

INVESTIGATIVE REPORT

SELECTED RECORDS OF THE TOWN OF GADSDEN



December 10, 2014



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
FINANCIAL AND COMPLIANCE INVESTIGATIONS**

Justin P. Wilson
Comptroller of the Treasury

JAMES K. POLK STATE OFFICE BUILDING, SUITE 1600
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7907
FAX (615) 741-7667

December 10, 2014

Honorable Mayor and Members of the
Board of Aldermen
Town of Gadsden
229 High Street
P.O. Box 158
Gadsden, Tennessee 38337-0158

Ladies and Gentlemen:

We conducted an investigation of the Town of Gadsden specifically related to the former mayor/fire chief's activity for the period April 1, 2009, through December 31, 2013. The former mayor's term of office ended May 4, 2013, and he resigned as the town's fire chief on February 24, 2014. Our investigation revealed the following deficiencies:

- The Town of Gadsden had a cash shortage of at least \$35,241 at December 31, 2013.
- Questionable purchases made by the former mayor/fire chief totaled \$39,925.
- The mayor/fire chief did not comply with the travel policy.
- Town officials did not provide adequate management oversight.

Findings and recommendations as a result of our investigation are presented below. These findings and recommendations have been reviewed with management to provide an opportunity for their response. Responses of the current mayor and board of aldermen have been paraphrased in this report. Also, these findings and recommendations have been reviewed with the district attorney general for the Twenty-eighth Judicial District.

INVESTIGATIVE FINDING

FINDING 1 **THE TOWN OF GADSDEN HAD A CASH SHORTAGE OF AT LEAST \$35,241 ON DECEMBER 31, 2013**

Our investigation noted a cash shortage of at least \$35,241, which consisted of the following:

- A. During the period April 1, 2009, through December 31, 2013, the mayor/fire chief purchased gasoline, cigarettes, and food items totaling at least \$33,775 from a local convenience store, which were charged to the town. We conducted numerous interviews and collected numerous statements from individuals who witnessed the mayor/fire chief putting gasoline into his personal vehicle and charging that gasoline to the town. The mayor/fire chief admitted to us that he had obtained the gasoline for his personal vehicle, as well as other items, and charged these purchases to the town. The mayor/fire chief advised us the town did not have a vehicle that he could use, and he had been doing a lot of “running around” on behalf of the town. However, we noted instances the mayor/fire chief obtained gasoline for his personal vehicle, but falsified the documentation on the receipt to describe the fuel purchase as being for the “brush truck and gas can” or “brush truck.”
- B. During the period examined, the mayor/fire chief diverted town funds and made personal purchases of at least \$1,416. During our review of the town’s disbursements, certain items purchased at Wal-Mart, Lowe’s, J & W Surplus, and Office Max appeared to be purchased for personal use. We compiled a listing of items and gave the listing to the current mayor to see if the town had possession of these items. The listing contained items such as clothing, computers, denture cleaner, gas trimmer, etc. The items that were not in the town’s possession have been included in the cash shortage.
- C. During the period examined, the mayor/fire chief cashed a \$50 check written to himself for the rental of the town’s community center. We obtained bank records from the convenience store where the mayor/fire chief purchased gasoline and charged it to the town. While reviewing the records, we noted a check written to the mayor/fire chief, which was cashed at the store. We contacted the payer of the check, and she stated that the check was written for the rental of the town’s community center for her sister-in-law’s baby shower. This check should have been recorded as town revenue.

The following table summarizes the cash shortage of at least \$35,241:

A.	Gas & Food Items		\$33,775.36
B.	<u>Personal Purchases</u>		
	Walmart	Dickies Work Pant	18.50
	Walmart	Dickies DBL Knee PNT	15.00
	Walmart	Samsung A107 GoPhone	29.88
	Walmart	Clothes	73.00
	Walmart	PP 335 SB Gas Trimmer	124.00
	Walmart	Dickie SS Twill Shrt	18.00
	Walmart	Dickie SS Twill Shrt	18.00
	Walmart	Kiwi LC Boot 54 blk (shoe lace)	2.00
	Walmart	Kiwi LC Boot 72 blk (shoe lace)	4.00
	Walmart	GE Comfort Flt Pant	17.00
	Walmart	Ge Opp Flat Khaki	10.96
	Walmart	Dickie LS Twill Shrt	19.97
	Walmart	Dickies Denim Shirt	20.50
	Walmart	SAN 16G SD	29.88
	Walmart	Fuji S2940 Dig Cam	159.00
	Walmart	1 YR ADH Plan	7.00
	Walmart	Pny 16GB SDHC	29.88
	Walmart	Camera Bag	14.00
	Walmart	Nikon L24	79.00
	Walmart	SD Card 32GB Imaging	35.88
	Walmart	Stain Away Plus (Denture Cleaner)	4.63
	Walmart	(Gateway) GW LT4010U Netbk	228.00
	Walmart	(Acer) AC AO725-0687 NB	198.00
	Walmart	Wireless Mouse M185	31.76
	Walmart	Liteon 8X Ext DVDRW (DVD Writer)	52.97
	Lowe's	Bolens 17" SS 2-cycle Tri	94.97
	J & W Surplus	Tactical Trousers Khaki 36x30	60.00
	Office Max	Ipad Screen Protector	19.99
			<u>1,415.77</u>
C.	Check - Rental of the Community Center		50.00
	Total Cash Shortage		\$35,241.13

RECOMMENDATION

Town officials should take immediate steps to collect the cash shortage of \$35,241.



**FINDING 2 QUESTIONABLE PURCHASES BY THE FORMER
MAYOR/FIRE CHIEF TOTALED \$39,925**

Our investigative audit noted \$39,925 in questionable purchases made by the mayor/fire chief and paid for by the town. The mayor/fire chief admitted to us that he had purchased repair parts for his personal truck with town funds. In addition, we noted numerous disbursements were made for vehicle parts, and regular maintenance items such as oil. Since the town's gasoline burning brush truck was rarely used, and the town's diesel engine fire trucks were regularly maintained by one individual, we question the purchase of these maintenance items for the town's use. In addition, our review of the town's Wal-Mart disbursements revealed numerous food items purchased, as well as numerous items purchased from Gadsden Supermarket. Based on interviews with several of the volunteer firefighters, the mayor/fire chief rarely purchased food for the fire station. Due to the mayor/fire chief's propensity to use town funds, we could not ascertain whether some of these items were for personal or town use.

RECOMMENDATION

Town officials should determine the propriety of these questionable purchases. If the questionable disbursements are determined to be improper, steps should be taken to recover the funds.

INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES

FINDING 3 THE FORMER MAYOR/FIRE CHIEF DID NOT COMPLY WITH THE TOWN'S TRAVEL POLICY

On February 21, 2005, the town adopted a travel policy. The town's travel policy was the same as the policy for the State of Tennessee. The mayor/fire chief did not comply with the town's travel policy for business related travel reimbursement. The mayor/fire chief advised us that he used his personal vehicle to conduct town business; however, we noted no instances during our period where the mayor/fire chief submitted a travel claim for these miles driven in his personal vehicle on behalf of the city.

RECOMMENDATION

The town's travel policy should be followed. Any travel on behalf of the town in a personal vehicle should be properly authorized and reimbursed by an approved travel claim detailing the location(s) traveled to and mileage driven.



FINDING 4 TOWN OFFICIALS DID NOT PROVIDE ADEQUATE MANAGEMENT OVERSIGHT TO ENSURE A PROPER CONTROL ENVIRONMENT WAS IN PLACE

- A. The town did not have a policies and procedures manual. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 1, Section 2, states that municipal officials should develop a policies and procedures manual that incorporates or references all the policies and procedures required in the *Internal Control and Compliance Manual* plus any additional policies and procedures that are specific to the municipality. The manual should include the assignment of authority and responsibility.
- B. Deficiencies were noted in receipting and depositing collections. In some instances, the mayor/fire chief did not receipt or deposit funds collected for the rental of the gym or community center. Also, there were car shows held in 2010, 2011, and 2012 to raise money for the fire department; however, only the following amounts were receipted and deposited: \$517.75 in 2010, \$0 in 2011, and \$1,070 in 2012. *Tennessee Code Annotated*, Section 9-2-103, states in part that each state, county, and municipal official who receives any sum or sums shall issue the payer a receipt and

keep a duplicate of that receipt. *Tennessee Code Annotated*, Section 6-56-111(a), requires town officials to deposit public funds to the official bank account within three days of collection.

- C. The mayor/fire chief had town credit cards that he used for certain purchases. However, the town's Board of Mayor and Aldermen did not have written guidelines governing the use of the credit cards. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 18, Section 6, states that the municipality's purchasing policy should designate individuals who are authorized to make purchases with municipal debit or credit cards and clearly define the types of purchases permitted to be made using debit or credit cards. Such purchases must be approved in the same manner as any other purchase.
- D. Neither the town's Board of Mayor and Aldermen, nor the city recorder, questioned any purchases or decisions made by the former mayor/fire chief. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 6, Chapter 1, Section 1, states in part that municipal officials should provide constant, close supervision to ensure that internal controls are working, personnel are following the prescribed routines, and adequate information is being furnished promptly.

RECOMMENDATION

The Board of Mayor and Aldermen should establish proper policies and procedures as outlined in the *Internal Control and Compliance Manual for Tennessee Municipalities*. Funds collected by the town should be properly receipted and deposited in accordance with state statutes.

MANAGEMENT'S RESPONSE – CURRENT MAYOR AND BOARD OF ALDERMEN

A. We have put the following written policies into effect:

- 1) The fire department now has bylaws and a *Standard Operating Guidelines Manual* in place.
- 2) The police department now has a *Standard Operating Procedures Manual* in place.
- 3) A town debit and credit card policy is now in place.
- 4) A petty cash policy is now in place.
- 5) There is now an official segregation of duties policy in place.

Additionally, we have adopted a *Manual of Ordinances* and are working with Municipal Technical Assistance Service to secure an *Internal Control and Compliance Manual* that will be implemented as soon as possible. All of our manuals and policies are available for your review upon request.

B. With regard to deficiencies in the town's receipting and depositing of collections, a policy is now in place stating the mayor collects all monies and issues receipts in duplicate – one for the payer and another which is retained for the town's records. The city recorder

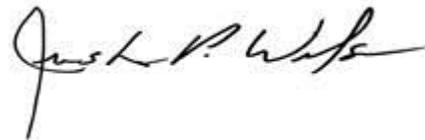
shall then deposit the amount received within three days. Policy further states that the above procedure is to be used for all monies collected by the town for any reason.

- C. Written guidelines are now in place for town debit and credit card usage. The mayor, fire chief, and assistant fire chief have been designated as the town officials empowered to make purchases with the town's cards, which are kept locked in secure storage and must be signed out by providing a stated purpose, estimated time of return and an estimated dollar amount of the proposed purchase. The fire department bylaws and police standard operating procedures each incorporate these guidelines in their contents. Any purchases over \$50 must be approved by the mayor.
- D. An orientation of judicial responsibilities is now given to the board of aldermen and the city recorder. The mayor approves all payable invoices, then forwards them to the city recorder for payment. Once per month, the board will be furnished with copies of all transactions for the previous month and will also be provided a financial statement once per month. Also each month, the fire chief will give a report of purchases made, the number of calls answered, and other such activities of the department. He will also keep/provide a maintenance log and a diesel usage log for all fire trucks. The police chief reports on the number of tickets issued each month and is now required to keep logs for his time, mileage, and gas purchased for the police car. Inventories are in place and kept updated as required.

We hope this brief overview of steps taken to remedy the record keeping shortcomings of the previous administration will show not only how seriously we take the situation, but also our earnest efforts to prevent such events from recurring in the future.

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

Sincerely,



Justin P. Wilson
Comptroller of the Treasury

JPW/kbh