

INVESTIGATIVE AUDIT REPORT

CITY OF WINCHESTER

JULY 1, 2002, THROUGH JUNE 30, 2003



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
Department of Audit
Division of Municipal Audit



STATE OF TENNESSEE

John G. Morgan
Comptroller

COMPTROLLER OF THE TREASURY

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-0260

PHONE (615) 741-2501

March 11, 2004

Honorable Mayor and Members of the
City Council
City of Winchester
7 South High Street
Winchester, TN 37398

Gentlemen:

Presented herewith is the report on our investigative audit of the records of the City of Winchester. This examination focused on the period July 1, 2002, through June 30, 2003. However, when the examination warranted, this scope was expanded. Our audit was limited to an examination of disbursements.

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 1-13 of *Governmental Accounting, Auditing and Financial Reporting*. The purpose of our examination 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
City Council
City of Winchester
March 11, 2004

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,

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

March 11, 2004

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

Dear Mr. Morgan:

As part of our on-going process of examining the records of municipalities, we have completed our investigative audit of the records of the City of Winchester. This examination focused on the period July 1, 2002, through June 30, 2003. However, when the examination warranted, this scope was expanded. Our audit was limited to an examination of disbursements.

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 1-13 of *Governmental Accounting, Auditing and Financial Reporting*. The purpose of our examination 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. Mayor and council altered salaries prior to end of term
2. Apparent conflict of interest
3. Employees have business dealings with city

Mr. John G. Morgan
Comptroller of the Treasury
March 11, 2004

4. Inadequate separation of duties
5. Unauthorized payments made to employees
6. No enforced city-wide policy for over-plan cell phone charges
7. City surplus property sold to city employees without auction
8. Fringe benefits or correct fringe benefit amounts not included in compensation
9. No provision for substitute when city attorney absent from council meetings
10. Travel disbursements not adequately supported and travel policy ambiguous
11. Failure to document that bids were obtained for applicable purchases
12. Inadequate purchasing policy
13. Required procedures for confidential funds transactions not followed by police department
14. Failure to document council approval for applicable purchases
15. Invoices not signed to document goods and services received
16. Bank accounts not accounted for in city's records
17. Cash in excess of current needs in some bank accounts
18. Inadequate documentation for disbursements
19. Failure to document supervisory review of time records
20. Comptroller's rules and city's charter requirements not followed for donations of city money

Mr. John G. Morgan
Comptroller of the Treasury
March 11, 2004

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,

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

**INVESTIGATIVE AUDIT REPORT OF THE
RECORDS OF THE CITY OF WINCHESTER
FOR THE PERIOD JULY 1, 2002, THROUGH JUNE 30, 2003**

FINDINGS AND RECOMMENDATIONS

1. **FINDING: Mayor and council altered salaries prior to end of term**

The minutes of the May 9, 2000, meeting of the Winchester City Council record that the council approved pay raises for the mayor and council members for the upcoming budget year. The next election after the raise was not held until August 2001. It appears that the raise took effect July 1, 2000, at least a year and a month prior to the end of the term for which the mayor and members were elected when the raise was passed. Section 2.03 of the Charter of the City of Winchester, Tennessee, states:

Be it further enacted, That:

. . . (b) The city council is authorized to set the salary of the mayor and of members of the council by ordinance as provided in this subsection. The salary of the mayor and of members of the council may not be altered prior to the end of the term for which such person was elected.

It appears that the mayor and council violated the city charter by voting themselves a raise which took effect before the end of their terms.

RECOMMENDATION:

To comply with the city's charter, the mayor and council should not alter their salaries prior to the end of the terms to which they were elected. An increase in salary prior to the end of the term constitutes improper payments to the mayor and council. Therefore, we recommend that the mayor and council repay the city these funds.

MANAGEMENT'S RESPONSE:

Mayor and Members of the City Council:

We concur with the city administrator's response.

City Administrator:

I concur. It is the consensus of the current council that this was a technical error that will be corrected after receiving legal advice. The City of Winchester will collect any money owed them from current or previous members of the council.

2. **FINDING: Apparent conflict of interest**

The city paid an elected city official for vehicles he purchased on behalf of the city. These transactions created at least the appearance of a conflict of interest between his official duties and his personal business. Section 12-4-101(a)(1), *Tennessee Code Annotated*, states:

It is unlawful for any officer, committee member, director, or other person whose duty it is to vote for, let out, overlook, or in any manner to superintend any work or any contract in which any municipal corporation . . . shall or may be interested, to be directly interested in any such contract. "Directly interested" means any contract with the official personally or with any business in which the official is the sole proprietor, a partner, or the person having the controlling interest.

In addition, the "Employee Handbook Personnel Rules and Regulations for the City of Winchester," Section VII, Part F, states:

Except for the receipt of such compensation as may be lawfully provided for the performance of his/her municipal duties, it shall be unlawful for any municipal officer, official or employee to be privately interested in . . . business dealings with the municipality.

RECOMMENDATION:

To provide impartial decisions regarding the municipality's contracts and avoid even the appearance of impropriety, officials should prohibit unlawful conflicts of interest, as defined by Section 12-4-101, *Tennessee Code Annotated*.

MANAGEMENT'S RESPONSE:

Mayor and Members of the City Council:

We concur. This transaction was done with the intentions of saving the city money. The former administrator was reprimanded for his actions in this matter and not making the city official aware of the impropriety. We agree that this could have the appearance of impropriety and plan to enforce TCA 12-4-101(a)(1) and our personnel rules.

City Administrator:

Response is the same as that of the mayor and city council.

3. **FINDING: Employees have business dealings with city**

At least three employees engaged in business dealings with the city. The “Employee Handbook Personnel Rules and Regulations for the City of Winchester,” Section VII, Part F, states:

Except for the receipt of such compensation as may be lawfully provided for the performance of his/her municipal duties, it shall be unlawful for any municipal officer, official or employee to be privately interested in, or to profit, directly or indirectly from business dealings with the municipality.

RECOMMENDATION:

To comply with the city’s personnel rules and regulations, city officials and employees should not engage in any business dealings with the city.

MANAGEMENT’S RESPONSE:

Mayor and Members of the City Council:

We concur. This is addressed in our personnel rules and we will enforce the regulations that city officials and employees should not engage in any business dealings with the city.

City Administrator:

Response is the same as that of the mayor and city council.

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

During the period of our examination, the mayor was the second signatory on nonpayroll city checks. A city office employee who was not a signatory used a stamp to add the mayor’s signature to the checks. However, she did not review the supporting documentation. As a result, the internal control of requiring dual signatures on checks was absent. 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. . . .

Title 2, Chapter 2, Section 2, of the above manual also states that “Both the checks and attached documentation should be submitted to the designated officials for **examination** and signature. [Emphasis added.]

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. In addition, a designated signatory should examine supporting documentation prior to signing.

MANAGEMENT’S RESPONSE:

Mayor and Members of the City Council:

We concur. This practice was corrected several months ago. There are two signatures on each check.

City Administrator:

Response is the same as that of the mayor and city council.

5. **FINDING: **Unauthorized payments made to employees****

Upon separation from service, some employees were paid for accumulated sick leave. However, Section V (D) of the “Employee Handbook Personnel Rules and Regulations for the City of Winchester,” states, “No payment will be made for accrued sick leave upon retirement or separation from the city.”

RECOMMENDATION:

To comply with policies adopted by the board, officials should cease paying accumulated sick leave to employees who retire or separate from city employment.

MANAGEMENT’S RESPONSE:

Mayor and Members of the City Council:

We concur. This practice has been done in the past. We will adhere to our Employee Handbook in the future.

City Administrator:

Response is the same as that of the mayor and city council.

6. **FINDING: No enforced city-wide policy for over-plan cell phone charges**

Our examination revealed that during the audit period, the city paid over \$300 for over-plan cell phone charges for employees issued city phones. Although city public safety department employees signed agreements acknowledging responsibility for over-plan and roaming charges, there did not appear to be a city-wide written policy. In addition, although it appeared that employees made some payments to the city for phone charges, there was no documentation of a review of bills to identify over-plan charges, or documentation of notification to employees of the charges identified and no reconciliation of payments made to over-plan charges identified.

RECOMMENDATION:

To help ensure that all city expenditures are for a municipal purpose and that all employees are treated fairly, the city should issue a written cell phone policy for all employees addressing personal use, over-plan use, replacement responsibility for lost equipment, and identifying all charges which require reimbursement. Management should consider having all employees sign agreements similar to those signed by members of the public safety department. The city should ensure that cell phone invoices are periodically reviewed for compliance with the policy and the review results documented. Receipts issued for reimbursements should be referenced to the log of charges due, and follow-up should be performed to ensure that all required reimbursements are received.

MANAGEMENT'S RESPONSE:

Mayor and Members of the City Council:

We concur. We are developing a city-wide written telephone policy. This policy will address personal use, over-plan use, replacement responsibility for lost equipment, and identifying all charges which require reimbursement. All employees that have city cell phones will be required to sign agreements. The administrative director and/or city administrator will periodically review for compliance.

City Administrator:

Response is the same as that of the mayor and city council.

7. **FINDING: City surplus property sold to city employees without auction**

Although the city had held several auctions to dispose of surplus property, city personnel sold 17 surplus cell phones to city employees without using a public auction to do so. However, Section 6-54-125(a), *Tennessee Code Annotated*, states:

It is unlawful for any municipal official or employee to purchase from the municipality any property declared to be surplus by the municipality except by bid at public auction during the tenure of such person's office or employment, or for six (6) months thereafter.

RECOMMENDATION:

To comply with state law, city officials should ensure that no surplus property is sold to employees except by bid at public auction.

MANAGEMENT'S RESPONSE:

Mayor and Members of the City Council:

We concur. We intend to comply with state law by ensuring that no surplus property is sold to employees except by bid at public auction.

City Administrator:

Response is the same as that of the mayor and city council.

8. **FINDING: Fringe benefits or correct fringe benefit amounts not included in compensation**

Several city employees had city vehicles available to them for commuting and other personal use. In addition, the city paid for all gasoline used in these vehicles. However, for most of these employees, the city did not add the personal vehicle use or gasoline value to their compensation as a fringe benefit as required by Internal Revenue Service Regulation § 1.61-21.

For three employees, amounts for personal use of their vehicle, were added to their W-2's. However, the value of the gasoline related to personal use was not included, and the value added for the personal use appears to have been insufficient. The city used the commuting rule mentioned in IRS publications; however, this rule does not apply unless the city requires the employee to commute in the vehicle for "bona fide noncompensatory business reasons," the city's policy prohibits the employee from using the vehicle for other personal use, and the city meets other conditions. The city does not appear to have met the requirements to use the commuting rule value because the city's policy allowed employees to use the vehicles for personal use, and the city did not appear to have a bona fide business reason for requiring the employee to commute in any of these vehicles.

Logs documenting actual personal use of the vehicles should have been on file for each employee who had access to a city vehicle for personal use. The amount added to each of

the applicable employee's income for the value of the personal use of the vehicle should have been computed by another method acceptable to the IRS, and the value of the gasoline paid for by the city and used for the employee's personal use should have been added. If vehicle use logs are not on file for the applicable employees to document personal use, it appears that the IRS may consider all use to be personal.

RECOMMENDATION:

To comply with the requirements of the Internal Revenue Service, the city should include the appropriate value of all applicable fringe benefits in each employee's income. The IRS should be consulted for guidance in this matter.

MANAGEMENT'S RESPONSE:

Mayor and Members of the City Council:

We concur. The fringe benefits were added to all employees that drove home city vehicles in 2003. These amounts were added to their W-2s. Each city vehicle now has a vehicle log in which employees log mileage. This practice began January 1, 2004.

City Administrator:

Response is the same as that of the mayor and city council.

9. **FINDING: No provision for substitute when city attorney absent from council meetings**

Of 17 regular and called meetings of the Winchester City Council during the audit period, the city attorney was absent from 9. Further, officials did not require an assistant to be present in the city attorney's place. Section 3.04 of the city's charter requires that the city attorney, or an assistant city attorney, attend all meetings of the council.

RECOMMENDATION:

To comply with the city's charter, the council should ensure that the city attorney or an assistant city attorney is present at council meetings.

MANAGEMENT'S RESPONSE:

Mayor and Members of the City Council:

We concur. Discussions will begin with the city attorney to correct this situation.

City Administrator:

Response is the same as that of the mayor and city council.

10. **FINDING: Travel disbursements not adequately supported and travel policy ambiguous**

Several disbursements for travel, including advances, were not supported by forms documenting the traveler's movement during the travel period. Some other travel disbursements were not supported by invoices or receipts. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, Section 4, states that "all disbursements, regardless of the accounting procedures, must be supported by invoices, cash tickets or other adequate supporting documentation."

In addition, in regard to lodging, the city's travel policy appears ambiguous and, as a result unenforceable, stating that the allowable rate will be the same as for state employees, except for high-rate or pre-established conference rates, but also allowing reimbursements for "reasonable" rates. In several instances, lodging rates exceeded the state rate without explanation. In addition, although the city's policy specified per diem payments as under state policies, in several instances higher per diem rates were paid.

Further, in a number of instances, reimbursements for meals were made without overnight travel, but the reimbursements were not included in the employees' income. The Internal Revenue Service (IRS) usually deems reimbursed meals without overnight travel as a fringe benefit, and IRS Regulation § 1.61-21 requires the value of most fringe benefits offered to employees to be included in the employee's income.

RECOMMENDATION:

To document that each travel 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*. In addition, officials should ensure that the travel policy is clear and that it is enforced. City personnel should consult the Internal Revenue Service and comply with all requirements regarding fringe benefits.

MANAGEMENT'S RESPONSE:

Mayor and Members of the City Council:

We concur. The city administrator will review and clarify the travel policy. No travel expenses will be reimbursed without proper documentation.

City Administrator:

Response is the same as that of the mayor and city council.

11. **FINDING:** **Failure to document that bids were obtained for applicable purchases**

In several instances, there was no documentation in the city's files that bids were requested for applicable purchases. Section 5-102(2) of the city's municipal code, derived from Ordinance 590, requires sealed bids for purchases of \$5,000 or more. Title 2, Chapter 1, Section 7, of the *Internal Control and Compliance Manual for Tennessee Municipalities* requires that personnel retain sufficient documentation to substantiate that competitive bids were requested when applicable.

RECOMMENDATION:

To obtain the best price and comply with the city's ordinance, the mayor and council should ensure that required bidding procedures are followed for all purchases or contracts over \$5,000. Adequate documentation should be maintained as evidence of correct bidding procedures. Applicable invoices which have not been bid should be rejected and the official or employee who is responsible for the purchase should be held liable.

MANAGEMENT'S RESPONSE:

Mayor and Members of the City Council:

We concur that adequate documentation may not have always been kept on file for bids over \$5,000. It has always been the standard practice of the city to obtain the best price available. In July 2003, we adopted a purchasing policy that strictly adheres to this topic.

City Administrator:

Response is the same as that of the mayor and city council.

12. **FINDING:** **Inadequate purchasing policy**

Although the city's records contained an ordinance which amended dollar limits in the purchasing policy in effect during the audit period, there was no record of the policy itself at the city. Not ensuring that adequate written purchasing guidelines were given to personnel contributed to their failure to use purchase orders consistently and correctly. In addition, although a new written purchasing policy was adopted on July 8, 2003, it failed to require the use of prenumbered purchase orders. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 1, states that municipalities should

adopt a written purchasing policy that includes designating persons authorized to made purchases, requiring the use of prenumbered purchase orders, and outlining procedures for emergency and small-item purchases without prior approval.

RECOMMENDATION:

To ensure that the municipality purchases items at the best price and in the most advantageous manner, the mayor and members of the council should adopt and enforce compliance with a comprehensive written purchasing policy which requires the use of prenumbered purchase orders.

MANAGEMENT’S RESPONSE:

Mayor and Members of the City Council:

We concur that there was not an adequate purchasing policy during some of the audit period, but the council adopted a purchasing policy in July 2003. Prenumbered purchase orders have been used since this time and are a standard practice. This purchasing policy also addresses outlining procedures for emergency and small-item purchases without approval.

City Administrator:

Response is the same as that of the mayor and city council.

AUDITOR’S REBUTTAL:

The purchasing policy adopted in July 2003 does not specify that purchase orders be prenumbered as required by the *Internal Control and Compliance Manual for Tennessee Municipalities*. We reiterate our finding and recommendation.

13. **FINDING: Required procedures for confidential funds transactions not followed by police department**

Police department personnel did not maintain a separate bank account for the funds for confidential operations which were requested from the city’s drug funds. In addition, the public safety director did not properly request funds from, or provide a quarterly accounting to the recorder. Finally, the forms accounting for the cash disbursed to agents were not always filed with the confidential funds custodian. Therefore, the custodian did not have the necessary supporting documentation to account for all funds received and disbursed for confidential operations. *Procedures For Handling Cash Transactions Related to Undercover Investigative Operations of County and Municipal Drug*

Enforcement Programs, developed pursuant to Section 39-17-420(f), *Tennessee Code Annotated*, requires that a separate bank account be maintained for confidential funds. The manual also requires that the original of all applicable forms be filed with the confidential funds custodian and requires that the chief law enforcement official sign and submit to the recorder each request for confidential funds. In addition, the chief law enforcement official must make an accounting to the recorder of all confidential funds expended.

RECOMMENDATION:

To comply with the manual cited above and to properly account for confidential funds, the funds should be maintained in a separate bank account. The public safety director should properly request funds from and provide a quarterly accounting to the recorder. In addition, the files of the confidential funds custodian should contain the original forms completed by agents to support all entries in the custodian's log.

MANAGEMENT'S RESPONSE:

Mayor and Members of the City Council:

We concur that a separate account is needed but that no wrongdoing occurred. The public safety director will be opening a separate account for confidential funds. He will provide a quarterly accounting to the administrator.

City Administrator:

Response is the same as that of the mayor and city council.

Public Safety Director:

Response is the same as that of the mayor and city council.

14. **FINDING: Failure to document council approval for applicable purchases**

In several instances, there was no documentation in the city's files that council approval was obtained for purchases over \$1,000. According to Section 5-102(1) of the city's municipal code, all purchases over \$1,000 must be approved by the city council.

RECOMMENDATION:

To comply with city's ordinance, council approval should be obtained for all purchases over \$1,000. Adequate documentation should be maintained as evidence of the council's approval.

MANAGEMENT’S RESPONSE:

Mayor and Members of the City Council:

In July 2003, the council adopted a purchasing policy by voice vote. In this policy, it specifically states that the city administrator can approve purchases up to \$5,000 with the proper bids obtained. It has been brought to our attention that this needs to be done by ordinance also.

City Administrator:

Response is the same as that of the mayor and city council.

AUDITOR’S REBUTTAL:

A purchasing policy statement that the city administrator can approve purchases up to \$5,000 does not change the municipal code requirement cited in the finding. The city should either comply with the requirement for council approval for all purchases over \$1,000 or remove the requirement. We reiterate our finding and recommendation.

15. **FINDING: Invoices not signed to document goods and services received**

Many invoices on file to support disbursements for goods and services were not signed or initialed to document that the goods and services were received as ordered. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 4, Section 1, states:

Municipal officials should adopt policies and procedures that provide safeguards for inventories of materials and supplies. These policies and procedures should, at a minimum, include the following:

- (a) a requirement to inspect and count each incoming materials delivery, with the receiver signing each invoice as received. . . .

RECOMMENDATION:

To avoid payment for goods not actually received or services not performed, the mayor and council should require each employee who receives goods or services on behalf of the municipality to inspect each delivery and sign the related invoice to document that the goods or services have been received as ordered.

MANAGEMENT’S RESPONSE:

Mayor and Members of the City Council:

We concur that this was not always done in the past. This has been corrected with the enforcement of our new purchasing policy.

City Administrator:

Response is the same as that of the mayor and city council.

16. **FINDING: Bank accounts not accounted for in city’s records**

Bank records listed some bank accounts as city accounts. However, the accounts were not included in the city’s financial records. Nevertheless, because the bank accounts were established using the city’s federal identification number, the guidelines of the *Internal Control and Compliance Manual for Tennessee Municipalities* apply to all deposit and disbursement transactions, and the accounts must be included as part of the city’s financial records.

RECOMMENDATION:

To ensure that deposits and disbursements from accounts listed as belonging to the city are consistently subjected to the internal control requirements of the manual cited above, the council should require all such accounts to be included as part of the city’s financial records. City personnel should ensure that responsible individuals remove all non-city accounts from the bank’s listing of city accounts.

MANAGEMENT’S RESPONSE:

Mayor and Members of the City Council:

We concur that there were three old accounts that had not be closed out properly. This has been corrected.

City Administrator:

Response is the same as that of the mayor and city council.

17. **FINDING: Cash in excess of current needs in some bank accounts**

The municipality had cash balances, greater than those necessary for current needs, in several noninterest-bearing bank accounts. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 3, Section 7, states:

Municipal officials should ensure that . . . the forecasting system works effectively to minimize idle checking account balances and that the investment program yields a maximum return considering all available legal investments with adequate liquidity and security.

RECOMMENDATION:

To efficiently manage the city's funds, officials should develop a plan to maintain account balances at the minimum necessary to meet current obligations. Additional cash should be invested to achieve the maximum return, taking into account the city's security and liquidity needs.

MANAGEMENT'S RESPONSE:

Mayor and Members of the City Council:

It is Winchester's desire to receive the maximum return on all money. It has long been our practice to invest all money that is not needed in the near future.

City Administrator:

Response is the same as that of the mayor and city council.

AUDITOR'S REBUTTAL:

Regardless of the city's desire to receive maximum return, our test work revealed that during the audit period, some cash in excess of current obligations was not invested. We reiterate our finding and recommendation.

18. **FINDING: Inadequate documentation for disbursements**

The municipality's files did not include adequate supporting documentation for several disbursements. In addition, as noted in Finding 4, the authorized check-signer who served as the second signatory did not review and approve adequate supporting documentation before his signature stamp was applied to checks.

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 manual cited 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*. As previously noted, 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 City Council:

We concur that for a very small amount of disbursements, the documentation may have been lacking. Since September 2003, the city administrator is the second signature on the checks and a second person does now review documentation.

City Administrator:

Response is the same as that of the mayor and city council.

AUDITOR'S REBUTTAL:

Our test work revealed that almost 20 percent of the sample disbursements had inadequate or no supporting documentation. We do not consider this insignificant. We reiterate our finding and recommendation.

19. **FINDING: Failure to document supervisory review of time records**

Some time records did not contain documentation of supervisory review. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 3, Section 7, states that time cards or honor system time sheets (approved by department heads) should be maintained for all employees in order to eliminate unauthorized pay.

RECOMMENDATION:

To help ensure that time recorded as worked is accurate and that all pay is authorized, supervisors should document that they have reviewed and approved time records.

MANAGEMENT'S RESPONSE:

Mayor and Members of the City Council:

We concur that there were occasions that time records did not have a supervisory review (or documentation of that). Payroll personnel are now aware that no checks are to be written without documented supervisory review.

City Administrator:

Response is the same as that of the mayor and city council.

20. **FINDING: Comptroller's rules and city's charter requirements not followed for donations of city money**

There was no documentation in the city's files to show that any of the nonprofit charitable or civic organizations which received city money were classified as 501(c) (3), (4), or (6) by the IRS. In addition, the city did not have on file a copy of the annual report for any of the applicable organizations showing the proposed use of the requested funds. Both of these elements are required by the Comptroller's rules as established by Section 6-54-111, *Tennessee Code Annotated*. In addition, Article II, Section 2.10, of the city's charter states, "[T]axes and other city revenues are levied and collected for public purposes, and the use of such funds as donations or contributions to nongovernmental agencies or for private purposes is prohibited. . . ." Several of the donations made by the city appeared to have been made to agencies which, while nonprofit or civic, are not governmental.

RECOMMENDATION:

To comply with the Comptroller's rules, the city must maintain documentation that organizations which receive city money are classified as 501(c) (3), (4), or (6) by the IRS and that a copy of the organization's annual report is received. Furthermore, to comply

with the city's charter, officials should ensure that donations are made only to governmental agencies.

MANAGEMENT'S RESPONSE:

Mayor and Members of the City Council:

We concur that documentation may have been missing, but that this was requested and received (2003-2004 budget) prior to the check being dispensed. It will be the city's practice to not dispense money to organizations without the 501(c) (3), (4), or (6) and a copy of the organization's annual report.

City Administrator:

Response is the same as that of the mayor and city council.