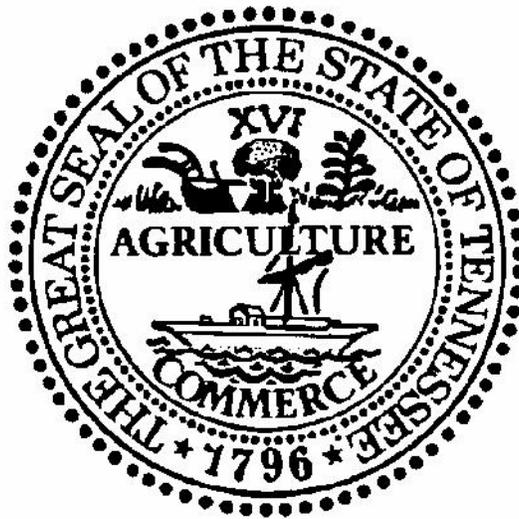


INVESTIGATIVE REPORT

OF

SELECTED RECORDS OF THE
CITY OF JELICO
FOR THE PERIOD JANUARY 1, 2011, THROUGH
DECEMBER 31, 2012



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY



**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

June 5, 2014

Board of Mayor and Aldermen
City of Jellico
410 South Main Street
Jellico, Tennessee 37762

Ladies and Gentlemen:

Our office performed an investigation of selected records of the City of Jellico, in conjunction with the Tennessee Bureau of Investigation, after receiving information regarding the disappearance of cash seized in a drug arrest. Our investigation covered the period January 1, 2011, through December 31, 2012, and focused primarily on the Office of City Recorder. The investigation revealed a cash shortage of at least \$96,449.62, as well as questionable disbursements totaling \$16,617.46. We also noted several internal control and compliance deficiencies.

Presented in this report are the findings and recommendations resulting from our investigation. Copies of this report are being forwarded to Governor Bill Haslam, the State Attorney General, the District Attorney General for the 8th Judicial District, certain state legislators, and various other interested parties. A copy is available for public inspection in our office and may be viewed at <http://www.comptroller.tn.gov/ia/> .

Sincerely,

A handwritten signature in black ink, appearing to read "Justin P. Wilson".

Justin P. Wilson
Comptroller of the Treasury

JPW/kbh

**INVESTIGATIVE REPORT OF SELECTED RECORDS OF THE CITY OF JELICO
FOR THE PERIOD JANUARY 1, 2011, THROUGH DECEMBER 31, 2012**

SUMMARY

We performed an investigation, in conjunction with the Tennessee Bureau of Investigation, of selected records of the City of Jellico for the period January 1, 2011, through December 31, 2012. This investigation focused primarily on the Office of City Recorder and included an examination of the city's accounting records, bank statements, and various policies and procedures.

The investigation revealed the following deficiencies:

- A cash shortage of at least \$96,449.62 existed on December 31, 2012.
- Questionable disbursements totaling \$16,617.46 were noted during the period examined.
- The City of Jellico was not audited currently.
- The City of Jellico did not employ a certified municipal finance officer.
- Duties were not segregated adequately.
- Deficiencies were noted in receipting and depositing collections.
- Deficiencies were noted in purchasing procedures.
- The city had no written policies for billing garbage fees.
- An asphalt roller was sold that was not declared surplus by the Board of Aldermen.
- Written guidelines governing the use of cellular telephones had not been adopted.
- Insurance payroll liability accounts were not reconciled.

The investigative findings and recommendations are presented below. These findings and recommendations have been reviewed with the district attorney general. The city recorder's employment with the City of Jellico was terminated on December 12, 2012. On November 21, 2013, during an interview, the city recorder gave investigators a written statement that she had "borrowed" approximately \$20,000 in funds from the City of Jellico for personal use. However, she stated that she did not maintain records of the amount she had taken. On May 16, 2014, the former city recorder, Linda Douglas, was indicted by the Campbell County Grand Jury on charges of theft over \$60,000 and official misconduct.

INVESTIGATIVE FINDINGS AND RECOMMENDATIONS

FINDING 14.01 **A CASH SHORTAGE OF AT LEAST \$96,449.62 EXISTED ON DECEMBER 31, 2012**

A cash shortage of at least \$96,449.62 existed on December 31, 2012, in the City of Jellico. This amount could be greater because receipts were not issued for all collections; therefore, we could not determine if all collections were properly remitted to the City of Jellico. Based on our interviews and an examination of the city's bank statements, accounting records, and various policies and procedures, we identified the following deficiencies related to the cash shortage:

- A. The city recorder diverted cash collections of at least \$71,525.02 for personal use during the period January 1, 2011, through December 31, 2012. This amount could be larger because through our examination of records and third-party confirmations, we identified some cash collections that were receipted but not deposited and some cash collections that were not receipted and not deposited. In many instances, when receipts were issued, the city recorder did not identify the type of city revenue on the receipt. The city recorder was responsible for receipting collections such as cash seized from city drug arrests, local taxes, fines and fees, as well as preparing bank deposits.
- B. The city recorder received unauthorized payroll checks totaling \$2,312.90. In addition to the city recorder being responsible for paying the city's bills, she also processed payroll and co-signed checks with the city mayor.
- C. The city recorder received \$3,834.89 in unauthorized travel (\$1,871.51) and various expense reimbursements (\$1,963.38). No documentation was found to support these payments.
- D. The city recorder used the city's fuel card and a member of the Board of Aldermen's fuel card for personal purposes totaling \$5,987.18. The city recorder had been issued a fuel card for city business purposes; however, we noted that several charges for fuel on her card as well as the board member's card were incurred out of the area and even out of state.
- E. The city recorder received checks made payable to her totaling \$4,227.59 for petty cash. No documentation was found to support these petty cash disbursements.
- F. The city recorder purchased four Lowe's gift cards totaling \$80 purportedly for prizes given at a city party; however, no documentation was maintained to determine who received these gift cards. Furthermore, the city mayor

advised that he did not approve these gift card purchases nor did he recall seeing the gift cards.

- G. The city recorder purchased groceries and fuel totaling \$127.64 for personal use through the city's open account with a local vendor.
- H. A total of \$8,354.40 in payments made by customer checks payable to the city could not be traced to bank deposits. The city recorder issued receipts for the collection of customer checks totaling \$6,222.40 plus we identified, through third-party confirmations, an additional \$2,132 in checks payable to the city where receipts were not issued. None of these checks could be traced to bank deposits.

The following table summarizes the cash shortage identified at December 31, 2012:

Item	Description	Amount
A.	Cash collections for personal use	\$ 71,525.02
B.	Unauthorized payroll checks	2,312.90
C.	Unauthorized travel and expense reimbursements	3,834.89
D.	Unauthorized fuel purchases	5,987.18
E.	Undocumented checks for petty cash	4,227.59
F.	Unauthorized Lowe's gift cards	80.00
G.	Unauthorized groceries and fuel	127.64
H.	Customer checks not deposited	<u>8,354.40</u>
Total Cash Shortage		<u>\$ 96,449.62</u>

RECOMMENDATION

Officials should take immediate steps to recover the \$96,449.62 cash shortage.

FINDING 14.02 QUESTIONABLE DISBURSEMENTS OF \$16,617.46 WERE NOTED DURING THE PERIOD EXAMINED

Questionable disbursements totaling \$16,617.46 were noted in the City of Jellico during the period examined. Due to the poor condition of the accounting records and the lack of adequate documentation on file, we could not determine whether these disbursements were related to the business functions of the city. These questionable disbursements are noted below:

- A. Fuel cards were provided to various employees for business purposes; however, we could not determine if disbursements for fuel totaling \$3,204.07

were for legitimate business purposes. The city recorder received and paid the fuel card bills without determining their validity.

- B. Additional questionable disbursements for fuel totaling \$432.92 were identified related to an open account the city has with a local fuel provider. During employee interviews, we were advised that the mayor allowed employees to purchase fuel at this location when the city was delinquent on the payment of the city’s fuel cards. We found no supporting documentation to determine the business purpose for these charges. The failure to require adequate documentation for purchases increases the risk of fraud and abuse from unauthorized purchases.
- C. The city recorder made questionable disbursements to various vendors totaling \$8,971.03 and on the city’s Lowe’s credit card totaling \$4,009.44. These disbursements were not supported with documentation that identified the business purposes. In many instances, only the credit card statement was available as support of the purchases. The failure to require adequate documentation for purchases increases the risk of fraud and abuse from unauthorized purchases.

The following table summarizes these questionable disbursements.

Number of Purchases	Source	Amount
92	Fuel card	\$ 3,204.07
4	Other fuel	432.92
8	Various vendors	8,971.03
4	Lowes credit card	<u>4,009.44</u>
Total		<u><u>\$ 16,617.46</u></u>

RECOMMENDATION

Officials should take steps to determine the validity of the \$16,617.46 questionable disbursements.

INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES
FINDINGS AND RECOMMENDATIONS

Background: A previous investigation by the Comptroller of the Treasury, Division of Municipal Audit, released May 31, 2012, revealed that the city borrowed money in violation of state law by entering into a bank line-of-credit, creating an invalid or nonconforming obligation used to improperly finance the purchase of a piece of real property and to finance other capital projects, such as street paving. On September 1, 2013, the Comptroller of the

Treasury began oversight of monthly spending of the City of Jellico after an assessment of the city's financial condition discovered the following:

- Negative balances existed in several funds
- Bills and loans were paid late
- A tax lien was placed by the IRS of approximately \$161,000
- Depleted cash balances
- A balanced and realistic budget was not passed

Presented below are findings and recommendations related to internal control and compliance deficiencies noted during the investigation for the period January 1, 2011, through December 31, 2012. These findings and recommendations have been reviewed with management to provide an opportunity for their response. The written responses of the city mayor, vice-mayor, and various aldermen have been paraphrased in this report. These internal control and compliance deficiencies plus continuing management issues as described above contributed to the city's current financial problems.

FINDING 14.03 **THE CITY OF JELICO WAS NOT AUDITED CURRENTLY**

An annual audit of the City of Jellico has not been published since the fiscal year ended June 30, 2011. Jellico Private Acts, Article IV., Section 4.10, specifies the procedures to be followed to complete an annual audit by an independent certified public accountant within six months of the end of each fiscal year.

Furthermore, Section 6-56-101, *Tennessee Code Annotated*, requires every municipal government to have an audit as often as every two years. We were advised by the independent auditor that although the city had contracted for an independent audit for the fiscal year ended June 30, 2012, the city has neither paid for the services nor provided the auditor the requested financial records.

Financial records were not adequate to ensure completion of an independent audit or compliance with an annual budget as required state by law and the city's charter. *The Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 3, Section 1, states, "Municipal officials should ensure that a contract to audit accounts is executed before the end of the fiscal year to execute a timely audit."

RECOMMENDATION

An annual audit of the City of Jellico should be performed in accordance with the city's private act as well as state statute. Municipal officials should ensure that financial records are sufficient to provide for an annual budget and audit.

MANAGEMENT'S RESPONSE – MAYOR LES STIERS

The city was delinquent, but has now paid the former auditors. We are presently waiting on our current auditors to audit the fiscal years ended 2012 and 2013. Hopefully, we can get back to timely annual audits.

AUDITOR'S COMMENT TO THE MAYOR'S MANAGEMENT'S RESPONSE

The city's current auditors requested the city's records to begin their work on August 7, 2013, and again on March 17, 2014. The city has not yet provided all the financial records requested to complete the audits.

MANAGEMENT'S RESPONSE – ALDERMAN CHARLES VERMILLION

The city should have an audit every year. It is a great help when preparing a budget.

MANAGEMENT'S RESPONSE – ALDERWOMAN WANDA PERKINS

I agree.

MANAGEMENT'S RESPONSE – ALDERWOMAN PAM CARBAUGH

I worked and attended workshops for annual audits. I cannot get the mayor or city recorder to attend the workshops or get financial paperwork for the audit for 2014.

FINDING 14.04 **THE CITY OF JELICO DID NOT EMPLOY A CERTIFIED MUNICIPAL FINANCE OFFICER**

The City of Jellico did not employ a certified municipal finance officer, a person with adequate training and qualifications to oversee the financial operations of the city as required by Sections 6-56-401 through 6-56-407, *Tennessee Code Annotated*. These sections specify the qualifications required for at least one person in the city's employ to ensure competence in the handling of municipal funds and the protection of public moneys. This deficiency is the result of a lack of management oversight and management's failure to correct the deficiency as noted in prior-year audit reports.

RECOMMENDATION

The city mayor and Board of Aldermen should employ an individual who meets the qualifications as set forth in state statute to ensure competence in the handling of municipal funds.

MANAGEMENT'S RESPONSE – MAYOR LES STIERS

Ms. Jennifer Wilson was hired in August 2013, and is presently taking certified municipal finance officer classes. She is on pace to finish in July 2014.

MANAGEMENT'S RESPONSE – ALDERMAN CHARLES VERMILLION

We currently have a new city recorder who is going through training.

MANAGEMENT’S RESPONSE – ALDERWOMAN WANDA PERKINS

I do agree; however, I do not feel this was done properly. I was not there for any of the hiring discussions for this position.

MANAGEMENT’S RESPONSE – ALDERWOMAN GAIL SHARP

We have hired a city recorder, and she has been taking classes.

MANAGEMENT’S RESPONSE – ALDERWOMAN PAM CARBAUGH

The applicants who applied were not qualified or wanted high wages.

FINDING 14.05 **DUTIES WERE NOT SEGREGATED ADEQUATELY**

Duties were not segregated adequately in the Office of City Recorder. The city recorder was responsible for collecting and receipting collections, maintaining the accounting records, and preparing and making deposits. The recorder was also responsible for purchasing and writing all checks as well as co-signing the checks with the mayor. Internal controls should be designed to give reasonable assurance of the reliability of financial reporting and of the effectiveness and efficiency of operations. This deficiency is the result of a lack of management oversight and management’s failure to correct the deficiency as noted in prior-year audit reports.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 1, Section 1, states that municipal officials should separate duties of employees so no one person has control over a complete transaction from beginning to end. Work-flow should be established so 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. When adequate segregation of duties is not possible, management/board oversight should be increased to provide reasonable assurance that errors, irregularities, or fraud are prevented or detected and corrected in a timely manner. Such oversight would include, but not be limited to, the review of bank statements, cash receipts, and cash disbursements summaries as well as the related supporting documentation and analysis of monthly reports.

RECOMMENDATION

Officials should segregate duties to the extent possible using available resources. Management should continually review internal control procedures and monitor the operations of the office.

MANAGEMENT’S RESPONSE – MAYOR LES STIERS

We have segregated the duties of the city recorder to place measurable controls over authorizations, recordkeeping, purchase orders, and cash receipting. Monthly reports and documentation of bank statements, cash receipts, deposits, and expenditures have been in place since December 4, 2012.

MANAGEMENT’S RESPONSE – ALDERMAN CHARLES VERMILLION

I agree with this recommendation.

MANAGEMENT’S RESPONSE – ALDERWOMAN WANDA PERKINS

I believe there were too many people in city hall that had access to the records that had no qualifications to fix the problems. I agree with the recommendation; however, this has never happened. The Board of Aldermen does not have access to the numbers we need to do a budget, and we never really got the reports, records, etc., as we needed them.

MANAGEMENT’S RESPONSE – ALDERWOMAN PAM CARBAUGH

I agree.

FINDING 14.06 **DEFICIENCIES WERE NOTED IN RECEIPTING AND DEPOSITING COLLECTIONS**

Our examination disclosed the following deficiencies in receipting and depositing collections:

- A. The office did not issue official receipts for some collections as required by Section 9-2-103, *Tennessee Code Annotated (TCA)*. Furthermore, we were advised that the office did not issue receipts for parking citations.

- B. In some instances, the city recorder did not deposit funds within three days of collection. Section 6-56-111(a), *TCA*, requires municipal officials to deposit public funds to the office bank account within three days of collection. The delay in depositing the funds weakens internal controls over collections and increases the risks of fraud and misappropriation.

- C. Collections were not deposited intact; i.e., funds collected during a specific period of time were not deposited together. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 14, Section 9, states that municipal officials should ensure that collections are deposited intact and only in designated depositories. Intact means that collections are deposited in the form and amount in which they are collected.

Employee and third-party checks must not be cashed through the cash drawers. No collections should be withheld from the deposit for any reason.

- D. The city recorder did not prepare daily collection reports. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 14, 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 slip. The total on the corresponding deposit slip as well as the total of all applicable pre-numbered receipts should agree with the total collections recorded on the daily collection report.
- E. Deposit slips were not itemized. Checks were not listed on the deposit slip or other record of collections. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 14, Section 7, states that each check should be listed on the deposit slip or on an attached list itemizing the name of each payor and the amount paid.
- F. Property tax collections were occasionally recorded in the cash receipts journal in a lump sum, with levy year, penalties, and collection dates unspecified. Receipts were not always issued for the collections. Therefore, we were unable to identify if all property tax collections were properly remitted to the city. In addition, we noted that unpaid property taxes, as recorded in the general ledger, were not annually reconciled with the unpaid accounts in the property tax roll. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 15, Section 7, states that property tax collections should be summarized in total by levy year on the daily collection report, with penalties recorded separately. Section 8 of the manual requires that, at least annually, each year's property tax receivable balance on the general ledger be reconciled with the total amount of unpaid accounts on the property tax roll and to the total amount of unpaid tax receipts. This reconciliation should be documented.

RECOMMENDATION

Official receipts should be issued for all collections, and all collections should be deposited within three days of receipt as required by state statutes. The city should follow the *Internal Control and Compliance Manual for Tennessee Municipalities* regarding depositing intact, the preparation of daily collection reports, the itemization of deposit slips, and the reconciliation of property tax collections.

MANAGEMENT'S RESPONSE – MAYOR LES STIERS

Official receipts are being issued for all collections, and all collections are being deposited within three days of receipt. Receipting between departments is done to create a transparent process. A Jellico City Court Receipt is being retained that uses the date and time of the ticket to receipt parking citations.

AUDITOR'S COMMENT TO THE MAYOR'S MANAGEMENT'S RESPONSE

Current receipts for parking tickets provided by the mayor are not pre-numbered. Therefore, it would not be possible to account for all receipts issued and determine if all collections for parking tickets have been deposited.

MANAGEMENT'S RESPONSE – ALDERMAN CHARLES VERMILLION

It is clear from this report that the former city recorder did not do her job.

MANAGEMENT'S RESPONSE – ALDERWOMAN PAM CARBAUGH

I agree.

FINDING 14.07 **DEFICIENCIES WERE NOTED IN PURCHASING
PROCEDURES**

Our examination revealed the following deficiencies in the purchasing process:

- A. Invoices were paid without documentation that goods had been received and/or services had been rendered. This practice weakens controls over the purchasing process and increases the risks for paying for something that was never received.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 19, Section 6, states that all disbursements, regardless of the accounting procedures, must be supported by invoices, cash tickets, or other adequate supporting documentation. The documentation should be sufficient to determine if the expenditure was for a municipal purpose.

- B. Purchase orders were not issued in some applicable instances. Purchase orders are necessary to control who has purchasing authority for the city and to document purchase commitments. The failure to issue purchase orders increases the risks of unauthorized purchases.
- C. In at least three instances, it appears that invoices were split to circumvent the bid process. Jellico Private Acts, Article IV., Section 4.07, states that the city should comply with the requirements of the Tennessee Municipal Purchasing Law of 1983, Section 6-56-304, *Tennessee Code Annotated*. That statute requires public advertisement and competitive bids for purchases of \$2,500 or more with exceptions for emergency, real property, and certain other conditions. The City of Jellico's purchasing policy requires three written quotes for purchases over \$2,500.

- D. Written guidelines governing the use of credit cards had not been adopted. The city had credit cards available for employees to use for certain business purchases. However, the city's Board of Aldermen had not adopted written guidelines governing the use of these cards. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 18, Section 6, states that a 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. If municipal officials authorize the use of credit and/or debit cards, the number of cards maintained should be kept to a minimum and should be properly accounted for. A record of the employees in possession of the cards should be maintained on file. Personal charges should be strictly prohibited.

RECOMMENDATION

Documentation that goods have been received or services have been rendered should be maintained before invoices are paid. The office should issue purchase orders for all applicable purchases. Invoices should not be split to circumvent the competitive bid process. The Board of Aldermen should adopt written guidelines governing the use of credit cards. These guidelines should identify those who are entitled to use the credit cards and the purposes for which the credit cards can be used.

MANAGEMENT'S RESPONSE – MAYOR LES STIERS

All purchases of goods or services will have purchase orders for the applicable purchase. In December 2012, 19 of 38 Fuelman gas credit cards were destroyed. All other city credit cards have been destroyed. Only those individuals who work for the city and need to be able to purchase gas for their duty or service are authorized. Monthly records are checked for accuracy.

MANAGEMENT'S RESPONSE – ALDERMAN CHARLES VERMILLION

The documentation on purchases must be better maintained than they have in the past.

MANAGEMENT'S RESPONSE – ALDERWOMAN PAM CARBAUGH

Minutes of meetings will show that the Board of Aldermen has brought up the credit cards issue several times.

FINDING 14.08 **THE CITY HAD NO WRITTEN POLICIES FOR BILLING GARBAGE FEES**

The city had approved an ordinance for the collection, removal, and disposal of garbage as well as establishing the associated fees; however, the city has not established written policies for billing for these services. We were advised that new customers were not

automatically charged for garbage service and that the City Mayor's Office can have the fees removed from a customer's bill through a written request. Furthermore, no criteria had been established to specify appropriate exemptions from billing for the fees.

RECOMMENDATION

To ensure the fair and equitable treatment of all customers, municipal officials should adopt written policies for the billing and collection of garbage fees. In addition, procedures should be established to ensure new customers are properly billed for garbage services. Criteria for exemption of garbage fees should be included in the written policies.

MANAGEMENT'S RESPONSE – MAYOR LES STIERS

Ordinance No. 107-2012 was adopted October 30, 2012. Section A. states the monthly fee for residential customers shall be \$15 per month. You are billed either at residential or commercial customer rates, and there is no exemption for garbage fees. We will work closely with Jellico Electric & Water to ensure that new customers are properly billed for garbage services.

MANAGEMENT'S RESPONSE – ALDERMAN CHARLES VERMILLION

I agree.

MANAGEMENT'S RESPONSE – ALDERWOMAN WANDA PERKINS

I agree.

MANAGEMENT'S RESPONSE – ALDERWOMAN GAIL SHARP

Jellico Electric should automatically charge each new customer with garbage fees except for a few people that are inside the city limits that the truck cannot get to. Garbage is billed through Jellico Electric.

FINDING 14.09 **AN ASPHALT ROLLER WAS SOLD THAT WAS NOT DECLARED SURPLUS BY THE BOARD OF ALDERMEN**

An asphalt roller was sold by the mayor without the Board of Aldermen declaring it as surplus property as required by Jellico Private Acts, Article IV., Section 4.09. This act gives the mayor the authority to dispose of real estate or other property in the most advantageous manner available and requires that the sale of surplus property be read and approved by a majority vote of the Board of Alderman at two meetings held not less than two weeks apart.

RECOMMENDATION

All city property to be sold or disposed of should be presented to the Board of Aldermen and declared surplus property as required by the City of Jellico's private act.

MANAGEMENT’S RESPONSE – MAYOR LES STIERS

All city property to be sold or disposed will be presented to the Board of Aldermen and declared surplus property. After your report was written, evidence was submitted to the investigators that at the January 20, 2011, meeting that Resolution No. 2011-70 was presented and voted on by the Board of Aldermen. Listed on the resolution is an item No. 5 showing a black-top spreader. Associated with the black-top spreader was an asphalt roller. Both items were inoperable, and both items are needed in the spreading and application of black-top material. A receipt was issued March 25, 2011, for \$1,000 for the paving machine, and a receipt dated July 7, 2011, for \$1,000 for a paving machine. Alderman Bowlin, who was the supervisor over Street and Sanitation, passed away in February 2014.

AUDITOR’S COMMENT TO THE MAYOR’S MANAGEMENT’S RESPONSE

In our review of the minutes and associated documents, we found no reference to an asphalt roller. The minutes and ordinances that were provided to us for review only related to the surplus property disposal of an asphalt spreader. These are two separate types of equipment.

MANAGEMENT’S RESPONSE – ALDERMAN CHARLES VERMILLION

I think the mayor was out of line when he sold the roller. The city charter was broken.

MANAGEMENT’S RESPONSE – ALDERWOMAN GAIL SHARP

The asphalt roller was “given” to a friend of the mayor. The Jellico Water System paid a large portion of the initial purchase price, and the city paid about one-fourth or one-third of the total cost. It was primarily purchased so the water system could repave the streets when there was a leak that required digging up the asphalt. Also, it was there for the city to repair streets. It was being stored at the city because it could be locked in a storage area. The mayor sold it for a very small portion of what it was worth or what it would take to replace it.

MANAGEMENT’S RESPONSE – ALDERWOMAN PAM CARBAUGH

I agree.

FINDING 14.10 **WRITTEN GUIDELINES GOVERNING THE USE OF CELLULAR TELEPHONES HAD NOT BEEN ADOPTED**

The city provided two employees with cellular telephones. However, the Board of Aldermen had not adopted written guidelines governing the use of these cellular telephones. Sound

business practices dictate that management should provide written guidance by identifying those who are entitled to use the cellular phones and the purposes for which the phones can be used. The lack of a formal policy increases the risk of abuse.

RECOMMENDATION

The Board of Aldermen should adopt written guidelines governing the use of cellular telephones. These guidelines should identify those who are entitled to have a city-assigned cellular telephone and the purposes for which telephones can be used.

MANAGEMENT'S RESPONSE – MAYOR LES STIERS

The Board of Aldermen should adopt written guidelines governing the use of cellular telephones. At the April 17, 2014, meeting of the board, an Administrative Policy and Procedure Manual listing the subject Assignment and Use of Cellular Telephones was tabled. The city is moving in the direction of addressing and correcting this issue.

MANAGEMENT'S RESPONSE – ALDERMAN CHARLES VERMILLION

I agree.

MANAGEMENT'S RESPONSE – ALDERWOMAN PAM CARBAUGH

I don't think cell phones are necessary in this small town.

FINDING 14.11 **INSURANCE PAYROLL LIABILITY ACCOUNTS WERE NOT RECONCILED**

Payroll liability accounts for employees' insurance were not reconciled with insurance invoices and payments. We determined that several employees' deductions were less than the actual amount billed, resulting in the city absorbing at least \$3,564.95 in employee insurance payments. Sound business practices dictate that these reconciliations be performed monthly. The failure to regularly reconcile insurance payroll liability accounts with insurance payments and invoices allows errors to remain undiscovered and uncorrected.

RECOMMENDATION

Insurance payroll liability accounts should be reconciled monthly with insurance invoices and payments, and any errors discovered should be corrected promptly. Management should ensure the proper amount of employee deductions.

MANAGEMENT'S RESPONSE – MAYOR LES STIERS

Insurance payroll liability accounts are now being reconciled monthly with insurance invoices. Any errors or corrections are handled promptly to ensure employees do not lose any coverage.

MANAGEMENT’S RESPONSE – ALDERMAN CHARLES VERMILLION

It is the responsibility of the mayor and Board of Aldermen to see that the insurance is paid.

MANAGEMENT’S RESPONSE – ALDERWOMAN PAM CARBAUGH

I very strongly agree.

GENERAL MANAGEMENT’S RESPONSES

MANAGEMENT’S RESPONSE – VICE MAYOR VENITA JOHNSON

I agree with the findings and the recommendations to correct what has been done. All of these findings were not made known to the board until way after the fact or by the newspaper calling to question us about it, especially the payroll and liability insurance. The board has asked the mayor about the bids, and he passes it by like we didn’t ask him. Concerning the sale of the asphalt roller, he told us at a recent meeting he had nothing to do with that because an alderman was the one who dealt with that issue and that person has since passed away. There has been a time I asked the previous city recorder for some bank statements. She could not get to them at the time and asked me to come back later. A few days later I went back to ask the recorder for them, and she informed me that the mayor said if anyone wants the bank statements they have to ask him, which I did not feel I had to because I was the vice-mayor, and any board member should be able to get a copy to view it but could not. There was also a situation with a gas card where different people had one. I also found out through the newspaper that the vice-mayor had a gas card. I said that was a lie because I have never had one, and I went to confront the mayor, and he used some excuse. So all of these things that have been done fall on the mayor because he is at the office full-time when it should be only a part-time position. This board has no help from anyone; because the mayor does the day-to-day activity, yet the board is the one that gets the blame when the mayor doesn’t do what he is supposed to do. How can this board make the mayor do anything when he doesn’t do what the state tells him to do? Yes, we are the board, but when we vote one way, and the mayor turns and does what he wants. That isn’t our problem, because we can only vote, and he should do however we vote. If we vote something down, don’t go behind closed doors and do what you want. This board has a life and jobs, so we can’t be at the city hall keeping an eye on what all he is doing. I feel like if the mayor had followed the charter, we would not be in this situation. He has used this city like it is his own personal business, and no one else can tell him what to do.

MANAGEMENT’S RESPONSE – ALDERWOMAN WANDA PERKINS

I became an alderman in October 2013. I was not present when a lot of this happened, although I was aware of the problems by coming to the meetings as a citizen. So much of this was done without the board being aware of it. Since I have been on this board, I have

seen so many internal control problems it frightens me. The mayor and his office do a lot of these things, and we find out on the street or at a later date when we have to be told. There is so much work that needs to be done it overwhelms me. I live here, plan to be here until I die, and I love this community. The things that have gone on for so long have to end or we will lose what we have here. I hope that we now can go forward with these recommendations and try to get things back in order.

MANAGEMENT'S RESPONSE – ALDERWOMAN GAIL SHARP

The mayor has not always been forthcoming with information and has been known to stretch the truth. I think the mayor knew what was going on in the office because he was there two years before he called the state. Information was getting harder and harder to cover up.