



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

John G. Morgan
Comptroller of the Treasury

SUITE 1600
JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-0271
PHONE (615) 401-7871
FAX (615) 741-1551

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

September 27, 2004

Honorable Mayor and Members of the
Board of Commissioners
City of Williston
P. O. Box 131
Williston, TN 38076-0131

Gentlemen:

As requested by officials of the Town of Williston, we have completed our investigative audit of selected records of the City of Williston. This examination focused on the period July 1, 2001, through March 31, 2004. However, when the examination warranted, this scope was expanded. Our audit was limited to an examination of disbursements.

Our audit revealed the following:

1. **Inadequate payroll records**

We noted payments to the mayor, board of commissioners, city manager, city recorder, and members of the volunteer fire department for respective duties. Guidelines in Internal Revenue Service *Publication 963, Federal State Reference Guide*, classify those city officials receiving payments as employees subject to appropriate federal income tax withholding and other federal employment taxes. However, we noted that related payroll records were incomplete and did not clearly indicate approved rate of pay, approved withholdings, and payment of income tax and other withholdings. Also, we were unable to determine that W-2 forms had been issued to city employees within the scope of our examination.

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.

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The city's independent auditor notified the mayor and board of commissioners in a letter dated February 10, 2004, that little or no progress had been made in the preparation of payroll tax returns in a timely manner since his previous notification of October 3, 2002. In addition, a letter to the city from the Internal Revenue Service, dated May 19, 2004, stated that the City of Williston had failed to file numerous quarterly tax returns for December 31, 1999, through June 30, 2003.

Within our scope of July 1, 2001, through March 31, 2004, we found only the following three city checks apparently issued in payment of federal income tax withholding and other federal employment taxes:

- Check number 4892, to the Internal Revenue Service for quarterly federal taxes, dated November 18, 2002, for \$76.62;
- Check number 5203 to the Internal Revenue Service for 2004 quarterly federal taxes, dated March 1, 2004, for \$852.67; and
- Check number 4991 to the United States Treasury for quarterly federal taxes, dated March 10, 2003, for \$529.59.

In a related issue, city records revealed that city officials and employees received checks for expenses incurred, including mileage. However, documentation, including expense reports and receipts, was incomplete. Internal Revenue Service *Publication 463* states that all payments to employees for expenses are required to be reported as employee income unless the expense is for a business purpose, the employee adequately accounts for those expenses to the employer, and the employee returns any excess reimbursement.

To document that payroll payments are proper and correct, and to avoid possible interest and penalties, city officials should ensure that all applicable payroll records are prepared and maintained and applicable deductions are withheld. In addition, city officials should ensure that all income, including undocumented travel expenses and payroll withheld for loan repayments or other reasons, are reported to employees and/or to the IRS on required forms in a timely manner.

2. **Inadequate documentation for disbursements, including credit card purchases and fire hall repair**

Adequate supporting documentation could not be located for some disbursements. Former city manager Pamela Cannon and former city recorder Ann Blackmore made purchases with a credit card paid by the City of Williston. However, documentation of purchases was not sufficient to determine if all purchases made were for a valid municipal purpose. We also noted that the city paid finance charges on unpaid balances and several late payment fees.

The city issued check no. 4674, dated December 27, 2001, for \$1,500 to volunteer firefighter John McAdams. According to a memo line on the check as well as the minutes of the April 1, 2002, meeting of the mayor and commissioners, the check was issued for repairs to the fire department. We were unable to find an invoice or other documentation detailing the repairs made.

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

To document that all disbursements are for a valid municipal purpose, city officials should ensure that all payments are supported by invoices and/or other adequate documentation.

3. **Loans not permissible under Tennessee Law**

We noted that city money was loaned to three individuals related to the former mayor and city manager as follows:

a. Loan to Williston Volunteer Fire Department Chief Wesley Cannon

The city issued check number 4569, dated July 30, 2001, for \$1,500 to Volunteer Fire Department Chief Wesley Cannon, nephew of the former mayor, Arice Cannon and the former city manager, Pamela Cannon. We located a loan agreement with the same date signed by Wesley Cannon and former city recorder Ann Blackmore. City records indicated loan repayments were made as follows:

- September 9, 2001, \$150 from salary withholdings recorded in receipt number 6611;
- September 27, 2001, \$600 check recorded on receipt number 6623;
- December 13, 2001, \$300 from salary withholdings, as recorded in a handwritten letter;
- March 10, 2002, \$300 from salary withholdings documented by handwritten notes in the check register; and
- June 4, 2002, \$150 from salary withholdings documented by handwritten notes in the check register.

b. Loan to Williston Volunteer Fire Department firefighter Tommy Lanzarotto

The city issued check number 4628, dated November 7, 2001, for \$2,000 to Candy Lanzarotto, wife of volunteer fireman Tommy Lanzarotto and daughter of former mayor Arice Cannon and city manager Pamela Cannon. We located a loan agreement with the same date signed by Tommy Lanzarotto and former city recorder Ann Blackmore. City records indicated loan repayments were made as follows:

- March 10, 2002, \$155 from salary withholdings; and
- May 11, 2002, \$3,500 check, recorded on receipt number 6696.¹

¹City records included receipt number 6696 dated May 11, 2002, for a \$3,500 check from Ann Blackmore "to pay off FD loans Keith and T. Lanzarotto." The check was deposited into a city bank account on June 6, 2002.

c. Loan to Williston Volunteer Fire Department firefighter Keith Cannon

The city issued check number 4643, for \$2,000 dated December 10, 2001, to former city manager Pamela Cannon. We located a loan agreement with the same date signed by volunteer firefighter Keith Cannon and former city recorder Ann Blackmore. Keith Cannon is the son of former mayor Arice Cannon and former city recorder Pamela Cannon. City records indicated loan repayments were made as follows:

- February 13, 2002, \$50 cash, as recorded in receipt number 6673;
- March 10, 2002, \$295 from salary withholdings, as recorded in handwritten notes; and
- May 11, 2002, \$3,500 check, recorded on receipt no. 6696.¹

According to the minutes of the March 4, 2002, meeting of the mayor and board of commissioners, nearly seven months after the initial loan, city recorder Ann Blackmore admitted that she made a \$1,500 loan of city money to the fire chief. According to the April 1, 2002, meeting of the mayor and board of commissioners, city attorney Jim Haywood stated that the loan was immediately to be called due and payable. As noted above, documentation indicates that the final repayment of the loan was not received until two months later. No mention was made in the minutes of other loans. However, as noted above, documentation indicates that final repayment of these loans also was not deposited into a city bank account until over two months after the city attorney recommended they be immediately called due and payable. It appeared that related salary was reduced or not paid on dates noted above indicating repayment of loans by payroll withholding.

Article II, Section 29, of the *Constitution of the State of Tennessee*, provides:

¹City records included receipt number 6696 dated May 11, 2002, for a \$3,500 check from Ann Blackmore “to pay off FD loans Keith and T. Lanzarotto.” The check was deposited into a city bank account on June 6, 2002.

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But the credit of no County, City or Town shall be given or loaned to or in aid of any person, company, association or corporation, except upon an election to be first held by the qualified voters of such county, city or town, and the assent of three-fourths of the votes cast at said election.

Without the above election, the *Constitution of the State of Tennessee* does not provide for lending or giving the town's credit to individuals.

City officials should ensure that loans that are not permitted under Tennessee law are not made with city money.

If you have any questions concerning the above, please contact me.

Sincerely,

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

DFD/RAD

xc: Honorable Elizabeth Rice
District Attorney General