

INVESTIGATIVE AUDIT REPORT

CITY OF NEW MARKET

SEPTEMBER 1, 2009, THROUGH APRIL 30, 2013



State of Tennessee

**Comptroller of the Treasury
Department of Audit
Division of Investigations
Special Investigations Unit**



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DIVISION OF INVESTIGATIONS
SPECIAL INVESTIGATIONS UNIT**

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) 532-4499**

January 16, 2014

Honorable Mayor and Members of the
Board of Aldermen
City of New Market
P. O. Box 300
New Market, TN 37820

Ladies and Gentlemen:

The Division of Investigations, Special Investigations Unit, in conjunction with the Tennessee Bureau of Investigation, conducted an investigative audit of selected records of the City of New Market which focused on the period September 1, 2009, through April 30, 2013.

Presented in this report are the findings resulting from this investigative audit. Copies of this report are being forwarded to Governor Bill Haslam, 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 and may be viewed at <http://www.comptroller.tn.gov/ia/>.

Sincerely,

L. Rene Brison, CPA, CFE, Assistant Director
Division of Investigations
Special Investigations Unit

LRB/RAD

THIS PAGE LEFT BLANK INTENTIONALLY.

**INVESTIGATIVE AUDIT OF SELECTED RECORDS OF
THE CITY OF NEW MARKET
FOR THE PERIOD SEPTEMBER 1, 2009, THROUGH APRIL 30, 2013**

CASE SUMMARY

The Comptroller of the Treasury, Division of Investigations, in conjunction with the Tennessee Bureau of Investigation, performed an investigative audit of selected records of the City of New Market. The investigation was limited primarily to an examination of disbursements, related documentation, and corresponding interviews. The investigative audit focused primarily on the period September 1, 2009, through April 30, 2013; however, when necessary, this scope was expanded. The investigative audit revealed the following:

- The former recorder, Melissa Robin Parker, misappropriated city funds totaling \$25,009 by withdrawing money from a city certificate of deposit and converting it to her personal use. Ms. Parker concealed the misappropriation by fabricating invoices and altering minutes of meetings of the mayor and board of aldermen.
- The former recorder, Melissa Robin Parker, misappropriated city funds totaling at least \$13,793 by issuing unauthorized payroll checks to herself and by retaining the proceeds for her personal benefit. Ms. Parker deleted most of the unauthorized payroll checks from the city's computerized accounting records, effectively concealing her issuance of these checks.
- Public works employee Sammy Bailey used a city fuel card to make personal gasoline purchases totaling at least \$1,285. The mayor allowed Mr. Bailey to repay the misappropriated funds and did not report this unlawful conduct to the Tennessee Comptroller of the Treasury as required by state statutes.
- In interviews with investigators, Ms. Parker admitted that she misappropriated city funds and used them for her personal benefit and Mr. Bailey admitted that he used the city fuel card for his personal use.
- City officials failed to adequately segregate financial duties; failed to comply with state laws when obtaining loans; failed to adopt and ensure compliance with a comprehensive purchasing policy; and failed to provide adequate oversight for the city fueling system.

These matters were referred to the local district attorney general. In August 2013, the Jefferson County Grand Jury indicted the former recorder, Melissa Robin Parker, on two counts of theft over \$10,000, and four counts of official misconduct. In January 2014, the Jefferson County Grand Jury indicted Sammy Bailey on one count of theft over \$1,000, two counts of official misconduct, and one count of fraudulent use of a credit card.

INVESTIGATIVE FINDINGS

A schedule summarizing the misappropriations by the former recorder and the public works employee, and the investigative findings resulting from this audit, are shown below.

Summary Schedule of Amounts Misappropriated	
Method	Amount
Amounts Misappropriated by Melissa Robin Parker	
Unauthorized conversion of certificate of deposit	\$25,009
Unauthorized payroll checks	<u>13,793</u>
Total misappropriated by Melissa Robin Parker	<u>\$38,802</u>
Amount Misappropriated by Sammy Bailey	
City fuel card used for personal benefit	\$ 1,285

1. **FINDING: Former recorder misappropriated \$25,009 by redeeming a city certificate of deposit and converting the proceeds to her personal use**

Our investigative audit revealed that the former recorder, Melissa Robin Parker, misappropriated the proceeds of a city certificate of deposit totaling at least \$25,009. In September 2009, without the authority or knowledge of the mayor and board of aldermen, Ms. Parker withdrew \$25,009 from a city certificate of deposit. She converted these funds into two cashier's checks payable to her husband, and used the proceeds of the checks for personal purposes. Ms. Parker effectively concealed the misappropriation by fabricating invoices which falsely indicated her husband had performed repair work on city vehicles, and by altering the meeting minutes of the mayor and board of aldermen to make it appear the checks were approved. Ms. Parker told Comptroller investigators that she used the money, at least in part, to cover the debt of an unsuccessful personal business.

2. **FINDING: Former recorder misappropriated at least \$13,793 by issuing unauthorized payroll checks to herself**

Between May 1, 2011, and April 30, 2013, the former recorder, Melissa Robin Parker, issued at least 25 unauthorized city payroll checks totaling \$13,793 in her name and retained the proceeds for her personal benefit. Comptroller investigators discovered that the pay periods indicated on the checks were work days for which Ms. Parker had already been paid. Ms. Parker, who was solely responsible for calculating and preparing payroll checks, concealed this scheme by deleting most of these improper payroll payments from the city's computer records.

3. **FINDING: Employee used city fuel card for personal benefit**

During the period July 1, 2011, through April 30, 2012, City of New Market public works employee Sammy Bailey diverted fuel purchases totaling at least \$1,285 for personal use. Mr. Bailey told Comptroller investigators that he used his city-issued fuel card to charge fuel for his personal vehicle and for the personal vehicle of a friend.

INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES
FINDINGS AND RECOMMENDATIONS

Presented below are the findings and recommendations related to internal control and compliance deficiencies noted during the investigative audit. City officials have indicated in the accompanying responses that they have corrected or that they intend to correct each of these deficiencies.

1. **FINDING: Failure to adequately segregate financial duties**

City officials failed to adequately segregate duties of employees, allowing the former city recorder complete control over all aspects of financial transactions without adequate oversight. According to the *Internal Control and Compliance Manual for Tennessee Municipalities*, page 32:

Municipal officials should separate duties of employees 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. 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:

To help prevent errors and to decrease the risk of fraud, waste, and abuse, management should ensure that no employee has complete control of a financial transaction. Elected officials should provide for increased oversight, when appropriate.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. To help prevent errors and the risk of fraud, waste, and abuse, the elected officials have increased oversight of all financial transactions. The mayor and an alderman must now sign all checks that are disbursed by the city. Each month, the mayor and alderman will examine the bank statement, including canceled checks, and the financial report provided by the city recorder.

2. **FINDING:** City officials failed to comply with state law when obtaining loans

Our examination revealed that city officials did not comply with state statutes when borrowing money for the city, creating invalid or nonconforming obligations. The city obtained several bank loans without following the requirements of state law, or of the Tennessee Comptroller of the Treasury's Office of State and Local Finance. In addition, without authority, city officials pledged certificates of deposit as collateral for a loan. The proceeds of the invalid obligations were used to pay normal operating expenses. State statutes provide that debt issued contrary to Title 9, Chapter 21, *Tennessee Code Annotated*, is subject to restrictions and penalties as set forth in Section 9-21-406, *Tennessee Code Annotated*.

RECOMMENDATION:

City officials should follow all state statutes and rules when issuing debt. In addition, to help ensure that previous nonconforming obligations are corrected, officials should immediately contact the Comptroller of the Treasury's Office of State and Local Finance for guidance.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. With any future debt issuance, the city officials will follow all state statutes and rules when issuing debt. We have contacted the Office of State and Local Finance in regard to the nonconforming loans. The nonconforming loans are no longer outstanding.

3. **FINDING: Lack of oversight of city fueling system**

City officials failed to provide adequate oversight related to the use of city fuel cards. According to city officials, certain city employees were assigned fuel cards allowing them to purchase fuel for city vehicles at retail fuel locations. Our investigation revealed that city officials did not monitor those purchases for reasonableness. As a result, one employee repeatedly used his city-issued fuel card to obtain fuel for personal vehicles after business hours without detection for nearly a year. [Refer to Investigative Finding 3].

RECOMMENDATION:

To reduce the risk of fraud, waste, or abuse, city officials should review, monitor, and reconcile all fuel purchases paid with city funds. Any discrepancies should be investigated immediately.

MANAGEMENT'S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. City officials will monitor and reconcile all fuel purchases paid with city funds on a monthly basis and investigate any discrepancies immediately.

4. **FINDING: Failure to notify the Comptroller of the Treasury of possible unlawful conduct**

The mayor, the former recorder, and the police chief of the City of New Market failed to report to the Comptroller of the Treasury the apparent theft of fuel by a city employee [Refer to Investigative Finding 3]. Title 8, Chapter 5, *Tennessee Code Annotated*, requires that public officials file a report with the Comptroller of the Treasury if they reasonably believe that there has been any unlawful conduct related to public money, property, or service.

RECOMMENDATION:

To comply with state statutes and provide the opportunity for adequate evaluation and/or investigation, city officials should report all incidents of possible fraud to the Comptroller of the Treasury within five working days of occurrence or discovery.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. All future incidents of possible fraud will be reported to the Comptroller of the Treasury within five working days of occurrence or discovery to comply with state statutes.

Police Chief:

At the time of the incident where a city employee used his city-issued fuel card for personal use, I was unaware of the *Tennessee Code Annotated* requiring me to report it to the Comptroller. The requirements have been explained to me and I fully understand the protocol and in the future, will take great strides in immediately notifying the State Comptroller’s Office of any thefts or misuse of city property.

5. **FINDING: Comprehensive written purchasing policy**

The mayor and the members of the board of aldermen failed to develop and adopt a comprehensive written purchasing policy. The *Internal Control and Compliance Manual for Tennessee Municipalities*, page 61, states that municipalities should adopt a written purchasing policy that includes designating persons authorized to make purchases, requiring the use of prenumbered purchase orders, requiring approval by the finance officer, outlining procedures for emergency and small-item purchases without prior approval, and requiring bids for purchases over a stated amount.

RECOMMENDATION:

To adequately regulate and monitor city expenditures, city officials should develop and adopt a comprehensive written purchasing policy.

MANAGEMENT’S RESPONSE:

Mayor and Members of the Board of Aldermen:

We concur. In order to monitor expenditures, city officials will develop and adopt a comprehensive written purchasing policy.