

STATE OF TENNESSEE

LIMITED REVIEW OF THE
HICKMAN COUNTY EMERGENCY
COMMUNICATIONS DISTRICT

HICKMAN COUNTY, TENNESSEE

FOR THE PERIOD JULY 1, 2002
THROUGH JUNE 30, 2006



COMPTROLLER OF THE TREASURY

Division of County Audit

**LIMITED REVIEW OF THE
HICKMAN COUNTY EMERGENCY COMMUNICATIONS
DISTRICT**

HICKMAN COUNTY, TENNESSEE

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**COMPTROLLER OF THE TREASURY
DIVISION OF COUNTY AUDIT**

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October 4, 2006

To the Hickman County Emergency Communications District
Board of Directors
Hickman County, Tennessee

As a result of certain allegations this office received concerning the Hickman County Emergency Communications District, we conducted a limited review of the department's operations for the period July 1, 2002 through June 30, 2006. This limited review included oversight responsibilities, travel, purchasing, and certain internal control procedures. We reviewed findings concerning these areas with the district's chairman of the board, the treasurer, the address coordinator, several board members, and the district attorney general. These findings together with our recommendations, the chairman of the board's responses on behalf of the board, and the address coordinator's responses to the findings and recommendations and our rebuttal to the address coordinator's response is presented in this report.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard V. Norment".

Richard V. Norment
Assistant to the Comptroller
Division of County Audit

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LIMITED REVIEW OF THE
HICKMAN COUNTY EMERGENCY COMMUNICATIONS DISTRICT
For the Period July 1, 2002 through June 30, 2006

As a result of certain allegations this office received concerning the Hickman County Emergency Communications District, we conducted a limited review of the district for the period July 1, 2002, through June 30, 2006. This limited review included examining purchasing procedures and purchases made by the district's personnel using credit cards. We reviewed findings concerning these areas with the district's chairman of the board (the Hickman County Mayor), the treasurer, the address coordinator, several board members, and the district attorney general.

These findings and our recommendations are presented below. The written responses from the chairman of the board on behalf of the Board of Directors and the address coordinator are quoted in this report.

HICKMAN COUNTY EMERGENCY COMMUNICATIONS DISTRICT

FINDING 06.01 **THE BOARD OF DIRECTORS DID NOT OPERATE IN ACCORDANCE WITH THEIR BY-LAWS OR PROVIDE ADEQUATE OVERSIGHT OF THE DISTRICT'S OPERATIONS**

The lack of oversight and supervisory review by the board of directors directly contributed to the failure to properly account for district funds, poor internal controls, misappropriation of funds, and questionable expenditures. The following deficiencies were noted in the board of director's oversight of the Hickman County Emergency Communications District's operations:

- A. The district's by-laws provide that the treasurer (Roger Livengood) shall have custody of all funds belonging to the district and shall receive, deposit, and disburse the funds under the direction of the board of directors. In addition, the treasurer shall keep full and true accounts of all receipts and disbursements. The by-laws additionally provide that the chairman of the board (Hickman County Mayor Steve Gregory) shall have supervision of the day-to-day business of the district. Our review of the district disclosed that the treasurer did not maintain or supervise the maintenance of any accounting records. The address coordinator (Darlene Field) collected funds, deposited funds, made purchases, and disbursed and/or wrote checks. The district employed a bookkeeper in Columbia, Tennessee, to post a general ledger and file tax returns. In addition, the chairman of the board did not supervise the daily operations of the district. The treasurer's and chairman's involvement in the daily operations of the district was limited to signing checks written by the address coordinator without reviewing supporting documentation for the disbursements.

Hickman County, Tennessee
Hickman County Emergency Communications District

- B. The district is required by the Tennessee Emergency Communications Board to follow the Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts. This manual requires the board of directors of each district to adopt comprehensive travel policies, or at a minimum, follow the county's travel policy. The board of directors had not adopted formal policies and procedures governing travel reimbursements nor did they follow Hickman County's travel policies. During the period under examination, the district used several different methods to reimburse travel expenses. Without a formal travel policy, employees have no limitations placed on their mileage, lodging, and meal expenses.
- C. Credit card charges totaling \$37,357.04 were paid by the district for the period July 1, 2002 through June 30, 2006. The treasurer charged \$3,202.94 to an official credit card of the district. The remainder (\$34,172.10) of the credit card charges were made by the address coordinator to a personal credit card with the Hickman County Emergency Communications District's logo imprinted on the card. However, the board of directors had not adopted written guidelines governing the use of these cards.

RECOMMENDATION

The board of directors should comply with the by-laws established to govern its operations and the Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts. Comprehensive travel regulations should be adopted to establish limits for the reimbursement of mileage, lodging, and meal expenses. Written policies should be adopted governing the use of credit cards. These policies should identify those who are entitled to use the credit cards and the purposes for which the credit cards can be used. The board of directors should provide proper oversight to ensure the district complies with applicable laws, rules, and regulations. This oversight should include the establishment of internal controls to ensure the proper accountability and expenditure of district funds.

MANAGEMENT'S RESPONSE – CHAIRMAN OF THE BOARD OF DIRECTORS
(DIRECT QUOTE)

We agree with this finding and, as a result of this audit, the Board has made a new commitment to being more directly involved in the day-to-day operations of the District. In the past three months the Board has adopted a comprehensive travel policy, has implemented a purchasing system with pre-numbered and computer-generated purchase orders, and instituted a new accounting system with pre-numbered and computer-generated receipts. Additionally, a credit card policy is being developed, and all credit cards for the District are now in - and will remain in - the hands of the Treasurer until such time as the new policy is adopted and implemented.

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**FINDING 06.02 A CASH SHORTAGE OF \$11,773.06 EXISTED AT
JUNE 30, 2006**

A cash shortage of \$11,773.06 existed in the Hickman County Emergency Communications District at June 30, 2006. Records of the district were so poorly maintained that the cash shortage could exceed the amount noted. Please refer to Finding 06.03 which discloses that numerous payments were made with little or no documentation. Had we been able to determine the actual use of these funds, the cash shortage could have been much larger. The cash shortage is summarized in the following table:

<u>Address Coordinator</u>	
Item A. - Unauthorized reimbursements	\$ 1,858.24
Item B. - Unsupported travel advances	6,291.61
Item C. - Personal purchases	731.61
Item D. - Unauthorized airfare and conference registration	1,028.10
<u>Board Members and District Employees</u>	
Item E. - Unauthorized airfare and conference registration	1,863.50
Total Cash Shortage	<u>\$ 11,773.06</u>

The cash shortage is comprised of the following:

**ITEM A. UNAUTHORIZED REIMBURSEMENTS BY THE ADDRESS
COORDINATOR - \$1,858.24**

During the period under examination, the address coordinator, Darlene Field, made various credit card purchases totaling \$1,665.38 on behalf of the district. These credit card purchases included gas, office supplies, lodging, meals, and alcohol and were subsequently paid for by the district. After Darlene Field made these credit card purchases, she used the various credit card receipts to request reimbursement for these items, and she received reimbursement from the district, as if she had made these purchases with her own personal funds. Therefore, the district paid for these expenditures twice. In addition, the address coordinator requested reimbursements totaling \$192.86; however, no supporting documentation was on file for these reimbursements. Therefore, the total cash shortage related to unauthorized reimbursements from the district to the address coordinator for the period totaled \$1,858.24 (\$1,665.38 + \$192.86).

**ITEM B. UNSUPPORTED TRAVEL ADVANCES BY THE ADDRESS
COORDINATOR - \$6,291.61**

The address coordinator received checks for travel advances purportedly for board members and district employees for the period under review totaling \$10,250. Travel claims or other adequate documentation were not on file to

support the expenditures of all of these travel advances. However, we were able to document receipts that appeared to be related to travel totaling \$3,958.39. Therefore, the total cash shortage related to these travel advances totaled \$6,291.61 (\$10,250 - \$3,958.39).

ITEM C. PERSONAL PURCHASES BY THE ADDRESS COORDINATOR - \$731.61

The address coordinator made personal purchases using her credit card totaling \$1,931.58. District funds were used to pay these credit card charges. The address coordinator subsequently repaid the district \$1,199.97 for the personal purchases. Therefore, the total cash shortage related to personal purchases using the credit card totaled \$731.61 (\$1,931.58 - \$1,199.97).

ITEM D. UNAUTHORIZED AIRFARE AND CONFERENCE REGISTRATION BY THE ADDRESS COORDINATOR - \$1,028.10

The district paid \$1,028.10 in airfare and conference registration expenses for the address coordinator's spouse and daughter. The state attorney general has opined that the payment of these types of expenses for spouses and relatives is not an authorized expenditure. Therefore, the total cash shortage related to the payment of unauthorized airfare and conference registration expenses of the spouse and daughter of the address coordinator totaled \$1,028.10.

ITEM E. UNAUTHORIZED AIRFARE AND CONFERENCE REGISTRATION BY BOARD MEMBERS AND DISTRICT EMPLOYEES - \$1,863.50

The district paid \$2,487.50 for airfare and conference registration expenses for spouses and relatives of dispatchers and board members. We were able to verify one dispatcher's reimbursement to the district totaling \$624. One board member and one dispatcher indicated that they reimbursed the address coordinator in cash for a portion of their expenses; however, we were unable to verify these reimbursements. Therefore, the cash shortage related to unauthorized airfare and conference registration expenses for spouses and relatives totaled \$1,863.50 (\$2,487.50 - \$624).

RECOMMENDATION

The district should take steps to liquidate the above-noted cash shortage. Credit cards should be issued in compliance with policies developed by the board of directors to control their use. The board of directors should ensure that there is sufficient supervisory review and approval of all expenditures. All expenditures should be for official business of the district conducted by district employees.

MANAGEMENT'S RESPONSE – CHAIRMAN OF THE BOARD OF DIRECTORS
(DIRECT QUOTE)

The majority of the deficiencies noted in this finding deal mainly with the lack of a travel policy and the improper use of a company credit card. As noted in our response to Finding 06.01, we have already implemented a comprehensive travel policy and have discontinued the use of credit card purchases until such time as a policy can be adopted and implemented. Additionally, the implementation of a comprehensive purchasing policy and receipting system – as noted in our response to Finding 06.01 – will assist us in maintaining adequate and obvious records with proper supporting documentation. We will also attempt to liquidate the identified cash shortage and have already contacted the Board's bonding company with regard to the same. Other attempts to correct this shortage will be taken in the weeks and months ahead.

MANAGEMENT'S RESPONSE TO 06.02(E) – ADDRESS COORDINATOR (DIRECT QUOTE)

I remember the Mays paying for 2 airline tickets and the Gilberts paying for 1 airline ticket in cash. We made a copy of the cash for the receipt. But, I do not remember any board members paying for anything. Due to some time ago, I was told to take care all travel and wishes considering a board.

FINDING 06.03 **THE OFFICE PAID NUMEROUS INVOICES WITHOUT
PROPER SUPPORTING DOCUMENTATION**

The following purchases were made without proper supporting documentation:

- A. As noted in Finding 06.01(C) the address coordinator made credit card charges totaling \$34,172.10. Of those charges, \$13,990.91 had no supporting documentation other than the monthly credit card statement. We were unable to ascertain whether these purchases were business-related or personal in nature. Also, the address coordinator made credit card purchases totaling \$14,620.38 that had some supporting documentation; however, due to the disarray of the accounting records, the validity of most of these disbursements is questionable.

- B. As noted in Finding 06.01(C) the treasurer made credit card charges totaling \$3,202.91. Of those charges, \$1,058.47 had no supporting documentation other than the monthly credit card statement. We were unable to ascertain whether these purchases were business-related or personal in nature. Also, the treasurer made credit card purchases totaling \$1,364.14 that had some supporting documentation; however, due to the disarray of the accounting records, the validity of most of these disbursements is questionable.

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RECOMMENDATION

The office should maintain adequate documentation to support all disbursements.

MANAGEMENT'S RESPONSE – CHAIRMAN OF THE BOARD OF DIRECTORS
(DIRECT QUOTE)

Through steps already taken and those in the works (as mentioned previously) we feel this deficiency has been, and with continued oversight by the Board will remain, corrected.

FINDING 06.04 **UNAUTHORIZED DISBURSEMENTS AND CREDIT CARD CHARGES**

Poor management resulted in the following deficiencies:

- A. The address coordinator paid \$20,358.64 on the credit card accounts by using electronic checks; however, the address coordinator had no authority to disburse district funds. These electronic checks were issued without the knowledge of either the treasurer or the chairman of the board as required by the by-laws as noted in Finding 06.01(A). As a result of paying the bills electronically, the district incurred transmittal fees of \$90.

- B. The district incurred finance charges (\$1,333.96), late payment fees (\$380), and fees for exceeding their credit card limit (\$35) totaling \$1,748.96. The district's bank account had sufficient funds to pay the credit card bills in full each month; therefore, there was no reason to incur finance charges or late payment fees.

RECOMMENDATION

All expenditures should be made by the district treasurer, as required by the district's by-laws. Credit card statements should be paid currently to avoid any finance related charges.

MANAGEMENT'S RESPONSE – CHAIRMAN OF THE BOARD OF DIRECTORS
(DIRECT QUOTE)

As previously noted steps have been taken or are currently in the works to eliminate this deficiency. We have also contacted the banks which the Board does business with and believe we have taken the steps necessary to end any unauthorized automatic disbursements of District funds.

FINDING 06.05 FUNDS OF THE DISTRICT WERE USED TO PAY AN INVOICE FOR THE LOCAL DRUG ABUSE RESISTANCE EDUCATION (D.A.R.E.) PROGRAM

The address coordinator was also the bookkeeper for the Drug Abuse Resistance Education (D.A.R.E.) Program for Hickman County and the City of Centerville. We noted a disbursement totaling \$780.69 for the D.A.R.E. Program that was paid with district funds. This disbursement was for a delinquent invoice of the D.A.R.E. Program.

RECOMMENDATION

The district should only expend funds for official business of the district; therefore, the district should seek reimbursement from the D.A.R.E. program for \$780.69.

MANAGEMENT'S RESPONSE – CHAIRMAN OF THE BOARD OF DIRECTORS (DIRECT QUOTE)

As the employee in question on this finding is no longer employed by the district, and due to the implementation of previously mentioned policies and procedures, we feel this issue will not reoccur. We will endeavor to seek reimbursement from the county's D.A.R.E. program.

FINDING 06.06 OTHER OPERATING DEFICIENCIES

We noted the following other operating deficiencies:

- A. Sales tax was routinely paid on credit card purchases. District purchases are exempt from state sales tax.
- B. The district did not report to the Internal Revenue Service (IRS) 36 checks totaling \$13,112.20 for longevity payments provided to the address coordinator and dispatchers. IRS regulations require an employer to report benefits provided to an employee as income on the employee's Form W-2.
- C. One vendor provided gift cards, movie passes, etc. to the district and its employees.
- D. We noted several purchases of alcoholic beverages that were paid by the district. Alcoholic beverages are not authorized expenses of the district.
- E. Several purchases of meals while on trips included meals for family members of the board of directors and district employees. Meals purchased for family members are unauthorized expenditures.

RECOMMENDATION

State sales tax should not be paid on district purchases. All payroll related benefits should be channeled through the district's payroll system with applicable taxes reported. Gifts from vendors should not be accepted. The district should not purchase alcoholic beverages or meals for family members with district funds.

MANAGEMENT'S RESPONSE – CHAIRMAN OF THE BOARD OF DIRECTORS (DIRECT QUOTE)

Once again, we believe through the implementation of previously mentioned policies and procedures that the items mentioned in this finding have been adequately addressed and will not reoccur.

Through the process of this audit, and the one conducted by the Board's accounting firm, our Board of Directors has come to realize its deficiencies and has made a new commitment to getting our financial house in order. I believe you will soon see a remarkable turnaround in our operations and ask for your continued support in our efforts to keep it that way.

We are guilty of putting too much faith in the performance of a single employee of the District and did not provide adequate supervision thereof. However, while we may have been negligent in our oversight of District operations as a Board, we feel the past audits should have reflected at least some of these issues long before now. We will attempt to work closely with our auditing firm in the future and, if problems should be noted, we will address them immediately and professionally.

MANAGEMENT'S RESPONSE TO 06.06(B) – ADDRESS COORDINATOR (DIRECT QUOTE)

The accountant advise us we did not have to report anything under \$600.00. That's when the board voted to give full time dispatcher \$599.00 year and the part-time base on number of hours worked (not training hours). The accountant was the one that handled the longevity to the address coordinator.

REBUTTAL

The IRS regulations refer to total payments made in a year, not individual payments. These payments were made to employees where total payments during the year exceeded \$600; therefore, these payments were reportable to the IRS.