated, though incomplete, Capital Improvements Plan in no way waives the requirements for spending AFT required by the *Municipal Code* and by Private Act.

Regarding the question of AFT expenditures funding ongoing operations, specifically the matter of increasing the size of the city's fleet of police cars versus replacing vehicles already in service, on at least four occasions since 2003<sup>6</sup> the board has approved resolutions that explicitly used the term "replacement vehicles." Between July 1, 2005, and October 31, 2007, every GMAC payment came from AFT. In addition, every disbursement of greater than \$10,000 to Chevrolet dealers over the same period consisted of AFT.

<sup>5</sup> This refers to a financial audit, conducted by a CPA firm under contract with the City of Spring Hill.

<sup>6</sup> Resolutions 03-22, 04-11, 06-06, and 07-36.

In addition to police cars, the city's accounting records indicate that AFT paid the entire cost of leased 911 communication equipment between July 1, 2005, and September 30, 2007. Each monthly lease payment was greater than \$1,000; most exceeded \$3,000. There was no allocation of the expense between the portion reasonably related to growth and the amount resulting from ongoing operations, relative amounts that would have been determined by management. (Auditor's Note: According to the Spring Hill business office, the city no longer uses AFT for these lease payments.)

Finally, the *Municipal Code* dictates that AFT must be "deposited in a separate account." Apparently, the 1994 board of mayor and aldermen intended to have a more stringent segregation of funds than what is achieved by making separate entries for AFT in the accounting records. As stated in Finding 1, the board never authorized transfers from utility accounts to AFT. Mr. Mitchell has characterized the transfers as supplementing AFT. However, transferring utility money to the AFT account, then issuing a single payment from the AFT account, is inconsistent with observed office procedures. The business office employees routinely allocated payments for a single billing statement between multiple bank accounts. The city issued payments for electricity, telephones, and engineering services partially from the utilities checking account and partially from the general fund (this is not intended to be a complete list of payments issued from more than one checking account).

We reiterate our finding that Spring Hill employees and officials failed to properly segregate and oversee expenditures of Adequate Facilities Tax, based on criteria set forth by a Private Act of the Tennessee General Assembly and by ordinances and resolutions approved by the Board of Mayor and Aldermen of Spring Hill.

3. **FINDING:** Multiple instances of ignored bid requirements—no documentation of allowable exceptions

Apart from several major infrastructure projects that were overseen by the city engineer, there was no evidence in city records that *any* qualifying purchases and building projects were publicly advertised and competitively bid. Since the city had not adopted a purchasing policy by ordinance or charter amendment, as explained in Finding 6, city officials were required to adhere to the Municipal Purchasing Law of 1983, set forth in Section 6-56-301, et. seq., *Tennessee Code Annotated*. This statute requires that purchases of \$2,500 or greater be publicly advertised and competitively bid<sup>7</sup>. (Municipal

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<sup>7</sup> The statute allows for certain exceptions, including emergency and sole source purchases.

governing bodies may by ordinance increase the dollar amount required for public advertisement and competitive bidding from \$2,500 to a maximum of \$10,000.)

### **Winchester Community Building (Senior Citizens)**

One instance of apparently ignored bid requirements involved the expansion of the Community Building and Senior Citizen Center (now known as the Winchester Community Building) in Evans Park. In January 2007, the board of mayor and aldermen approved a resolution that authorized spending up \$180,000 for the project. Audio tapes of the board meetings from December 2006 and January 2007 revealed that the then city administrator stated emphatically that \$180,000 was a high-end estimate for the project's cost. The former city administrator also told the board that the project would be completed "in house," meaning that city employees would construct the building while working for the city. The city administrator also told the board that the project could be completed quickly, approximately 60 to 70 days.

However, the project's completion was delayed until October 2007, after the former city administrator had retired. In November 2007, the board approved spending an additional \$78,158 for cost overruns. In all, the city spent over \$250,000 of adequate facilities tax money<sup>8</sup> on this project, without any documentation of competitive bids and without any signed contracts at city hall. Of that total, over \$173,000 was paid to a builder for whom no contractor's license is on file with the State of Tennessee.

Section 62-6-103, *Tennessee Code Annotated*, states, "It is unlawful for any person, firm or corporation to engage in or offer to engage in contracting in the state, unless such person, firm or corporation has been duly licensed under the provisions of this chapter, as hereinafter provided." Section 62-6-102, *Tennessee Code Annotated*, defines a contractor as one who performs any project costing \$25,000 or more.

### **Cherry Grove Sewer Line**

On May 16, 2007, the former city administrator and a developer signed an agreement for the city to pay for the difference between installing 8" and 18" sewer line through a subdivision under development. According to a price sheet attached to the contractor's invoices, the city's cost was estimated to be \$248,424. The city engineer signed off on the agreement, indicating that the project was appropriate and the cost was reasonable. However, the former city administrator never sought the approval of the city attorney. More problematic, the board of mayor and aldermen were not notified of the existence of the agreement.

Resolution 96-8 apparently grants the city administrator and mayor the ability to enter agreements with developers for constructing infrastructure. However, the resolution requires approval of the city attorney as well as the consulting engineer. It also specifies that aldermen must be notified "at least seventy-two (72) hours before negotiated

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<sup>8</sup> Refer to Finding 2. The Capital Improvements Plan of 2006 did include \$1,000,000 for "Parks and Recreations Facilities" (sic).

contracts are signed.” Later, it adds, “If one or more Alderman requests a Board meeting, a special Board meeting will be called before the Town enters into the contract.”

As a result of the former city administrator’s actions, the city disbursed over \$240,000 to a contractor selected by a third party, without evidence of any bidding process, and without the knowledge or consent of the board of mayor and aldermen.

### **Miles Johnson Parkway Phase III**

In September 2004, following a formal bidding process, the board of mayor and aldermen awarded a contract for construction of a section of a city street now known as Miles Johnson Parkway. Before work commenced, the city received notice that the proposed project would affect wetlands. While the project was reworked, the original successful bidder backed out. Although the project was substantially different, a different contractor was hired without rebidding the project

### **McCormack Creek Sewer Project Phase I**

In October 2006, the board voted to approve a change order costing over \$747,000 to the McCutcheon Creek sewer project. The change order comprised phase I of the McCormack Creek Sewer Project. Audio tapes indicated that the former city administrator stated that this was appropriate because it was adjacent to the original project and because the contractor’s prices would remain unchanged from the original bid, approximately eight months earlier. Apparently, the board approved the change order based upon these arguments after extensive debate about whether the proposal should be treated as a separate project.

However, the board decided to approve the change order after being presented with incorrect information. Documents obtained from the city engineer indicated that most of the prices for phase one of McCormack Creek were different from items having the identical description from the McCutcheon Creek portion and that most of the changes were price increases. The engineer stated that the then city manager had adequate information, including the contractor’s proposal for the change order, to determine that most of the prices would increase. The price increases for identical items amounted to \$10,491. The McCormack Creek project called for a different diameter pipe than what was used on McCutcheon Creek, meaning no directly comparable pricing existed for the largest component of the project’s cost. However, using analytical procedures to account for the cost of installation, it appears that up to an additional \$16,150 *could* be attributable to increases in the cost of pipe.

### **RECOMMENDATION:**

To comply with applicable purchasing law and to ensure that the city receives the highest quality goods and services at the lowest price, the board should require compliance with the Municipal Purchasing Law of 1983. This should include adhering to requirements for competitive bidding.

**MANAGEMENT’S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur. The Board of Mayor and Aldermen of the City of Spring Hill will be presented a Purchasing Policy Ordinance given to the Budget and Finance Advisory Committee, prepared by the city administrator, finance director, and city recorder, and brought before the full board of mayor and aldermen for approval, which will include policies for competitive bidding.

**City Administrator:**

Response is the same as that of the mayor and board of aldermen.

**Recorder:**

Response is the same as that of the mayor and board of aldermen.

4. **FINDING: No professional services contracts on file for city attorney and engineer**

Between July 1, 2006, and October 31, 2007, the City of Spring Hill disbursed \$762,913 for professional engineering services and \$139,035 for the services of the city attorney. However, the city recorder was unable to locate professional services contracts for either in the city’s records.

Additional inquiries revealed that, although the board unanimously approved his appointment, no contract had been drawn up for the services of the city attorney.

The city’s engineer provided copies of two purported contracts with city. The first, dated October 18, 2004, pertained to consulting and design work for expansion of the wastewater treatment plant. The contract was signed by the former city administrator and by the then mayor. Although the signatures on the contract indicate that it was signed on a day of a meeting of the board of mayor and aldermen, it was apparently never presented for ratification. The City of Spring Hill disbursed \$55,380 on August 30, 2007, (included in the total in a preceding paragraph) for an invoice submitted by the city engineer “For professional engineering services from 1/29/06 through 8/26/07 in connection with the Wastewater Treatment Plant Expansion.”

The second contract related to services provided as the “Engineer of Record for the City of Spring Hill.” This document indicates that it was accepted by the former city

administrator on September 12, 2006<sup>9</sup>. There was no record that this contract was approved by the board either.

Professional service contracts are governed by Section 12-4-106, *Tennessee Code Annotated*. According to the statute, the nature of the work to be provided, as well as the firm's compensation should be agreed upon prior to entering into the contract. Professional services are exempt from bidding requirements; contracts are to be awarded on the basis of "recognized competence and integrity." The compensation is required to be "fair and reasonable" to the government.

According to the *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 1, Section 4, all contractual agreements must be written and included in the complete minutes of the meetings of the legislative body.

Nothing in the Mayor-Aldermanic Charter (*T.C.A.* § 6-1-101, et. seq.) nor the *Municipal Code of Spring Hill* would appear to allow the mayor or city administrator to enter into a valid contract without ratification by the board of mayor and aldermen.

**RECOMMENDATION:**

To ensure that the city receives needed services at agreed upon prices and to comply with applicable state law, all professional services contracts should be put in writing and approved by the full board of mayor and aldermen. Copies of all such contracts are required elements of the official minutes of the board's meetings.

**MANAGEMENT'S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur. As allowed by law, the Board of Mayor and Aldermen of the City of Spring Hill has reviewed formal contracts for the city attorney and city engineer and it is anticipated that the board of mayor and aldermen will accept and executive these professional services contracts on August 18, 2008.

**City Administrator:**

Response is the same as that of the mayor and board of aldermen.

**Recorder:**

Response is the same as that of the mayor and board of aldermen.

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<sup>9</sup> The same individual has been the "Engineer of Record" for several years, predating the founding of his current firm. According to the cover letter, this contract was proposed by the engineering firm. The stated reason for entering the contract at that time was to define and limit the liability of the engineering firm.

5. **FINDING: Inadequate separation of duties**

Although the city's business office had several employees, one employee opened mail, received collections, recorded collections, and prepared deposits. Employees who received and recorded utility payments also routinely approved and posted adjustments. (Refer also to Finding 14.) In addition, all six business office employees shared two cash drawers.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 2, Section 2, states:

Municipal officials should enforce division of duties to provide a system of checks and balances so that no one person has control over a complete transaction from beginning to end. Work flow should be established so that one employee's work is automatically verified by another employee working independently. When possible, different persons should be responsible for the authorization, recordkeeping (posting), custodial (cash and materials handling), and review procedures....

Title 1, Chapter 2, Section 4, of the manual further states:

Municipal officials should ensure that automatic proof techniques are applied whenever possible. These techniques include the use of an employee without prior access to the records to ... reconcile bank accounts, ... periodically test ... daily balancing of cash receipts, ... open mail and prelist mail receipts, ... [and to] perform routine duties of other employees ... for at least one vacation period per year.

**RECOMMENDATION:**

To decrease the risk of undetected errors and irregularities, management should review employees' responsibilities to ensure that no employee has control over a complete transaction.

**MANAGEMENT'S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur. As allowed by law, management will review employee responsibilities as to separation of duties and will also evaluate the need for a new employee to be dedicated to accepting payments only. Other employees will be designated to preparing deposits and recording collections.

**City Administrator:**

Response is the same as that of the mayor and board of aldermen.

**Recorder:**

Response is the same as that of the mayor and board of aldermen.

6. **FINDING:** No purchasing policy

The board of mayor and aldermen failed to adopt a comprehensive written purchasing policy. According to the *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 1, municipalities should adopt a written purchasing policy that complies with the Municipal Purchasing Law of 1983, Sections 6-56-301 through 6-56-307, *Tennessee Code Annotated*. According to the manual, the purchasing policy should:

- designate persons authorized to make purchases
- require the use of prenumbered purchase orders for purchases over a predetermined amount
- outline procedures for emergency and small-item purchases without prior approval
- require approval by the finance officer
- require bids for purchases over a stated amount
- require competitive bids for management services for construction projects
- require that personnel retain sufficient documentation to substantiate that competitive bids were requested.

**RECOMMENDATION:**

To ensure that the City of Spring Hill purchases items at the best price and in the most advantageous manner, the board of mayor and aldermen should adopt and enforce compliance with a comprehensive written purchasing policy. Adherence to a qualifying policy can also allow management to determine that each purchase serves a valid municipal purpose and that funds are available and have been budgeted BEFORE the city has been committed to disbursing city funds.

**MANAGEMENT’S RESPONSE:****Mayor and Members of the Board of Aldermen:**

We concur. The Board of Mayor and Aldermen of the City of Spring Hill will be presented a purchasing policy ordinance given to the Budget and Finance Advisory Committee, prepared by the city administrator, finance director, and city recorder, and brought before the full board of mayor and aldermen for approval, which will includes policies for competitive bidding.

**City Administrator:**

Response is the same as that of the mayor and board of aldermen.

**Recorder:**

Response is the same as that of the mayor and board of aldermen.

7. **FINDING: City library bank account not accounted for in city records**

The library director controls a checking account that, according to the account styling, is intended for memorial contributions to the library. The director, who has custody of the checkbook and all supporting documentation, disburses money from the account without oversight or approval. The director can also direct collections received at the library, regardless of the reason, to deposit in this account. According to the city recorder, library employees do not remit any collections to the business office for deposit to a city bank account and entry to the city’s accounting records—auditors verified the absence of any accounting entries of this type during the period of this audit.

The bank account was established using the name of a city entity using the city’s federal identification number. In addition, the library director is a city employee. Consequently, the guidelines of the *Internal Control and Compliance Manual for Tennessee Municipalities* apply.

In addition, Resolution 01-23 of the board of mayor and aldermen directs: “... [T]hat the City of Spring Hill shall operate the library financial system through the Municipal government financial disbursement and accounting system.” Resolution 01-38 states, “that the city of Spring Hill shall operate the library system as a component of the municipal government.”

**RECOMMENDATION:**

To ensure that deposits to and disbursements from accounts listed as belonging to the city are consistently subjected to the internal control requirements of the manual, the board of

mayor and aldermen should require all such accounts to be included as part of the city's financial records.

**MANAGEMENT'S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur. As allowed by law, the city recorder will take full responsibility for the Library Memorial Fund bank account. The city will operate the library system as a component of the municipal government.

**City Administrator:**

Response is the same as that of the mayor and board of aldermen.

**Recorder:**

Response is the same as that of the mayor and board of aldermen.

8. **FINDING:** Checks issued with a single signature

During the scope of this audit, city employees and officials issued several checks that were signed by only one person. This included every check written on the Public Library Special Account for Memorial Contributions (described in Finding 7) and at least three checks from the Drug Fund bank account. According to the *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, Section 2, "Municipal officials should require two signatures on all checks."

**RECOMMENDATION:**

To decrease the risk of unauthorized disbursements, municipal officials should require that every issued check be signed by two of the people which officials have authorized on the bank signature card.

**MANAGEMENT'S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur. As allowed by law, all checks for payments or payroll will have two authorized signatures.

**City Administrator:**

Response is the same as that of the mayor and board of aldermen.

**Recorder:**

Response is the same as that of the mayor and board of aldermen.

9. **FINDING: Inadequate support for disbursements**

The city's files did not include adequate supporting documentation for all disbursements. In many cases, invoices and charge slips did not account for the full amount disbursed. For several disbursements, office employees were unable to locate supporting documents in the city files and had to request copies from vendors.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, Section 4, states:

Municipal officials should ensure ... that supporting documentation is filed alphabetically by vendor or by date paid.... 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 of the same chapter requires that the related documentation accompany checks presented for approval and signing.

**RECOMMENDATION:**

To document that each disbursement was for a valid municipal purpose, officials should ensure that adequate supporting documents are maintained in the municipality's files in accordance with the *Internal Control and Compliance Manual for Tennessee Municipalities*. Before signing a check, authorized individuals should review adequate supporting documentation to determine that the disbursement is for a valid municipal purpose and that the charge has not previously been paid.

**MANAGEMENT'S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur. As allowed by law, the city recorder will ensure that supporting documents for all purchases will be a part of each check to be signed by appropriate official, beginning immediately.

**City Administrator:**

Response is the same as that of the mayor and board of aldermen.

**Recorder:**

Response is the same as that of the mayor and board of aldermen.

10. **FINDING: Inadequate control over fixed assets**

Officials did not require adequate internal control over the municipality's fixed assets and high-risk, moveable property. The recorder did not maintain complete, updated records of such items. Many of these items were not permanently marked to indicate the municipality's ownership. The items that had numbered property tags attached were apparently acquired several years ago; the current recorder is unaware of the existence of any records of tag numbers, descriptions and locations for items bearing the tags.

Generally accepted accounting principles and the *Internal Control and Compliance Manual for Tennessee Municipalities* require that fixed asset records be maintained. Title 1, Chapter 4, Section 2, of the manual mandates that:

Municipal officials should ... require that all fixed assets are located, identified (tagged or marked), and recorded using a separate card for each property item or group of similar items, such as chairs, purchased at the same time. The record should be retained at the municipality and should include up-to-date purchase and disposal information. An annual inventory should be performed and documented.... a record of moveable, high-risk, sensitive property, such as TVs, VCRs, and small office machines, as well as furnishings and works of art, be established and maintained and an annual inventory be performed.

**RECOMMENDATION:**

To better control and account for individual fixed assets and high-risk, moveable property, the recorder should maintain complete, updated records of those items in accordance with the *Internal Control and Compliance Manual for Tennessee Municipalities*. Officials should require that each of the items is permanently marked or tagged to indicate the municipality's ownership. Also, officials should require that an annual physical inventory of the fixed assets and of the high-risk, moveable property is performed and documented.

**MANAGEMENT'S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur. The city administrator will have the city recorder attend the Government Finance Officer's Association classes on Asset Management and Enterprise Fund

Accounting. Also, the newly hired administrative assistant for the financial director will assume responsibility for materials management and fixed asset entry. The city recorder will have the responsibility of entering fixed assets into the accounting system. The City of Spring Hill acquired software to assist in this process in July 2008.

**City Administrator:**

Response is the same as that of the mayor and board of aldermen.

**Recorder:**

Response is the same as that of the mayor and board of aldermen.

11. **FINDING: Inadequate minutes for meetings**

Complete minutes of meetings of the board of mayor and aldermen were not maintained in the city's records. The minutes of a special called meeting on February 9, 2004, were unsigned. At that meeting, the board apparently passed a resolution to fill a vacant seat. However, there was no description of the circumstances that led to the vacancy.

Other problems included missing signed copies of several ordinances and resolutions. Auditors also observed multiple instances of conflicts in the numbering of resolutions. The minutes of two different meetings referred to the same resolution number, 06-54; both versions passed, with wholly unrelated subject matter. One of the versions pertained to the McCormack Creek Sewer Project phase I, described in Finding 3.

**Auditors' Note: Several of the ordinances purported to be budget amendments, which the city's contracted auditors relied upon, also had conflicting numbering.**

Auditors also discovered that the minutes of several planning commission meetings were missing. The copies that were eventually obtained lacked signatures. As a result, auditors could not be certain that the version that had been presented was approved by the commissioners.

Section 8-44-104, *Tennessee Code Annotated*, requires:

The minutes of a meeting of any such governmental body shall be promptly and fully recorded, shall be open to public inspection, and shall include, but not be limited to, a record of persons present, all motions, proposals and resolutions offered, the results of any votes taken, and a record of individual votes in the event of roll call.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 1, Section 4, requires that complete minutes of actions taken by the legislative body be maintained and provides a list of items that should be included in the minutes. Among the required items are, “copies of all ordinances and resolutions adopted” and “copies of the budget and any supplemental appropriations.”

**RECOMMENDATION:**

To document actions taken by the governing body, officials should ensure that the recorder maintains complete minutes of all meetings of the governing body. The minutes should be kept at the municipality’s office and be available for public inspection. The mayor and recorder should sign the minutes to document approval.

**MANAGEMENT’S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur. As allowed by law, the city recorder will ensure all meetings of the governing body are signed and entered into permanent city records and be available for public inspection. All documents pertaining to the described meeting shall be part of the official minutes and attached to the official minutes.

**City Administrator:**

Response is the same as that of the mayor and board of aldermen.

**Recorder:**

Response is the same as that of the mayor and board of aldermen.

12. **FINDING:** **Authorized salaries not in budget**

The board of mayor and aldermen did not include a detailed list of salaries and rates of pay of employees in the approved budget. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 3, Section 4, requires that payroll records include an authorized rate of pay, cross-referenced to the statutory and budgeted authorization, for each employee.

**RECOMMENDATION:**

To ensure proper documentation and communication of approved pay rates, the board of mayor and aldermen should ensure that a detailed pay schedule of all employees is prepared as part of the annual approved budget. The Board of Mayor and Aldermen should ensure that all employee pay is computed using only approved rates.

**MANAGEMENT’S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur. As allowed by law, an attachment showing all hourly and salary amount (a detailed pay schedule) will be attached to the approved budget. This pay schedule will reflect the pay increase authorized by the board of mayor and aldermen for the current year’s budget and in future budgets. A copy of the signed resolution authorizing pay increases will also be attached.

**City Administrator:**

Response is the same as that of the mayor and board of aldermen.

**Recorder:**

Response is the same as that of the mayor and board of aldermen.

13. **FINDING: Inadequate personnel records**

City employees did not maintain adequate payroll and personnel records. Several employee files lacked job applications. Apparently, certain positions have been filled without the potential employee submitting a completed application or resume. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 3, sets forth required payroll and personnel documentation and procedures necessary for precise maintenance and centralized control of these records.

**RECOMMENDATION:**

To decrease the risk of improper payroll payments and to ensure compliance with state and federal regulations, the board of mayor and aldermen should require city personnel to establish and maintain complete payroll and personnel records.

**MANAGEMENT’S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur. A staff employee, under the direction of the city administrator, will assume responsibility for all personnel documents.

**City Administrator:**

Response is the same as that of the mayor and board of aldermen.

**Recorder:**

Response is the same as that of the mayor and board of aldermen.

14. **FINDING: No documented approval for utility adjustments**

The recorder did not document that adjustments to customers' water, sewer, and garbage bills were approved by the governing body. Auditors found several instances of office employees failing to document a reason for a posted adjustment.

Office employees explained several circumstances for which they would adjust (reduce) a customer's utility bill. However, aside from a provision for a single sewer bill adjustment related to filling a swimming pool, auditors found no written policy for allowable adjustments, although the reasons stated are similar to adjustment policies that auditors have observed for comparable city utility systems. The recorder and office staff members did not recall that the board of mayor and aldermen had ever delegated its authority and responsibility for approving adjustments to them; auditors found nothing to indicate that this had occurred either.

In addition, as noted in Finding 5, the two office employees that approve and process adjustments also collect customers' payments.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 3, Section 3, states:

Municipal officials should ensure that ... charges disputed by customers are investigated and adjustments are approved, in accordance with the municipality's policy, by someone other than the bookkeeper handling receipt and payment records.

Section 4 requires municipal officials to ensure that

... documentation of each adjustment is required and retained. Adjustments to billings for meter reading and other errors should be recorded in the billing register. All adjustments to customers' bills should be approved by the governing body or its designee.

**RECOMMENDATION:**

To ensure accountability for all billings and for determining expected collections, the recorder should require detailed documentation of each adjustment. Each adjustment should be approved by the governing body or its designee. The approval should be adequately documented and maintained in the municipality's records.

**MANAGEMENT’S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur. As allowed by law, a utility adjustment policy ordinance will be presented to the Budget and Finance Committee for recommendation to the board of mayor and aldermen for approval. All adjustments will be approved in writing by the city administrator, finance director, or city recorder and kept on file for audit review.

**City Administrator:**

Response is the same as that of the mayor and board of aldermen.

**Recorder:**

Response is the same as that of the mayor and board of aldermen.

15. **FINDING:** No itemized deposit slips

The recorder failed to require business office personnel to list each check included in each deposit on the deposit slip. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 4, requires municipal officials to ensure that municipal personnel list each individual check separately on an itemized deposit slip. Part of this section emphasizes, “EACH CHECK SHOULD BE LISTED SEPARATELY TO SUPPORT THE DEPOSIT SLIP TOTAL.”

According to Title 1, Chapter 5, Section 2(c) of the manual, “Bank deposit slips ... and similar items should be retained for at least three years.”

**RECOMMENDATION:**

To better account for collections, the recorder should ensure that municipal personnel itemize deposit slips, listing each check separately.

**MANAGEMENT’S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur. As allowed by law, deposit slips will have an itemized listing of payee and amount paid and will be kept with deposit slips that have been validated by the bank upon time of deposit.

**City Administrator:**

Response is the same as that of the mayor and board of aldermen.

**Recorder:**

Response is the same as that of the mayor and board of aldermen.

16. **FINDING: \$174,000 cashier's check not deposited promptly**

Shortly before the beginning of the period covered by this audit, the City of Spring Hill decided to change banks. Bank records indicate that the recorder requested a \$174,000 cashier's check from the city's previous bank on June 6, 2007, withdrawing all of the money not needed to cover outstanding checks. The cashier's check was not deposited to the new bank account until June 13, 2007—one full week later.

Section 6-56-111(a), *Tennessee Code Annotated*, requires:

Every municipal official handling public funds shall be required to, as soon as practical, but no later than three (3) working days after the receipt by such municipal official of any public funds, deposit the funds to the credit of such municipality's official bank account, or bank accounts.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 5, states:

Collections should be deposited promptly and intact and only in designated depositories. The bank's night depository should be used, if necessary, to avoid large accumulations of currency overnight.... The municipality should make daily deposits when large amounts of money are involved.

**RECOMMENDATION:**

To help prevent the misuse or loss of collections, officials should ensure that all collections are deposited intact within three working days into an official municipal bank account.

**MANAGEMENT'S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur. As allowed by law, all funds collected or transferred by city staff will be deposited immediately.

**City Administrator:**

Response is the same as that of the mayor and board of aldermen.

**Recorder:**

Response is the same as that of the mayor and board of aldermen.