

# INVESTIGATIVE AUDIT REPORT

## TOWN OF TREZEVANT

APRIL 1, 2006, THROUGH JUNE 30, 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

Justin P. Wilson

Comptroller

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-9034

PHONE (615) 741-2501

October 29, 2009

Honorable Mayor and Members of the  
Board of Aldermen  
Town of Trezevant  
P. O. Box 100  
Trezevant, TN 38258

Ladies and Gentlemen:

Presented herewith is the report on our investigative audit of selected records of the Town of Trezevant. This investigative audit focused on the period April 1, 2006, through June 30, 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 investigative audit revealed that between May 1, 2006, and April 30, 2007, receipted town collections totaling \$1,702, could not be accounted for. During that time, the former recorder was responsible for collecting, recording, and safekeeping all town collections. This matter was referred to the local district attorney general. In September 2009, the Carroll County Grand Jury indicted Loretta Adams on one count of Theft over \$1,000.

Honorable Mayor and Members of the  
Board of Aldermen  
Town of Trezevant  
October 29, 2009

The findings and recommendations in this report also relate to those conditions that we believe warrant your attention. All responses to each of the findings and recommendations are included in the report.

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, appearing to read "Justin P. Wilson". The signature is written in a cursive style with a long, sweeping tail on the final letter.

Justin P. Wilson  
Comptroller of the Treasury



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

Justin P. Wilson  
Comptroller of the Treasury

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

October 29, 2009

Mr. Justin P. Wilson  
Comptroller of the Treasury  
State Capitol  
Nashville, TN 37243-9034

Dear Mr. Wilson:

As part of our ongoing process of examining the records of municipalities, we have completed our investigative audit of selected records of the Town of Trezevant. This investigative audit focused on the period April 1, 2006, through June 30, 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 investigative audit revealed that between May 1, 2006, and April 30, 2007, receipted town collections totaling \$1,702, could not be accounted for. During that time, the former recorder was responsible for collecting, recording, and safekeeping all town collections. This matter was referred to the local district attorney general. In September 2009, the Carroll County Grand Jury indicted Loretta Adams on one count of Theft over \$1,000.

Our examination also resulted in findings and recommendations related to the following:

1. Inadequate separation of duties
2. Collections not deposited promptly or intact
3. Receipts and utility billing stubs lacked required information
4. No receipt issued for deposited collections of at least \$2,114

Mr. Justin P. Wilson  
Comptroller of the Treasury  
October 29, 2009

5. Failure to account for all prenumbered receipts on daily cash reports
6. Failure to maintain accurate, up-to-date property tax records
7. Lack of utility adjustment policy; no board approval for adjustments
8. Failure to maintain the city court docket
9. Failure to file abstracts with the Department of Safety
10. Inadequate minutes of meetings of the mayor and board of aldermen
11. Failure to adopt purchasing policy or seek competitive bids

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

**INVESTIGATIVE AUDIT OF SELECTED RECORDS  
OF THE TOWN OF TREZEVANT  
FOR THE PERIOD APRIL 1, 2006, THROUGH JUNE 30, 2007**

**LEGAL ISSUE**

1. **ISSUE:**        **Unaccounted for funds**

Our investigative audit revealed that between May 1, 2006, and April 30, 2007, receipted town collections totaling \$3,432, could not be accounted for. During that time, the former recorder was responsible for collecting, recording, and safekeeping all town collections.

<b><u>Unaccounted for Collections</u></b>	<b><u>Amount</u></b>
Citations and Driving School	\$ 280
Water deposits, connection and reconnection fees	545
Miscellaneous General Fund receipts	210
Property taxes	1,782
Water, sewer, and sanitation service	211
Other (returned checks collected, one business license)	<u>404</u>
<b>Total collections not traced to deposit</b>	<b><u>\$3,432</u></b>

As explained in the Findings and Recommendations section of this report, the former recorder failed to always issue prenumbered receipts, record receipts on collection reports, and make prompt, complete bank deposits. Therefore, the town's records were insufficient to determine the source of bank deposits totaling \$1,730. Therefore, these unidentified bank deposits *could* account for some of the cash shortage referred to above. As a result, for the period May 1, 2006, through April 30, 2007, our audit identified net collections totaling \$1,702 that were not deposited into a town bank account.

This matter was referred to the local district attorney general. In September 2009, the Carroll County Grand Jury indicted Loretta Adams on one count of Theft over \$1,000.

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## **FINDINGS AND RECOMMENDATIONS**

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

Management failed to ensure that there was adequate separation of duties related to the recorder's responsibilities. The former recorder was responsible for collecting, recording, safekeeping, and depositing all town collections.

According to the *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 2, Section 2:

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 to prevent manipulation of records and minimize the possibility of collusion.

Title 1, Chapter 2, Section 4, of the *Manual* adds:

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 ... open mail and prelist mail receipts for the cashier ... [and] reconcile unpaid court fines with the court docket.

The same section also recommends mandatory vacations for all cash-handling employees. Another employee should perform all of the vacationing employee's job duties during his or her absence.

Finally, this section ends with the mandate that "All tests and reconciliations should be documented and the documentation retained."

**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. We are in agreement with the findings and recommendations of your office.

2. **FINDING:**   **Collections not deposited promptly or intact**

The former recorder failed to deposit collections promptly or intact into the municipality’s bank account. The municipality’s cash receipt records indicated that many collections were not deposited until five or more days after being received by municipal personnel. Auditors noted some collections were withheld from deposit for several months. In addition, it appeared that the former recorder deposited only a portion of collections on some days. Finally, auditors noted that the former recorder apparently cashed third-party checks through the town’s cash drawer. The requirement for intact deposits disallows **any** exchange of checks for cash and prohibits municipalities from using cash collections to make change for checks written for more than the amount owed.

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

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 business days into an official municipal bank account. Cashing checks through the cash drawer should be strictly prohibited.

**MANAGEMENT’S RESPONSE:**

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

We concur. We are in agreement with the findings and recommendations of your office.

**Recorder:**

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

3. **FINDING: Receipts and utility billing stubs lacked required information**

The former recorder failed to record certain required information on receipts and billing stubs. The auditors found numerous receipts and billing stubs that lacked one or more of the following:

- Form of payment – cash or check. Over \$14,000 of utility billing stubs had no payment method indicated. Many prenumbered receipts and several property tax receipts also bore no information about the form of payment.
- Date payment was received.
- Bank deposit information – copies of prenumbered receipts were not marked to indicate which deposits included the collections that they represented. The former recorder failed to file copies of property tax receipts by date received. (Refer to Finding 6.) Several bundles of billing stubs differed in total amounts from their corresponding deposits.
- Exact amount collected – especially for payments that could include penalties or late charges. The total collected was unclear on several utility stubs and on a few property tax receipts that were apparently received near the due date.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 2, requires municipal officials to ensure that

Prenumbered receipts for each revenue source are issued as required by Section 9-2-103, *Tennessee Code Annotated*, and all unused or voided receipts are accounted for. Collections from customers evidenced by stubs from utility bills and property tax bills do not require an additional receipt. However, if the bill is not presented with payment, the cashier should prepare a duplicate. Each bill stub should be stamped or marked “PAID,” dated by the cashier, and marked to identify whether the form of remittance is cash or check.

Title 3, Chapter 1, Section 8 of the *Manual* mandates that “duplicate, prenumbered receipts are marked and property tax receipts and billing stubs are filed according to the deposit to which they correspond.”

Title 3, Chapter 1, Section 6 of the *Manual* explains, “The total on the daily collection report should agree with the total of the corresponding deposit slips as well as with the total of all applicable receipts.” This requirement cannot be satisfied unless the exact amount received is clearly marked on each receipt and billing stub.

**RECOMMENDATION:**

To improve controls over collections and to ensure that any variances are detected timely, the mayor and members of the board of aldermen should require the town recorder to complete and file all receipts and billing stubs, as set forth in the *Internal Control and Compliance Manual for Tennessee Municipalities*. Specifically, the date, amount received, and form of payment must be clearly shown on each billing stub and receipt. The corresponding deposit must be identifiable.

**MANAGEMENT’S RESPONSE:**

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

We concur. We are in agreement with the findings and recommendations of your office.

**Recorder:**

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

4. **FINDING:** No receipt issued for deposited collections of at least \$2,114

The former recorder apparently failed to prepare and retain prenumbered receipts for collections totaling at least \$2,114, including three purported payments for business licenses received from local vendors where no corresponding prenumbered receipt or license was located in the municipality’s records<sup>1</sup>.

Section 9-2-103, *Tennessee Code Annotated*, states, “Each state, county and 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....”

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<sup>1</sup> Because they are prenumbered and produce a duplicate copy, the business license form itself meets the requirements set forth for receipts. On several occasions, the former recorder issued a general receipt in addition to a business license without clearly indicating that both pertained to the same collection. The lack of consistent collection procedures for business licenses caused auditors to perform additional tests in order to determine whether all business license collections had been accounted for and deposited to the municipality’s bank account.

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 the use of duplicate, **prenumbered** receipts for collections from each revenue source, with allowable alternative documentation for property taxes and utility service.

**RECOMMENDATION:**

To properly record and account for collections, officials should ensure that a duplicate prenumbered receipt is issued for every collection.

**MANAGEMENT’S RESPONSE:**

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

We concur. We are in agreement with the findings and recommendations of your office.

**Recorder:**

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

5. **FINDING:**    **Failure to account for all prenumbered receipts on daily cash reports**

The former recorder did not ensure that all receipted collections were included on the daily cash reports<sup>2</sup>. As described in the Legal Issue, receipted collections were not always deposited into a city bank account. Also, we noted that on several occasions, the former recorder listed a single collection on more than one daily cash report.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 6, requires municipal officials to ensure that

... each day the cashier summarizes all cash collections by source on a daily collection report, clearly indicating the amount to be deposited, the amount retained for change, and the amount of cash over or short. Each report should be dated, and the date should be recorded on the corresponding deposit slips. The total on the daily collection report should agree with the total of the corresponding deposit slips as well as with the total of all applicable receipts. The cashier should sign the daily collection report....

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<sup>2</sup> The *Internal Control and Compliance Manual for Tennessee Municipalities* uses the term “Daily Collection Report” for the document that Trezevant refers to as a “Daily Cash Report.”

**RECOMMENDATION:**

To better account for collections, the recorder must ensure that all prenumbered receipts are accounted for on a daily collection report. A systematic process to account for all prenumbered receipts should be established. To document that all collections are deposited intact, the totals of each daily collection report, corresponding prenumbered receipts, and related bank deposit(s) should match.

**MANAGEMENT'S RESPONSE:**

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

We concur. We are in agreement with the findings and recommendations of your office.

**Recorder:**

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

6. **FINDING: Failure to maintain accurate, up-to-date property tax records**

The former recorder did not promptly record payments on the property tax roll. There were many instances of conflicting date information between property tax receipts, daily cash reports, and the property tax roll. In some cases, the former recorder apparently completely failed to update the tax roll to reflect that the town had received property tax payments. The current recorder told state auditors that several taxpayers received erroneous delinquency notices related to tax year 2006. During fieldwork for this audit, several receipted tax payments for that year had not been posted to the tax roll. In addition, copies of property tax receipts were not separated and filed numerically and by date paid.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 4, Section 5, requires municipal officials to ensure that “each individual taxpayer’s payment is promptly posted on the applicable tax roll.” Section 3 requires municipal officials to ensure that “one copy of the property tax receipt is filed numerically and one copy is filed by date paid...”

**RECOMMENDATION:**

To provide accurate, up-to-date property tax records, municipal officials should ensure that the recorder makes timely updates to the property tax rolls to reflect that payments have been received. Also, each multi-part property tax receipt should be separated. One copy should be filed numerically; another copy should be filed by date paid.

**MANAGEMENT’S RESPONSE:**

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

We concur. We are in agreement with the findings and recommendations of your office.

**Recorder:**

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

7. **FINDING: Lack of utility adjustment policy; no board approval for adjustments**

The former recorder did not document that adjustments to customers’ water, sewer, and garbage bills were approved by the governing body.

The current recorder identified several situations for which she would adjust (reduce) a customer’s utility bill. Although the recorder’s conditions for adjustment appeared reasonable and consistent with other governments, auditors found no written policy allowing adjustments. Neither the auditors nor town personnel were able to locate documentation that the board of mayor and aldermen has ever delegated its authority and responsibility for approving adjustments to the recorder.

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, the mayor and board should adopt a comprehensive, written utility adjustment policy. The recorder should produce and maintain 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. We are in agreement with the findings and recommendations of your office.

**Recorder:**

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

8. **FINDING:**    **Failure to maintain the city court docket**

The former recorder failed to properly maintain a city court docket. On at least four occasions, the former recorder, who also served as the court clerk, failed to include a citation on the court docket. Many of the alleged violations on the docket had no record of the disposition. In addition, collection information for cases, including traffic fine and safety school tuition payments and receipt numbers were not entered on the docket.

Section 18-1-105(a), *Tennessee Code Annotated*, states:

It is the duty of the clerk of each of the courts to: ... (4) Keep an execution docket, in which shall be entered, within the time after the adjournment of each court prescribed for issuing executions, all judgments or decrees, in the order of their rendition, with the names of all the plaintiffs and defendants in full, the day and year of rendition, the amount of the recovery and the amount of costs, the character and number of the execution, the date of its issuance and to what county issued, the person to whom delivered and the date of delivery, the date and substance of the return, and the dates and amounts of money paid into and paid out of the clerk’s office.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 5, provides guidance regarding the maintenance of police citations and the information to be included in the court docket.

**RECOMMENDATION:**

To maintain adequate control over court cases and better account for citations collections, the court clerk should ensure that the town’s copies of all citations are properly accounted for and should record detailed information related to each citation in the court docket, including disposition and collection information for each alleged offense.

**MANAGEMENT’S RESPONSE:**

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

We concur. We are in agreement with the findings and recommendations of your office.

**Recorder:**

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

9. **FINDING:**    **Failure to file abstracts with the Department of Safety**

Violators apparently failed to pay a fine or to appear in court for several traffic tickets. However, for several months, the former court clerk failed to maintain documentation that abstracts of these and other traffic violations were prepared and submitted to the Tennessee Department of Safety.

Section 55-10-306(b)(1), *Tennessee Code Annotated*, states:

Within thirty (30) days after the conviction or forfeiture of bail of a person upon a charge of violating any ... law regulating the operation of vehicles ... every ... judge of the court or clerk of the court of record in which the conviction was had or bail was forfeited shall prepare and immediately forward to the department an abstract of the record of the court covering the case in which the person was so convicted or forfeited bail....

Section 55-50-502(a), *Tennessee Code Annotated*, states:

The department [of safety] is authorized to suspend the license of an operator or chauffeur upon a showing by its records or other sufficient evidence that the licensee: ... (H) Has been finally convicted of any driving offense in any court and has not paid or secured any fine or costs imposed for that offense ... (I) Has failed to appear in any court to answer or to satisfy any traffic citation issued for violating any statute regulating traffic.

**RECOMMENDATION:**

To comply with state statutes, the recorder should maintain documentation that abstracts of all applicable court records, including a violator’s failure to appear in court or failure to pay an imposed fine, were prepared and forwarded to the Tennessee Department of Safety. The judge should sign the record of all dispositions.

**MANAGEMENT'S RESPONSE:**

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

We concur. We are in agreement with the findings and recommendations of your office.

**Recorder:**

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

10. **FINDING: Inadequate minutes of meetings of the mayor and board of aldermen**

Our investigative audit revealed that the minutes for June, July, and August 2006 were inadequate. Auditors found no minutes for the July 2006 meeting and no explanation for their absence. A special-called meeting on June 29, 2006, was documented by what appeared to be the text of a newspaper story about the meeting, including a headline and a byline. The minutes of this meeting were not signed by the recorder. The August 2006 minutes also appeared to be written in the style of a news story; they also lacked the recorder's signature.

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.

**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. We are in agreement with the findings and recommendations of your office.

**Recorder:**

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

11. **FINDING:**    **Failure to adopt purchasing policy or seek competitive bids**

Auditors found no board approval, documented bid process, or explanation for any exception to bid requirements for a water pump purchase that cost over \$8,000. The mayor and members of the board of aldermen had not adopted a purchasing policy either by ordinance or by charter amendment. As a result, town officials were required to adhere to the Municipal Purchasing Law of 1983, set forth in *Tennessee Code Annotated*, Section 6-56-301, et seq. This statute requires that purchases in excess of \$2,500 be publicly advertised and competitively bid<sup>3</sup>. The statute does allow a governing body to set a threshold lower than \$2,500<sup>4</sup>. Although it has not adopted a comprehensive purchasing policy, the board did approve a bid limit of \$750 at the September 9, 2003, meeting.

**RECOMMENDATION:**

To ensure that the municipality purchases items at the best price and in the most advantageous manner, the mayor and members of the board of aldermen should adopt and enforce compliance with a comprehensive written purchasing policy. The board should require compliance with the Municipal Purchasing Law of 1983, including bid requirements. If an expenditure is exempt from bid requirements, the reason should be adequately documented.

**MANAGEMENT’S RESPONSE:**

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

We concur. We are in agreement with the findings and recommendations of your office.

**Recorder:**

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

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<sup>3</sup> The statute allows for certain exceptions, including emergency and sole source purchases.

<sup>4</sup> The same statute also states that municipal 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.