



TOWN OF OAKLAND

Comptroller's Investigative Report
April 18, 2018

Justin P. Wilson, Comptroller





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

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Comptroller of the Treasury

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April 18, 2017

Board of Mayor and Aldermen
Town of Oakland, Tennessee
P.O. Box 56
Oakland, TN 38060

Gentlemen:

The Office of the Comptroller of the Treasury conducted an investigation of selected records of the Town of Oakland for the period April 1, 2013, through June 3, 2016. During this period, we reviewed all time and payroll records of the former town recorder through February 29, 2016. We reviewed purchasing and collection procedures, conducted interviews, and examined invoices for selected purchases through June 3, 2016. Our results are presented herein.

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,

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

Comptroller of the Treasury

JPW/RAD

INVESTIGATIVE REPORT

Town of Oakland

We performed an investigation of selected records of the Town of Oakland, Tennessee, for the period April 1, 2013, through June 3, 2016. During this period, we reviewed all time and payroll records of the former town recorder through February 29, 2016. We reviewed purchasing and collection procedures, conducted interviews, and examined invoices for selected purchases through June 3, 2016.

Findings and recommendations, as a result of our investigation, are presented below. These findings and recommendations have been reviewed with management. Also, these findings and recommendations have been reviewed with the district attorney general for the Twenty-Fifth Judicial District.

Background

The Town of Oakland is in Fayette County and is governed by a board of mayor and aldermen. According to the town's charter, the mayor is the chief executive officer of the town. As chief executive officer, the mayor oversees the town's daily operations. The town recorder is responsible for maintaining official records including minutes of the board and the municipal code.

INVESTIGATIVE FINDINGS AND RECOMMENDATIONS

FINDING 1 THE FORMER TOWN RECORDER RECEIVED A PAYMENT FOR COMPENSATORY TIME TOTALING \$45,006.01 IN VIOLATION OF TOWN POLICY

The former town recorder received a payroll disbursement for the gross amount of \$45,006.01 for 1,532.01 hours of accrued compensatory time at the end of her employment with the town. However, the payment did not comply with provisions of the town's personnel policy. Furthermore, the validity of the 1,532.01 hours of accrued compensatory time is questionable. We noted the following violations of the town's personnel policy:

- A. The payment of \$45,006.01 was made without the knowledge and approval of the board of mayor and aldermen. The board of mayor and aldermen approve the salary schedule for all employees each fiscal year in an annual budget. Any changes to the salary schedule must be approved by the board of mayor and aldermen as an amendment to the annual budget. In addition, the mayor may require compensatory time for any full-time employee in-lieu-of overtime pay with the approval of the board of mayor and aldermen.

- B. The former town recorder's accrued compensatory time balance exceeded the maximum balance of 200 hours per fiscal year established by the town's personnel policy. The personnel policy requires the mayor to ensure employees take time off for the accrued compensatory time within three months of accrual, if possible, without compromising the operations of the town.
- C. The former town recorder's accrued compensatory time balance of 1,532.01 hours could not be verified. The former town recorder's time sheets were not approved by the mayor prior to December 26, 2013. Therefore, we could not determine approval of this time by the mayor. We noted several large adjustments to the accrued compensatory time balances, which appeared to have been made by the former town recorder as recorded on the town's automated payroll system. Details regarding when this compensatory time was earned were not provided to us for these adjustments. In addition, we noted discrepancies between the compensatory time balance reflected on the former town recorder's time sheets and the compensatory time balance in the automated payroll system.
- D. The earning of compensatory time required prior approval by the board of mayor and aldermen. The mayor provided contradictory statements regarding the former town recorder's accrued compensatory time when we interviewed him on two separate occasions. In our initial interview, the mayor advised us that the first time he heard about the amount of the payment to the former town recorder was when the bank called to inquire about the large amount. He acknowledged that he approved the payment for accrued compensatory time after the transaction had been received by the bank, based on information submitted by the former town recorder, which he did not review or challenge. When asked about the town's compensatory time policy, the mayor advised, "what it is, I couldn't tell you." The mayor said he did not notice the large amounts of compensatory time the former town recorder claimed on her time sheets when he approved them and was not aware of all of them. In addition, the mayor advised that he could not attest that the figures were correct. When asked by investigators, the mayor advised that the town should seek the money back. In a second, follow-up interview, the mayor advised that he felt the former town recorder did do sufficient work for the town to earn the compensatory time, which is why he signed off on the payment.

RECOMMENDATION

The board of mayor and aldermen should seek legal counsel and determine the validity of the accrued compensatory time payment to the former town recorder. Management should monitor employees' compensatory time balances to ensure compliance with the town's personnel policy. Each employee should maintain a time record documenting their hours worked, leave taken, and leave accrued. Time records should be signed by management as evidence of review and approval.

FINDING 2 THE MAYOR MAINTAINS A FULL-TIME JOB IN THE PRIVATE SECTOR AND USES TOWN-OWNED PROPERTY TO CONDUCT THE PRIVATE SECTOR EMPLOYMENT IN POTENTIAL VIOLATION OF THE TOWN’S MUNICIPAL CODE

The mayor is the chief executive officer of the town and oversees the town’s daily operations for an annual salary of \$61,360 in both 2014 and 2015. The mayor currently receives the same full-time benefits available to any other full-time employee of the town. The town currently has 52 full-time, three part-time, and two seasonal employees. These employees make up six different departments (police, fire, parks and recreation, building and code, public works/water and waste water, and administration), and each department head reports directly to the mayor. The mayor advised that throughout his term of office (beginning March 4, 2013), he has maintained a separate private sector full-time job as a financial services consultant. The mayor works both his financial services consultant job and performs his duties as mayor out of his office at city hall. However, the mayor is frequently out of town. During our interviews with town employees, we determined the mayor was often unavailable to town employees during the day. The mayor does not maintain any time records or other documentation supporting how he divides his time between the two jobs.

The board of mayor and aldermen are aware the mayor maintains a full-time private sector job; however, we were unable to locate documentation that the mayor’s outside employment had been properly approved. Section 4-303 of the Municipal Code for the Town of Oakland provides that no full-time officer or employee accept outside employment without approval by the board of aldermen. Furthermore, Section 4-305 of the Municipal Code for the Town of Oakland states “that no town officer or employee shall use or authorize the use of municipal time, facilities, equipment or supplies for private gain or advantage....”

RECOMMENDATION

The board of mayor and aldermen should seek legal counsel to determine whether the mayor’s private sector employment and use of municipal facilities violates the town’s municipal code. Documentation of the board of aldermen’s approval of the mayor’s private sector employment should be on file for inspection. The mayor should document the division of time between time spent on town business and his private sector employment. The mayor should not use his town office to conduct private sector business.

FINDING 3 DISBURSEMENTS FOR INTERNATIONAL PHONE CALLS MADE BY THE MAYOR RELATED TO HIS PRIVATE SECTOR EMPLOYMENT RESULTED IN A CASH SHORTAGE OF \$1,352.14 AND VIOLATED THE TOWN’S PERSONNEL POLICY

The mayor used a municipal cell phone to make calls to Toronto, Canada, from city hall on behalf of his private sector employment resulting in \$652.83 of charges that were subsequently paid by the town. Furthermore, we noted “roaming” charges totaling \$450.97 that were also included on municipal cell phone bills and paid by the town. However, the former recorder calculated \$699.31 in Canada “roaming” charges. We obtained documentation that the mayor repaid the Town of Oakland \$1,000 of the charges after being questioned by the town’s accounts payable clerk and

former town recorder. On February 14, 2017, the mayor reimbursed the town an additional \$352.14 for the remaining charges (total charges as calculated by the former recorder in the amount of \$1,352.14: \$652.83 in calls plus \$699.31 in roaming charges). The mayor's use of the town's municipal cell phone for his private sector employment violated the town's personnel policy. The town's personnel policy states that town technology, including mobile phones, is designed and intended for use by employees and officials of the town for conducting the town's official business.

RECOMMENDATION

Management should ensure the personnel policy regarding use of the town's cell phones is followed by all employees.

FINDING 4 THE MAYOR AND TOWN RECORDER DID NOT PROPERLY SAFEGUARD THE TOWN'S RECORDS IN VIOLATION OF TOWN POLICY

At the beginning of our investigation, we requested the personnel file of the former town recorder. We were advised by the mayor, the town recorder, and the accounts payable clerk that the personnel file of the former town recorder was located in the mayor's office. Subsequently, the mayor advised us that the personnel file was missing from his office. The town's personnel policy states the mayor and town recorder provide for the custody and safety of all the town's records and prevent unauthorized access to all records and computer systems containing personnel and financial data of the town, as well as the financial assets of the town. A posted list of authorized personnel with access to financial and personnel administration areas is also required; however, this list was not posted as required by the policy. The personnel file of the former town recorder has not been located.

RECOMMENDATION

The mayor and town recorder should provide for the custody and safety of all the town's records, and the mayor should post a list of authorized personnel with access to the financial and personnel administration areas as required by policy.

INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES **FINDINGS AND RECOMMENDATIONS**

FINDING 5 THE BOARD OF MAYOR AND ALDERMEN DID NOT PROVIDE ADEQUATE OVERSIGHT OF THE TOWN'S OPERATIONS

The board of mayor and aldermen did not provide adequate oversight of the town's operations and did not establish internal controls to ensure the town's policies were followed. The lack of oversight by the board of mayor and aldermen directly contributed to the failure to properly account for the town's funds and assets.

RECOMMENDATION

The board of mayor and aldermen should provide proper oversight of the town's operations and the establishment of adequate internal controls to ensure the town complies with applicable laws, rules, regulations, and policies.

FINDING 6 THE TOWN HAD PURCHASING DEFICIENCIES

During our review, we noted the following deficiencies in purchasing procedures:

- A. On September 21, 2015, the mayor received a proposal from a vendor, Micro Computer Technologies, to upgrade the town's information systems. The proposal did not include a total cost; however, the mayor advised us that the proposed total cost of the project was \$16,000. From September 2015 through June 6, 2016, the town received at least 23 invoices from the vendor for a total cost of \$52,172.29. This work occurred without the knowledge of the board of mayor and aldermen. A letter from the vendor to the mayor dated September 30, 2015, states, "With reference to the City's Purchasing policy (as you outlined), we will not invoice over \$2,500 per day as work is completed." In 23 instances, it appears that invoices were split to circumvent purchasing policies.¹

¹ The town received 25 invoices as listed on the table on page 5, however, Invoice #365092 was canceled by invoice #366002. Therefore, 23 invoices were billed on this project.

Date	Invoice Number	Amount
03/23/2016	365085	\$2,095.00
03/25/2016	365092	2,499.66
03/28/2016	365094	2,095.00
03/30/2016	365104	2,355.23
04/01/2016	366002	(2,499.66)
04/01/2016	366003	2,499.60
04/05/2016	366010	1,249.95
04/06/2016	366014	2,499.25
04/19/2016	366064	2,179.76
04/20/2016	366065	2,358.90
04/21/2016	366072	2,468.96
04/22/2016	366079	2,487.45
04/27/2016	366089	2,487.45
04/27/2016	366090	2,230.76
04/29/2016	366100	1,905.79
05/02/2016	367001	2,492.40
05/24/2016	367070	2,186.89
05/25/2016	367071	2,476.05
05/26/2016	367078	2,367.16
05/27/2016	367084	2,476.28
05/28/2016	367088	2,199.55
05/31/2016	367089	2,212.04
06/01/2016	368002	1,909.58
06/02/2016	368005	2,439.40
06/03/2016	368007	2,499.84
Total		<u>\$52,172.29</u>

The board of mayor and aldermen became aware of these costs on June 21, 2016, when the mayor brought the matter before the board and advised that the vendor had completed its work and had not been paid. No contract was executed between the vendor and the town prior to the work being performed. Without a written contract, the Town of Oakland and the vendor had no documented guidance of their responsibilities. The board of mayor and aldermen subsequently approved the work on July 21, 2016. Section 1 of Ordinance 13-17, establishes the purchasing policies of the Town of Oakland, according to the requirement of the Tennessee Municipal Purchasing Law of 1983, which requires three written proposals or quotations for purchases of more than \$2,500 but less than \$10,000. Purchases exceeding \$10,000 are required to be competitively bid. We found no evidence that the work performed to upgrade the town's information system was bid as required. A significant part of the costs of the work was due to the extensive use of unlicensed software,

the necessary purchase of licensed software, and the technical upgrades to correct the situation.

- B. The town did not enter into a written formal contract for engineering services. King Engineering provided engineering services including setting specifications for and review of sealed bids for roadway improvements. Without a written contract, the Town of Oakland and the contractor have no documented guidance of their responsibilities.

RECOMMENDATION

The board of mayor and aldermen should ensure that all purchases on behalf of the Town of Oakland are made according to purchasing policies required by state law and the policies of the town. Invoices should not be split to circumvent the town's purchasing policy. Also, the Town of Oakland should enter into formal written contracts with all contractors prior to any work being performed.

FINDING 7 THE TOWN OF OAKLAND HAD ACCOUNTING AND ADMINISTRATIVE DEFICIENCIES

We reviewed various records and assessed internal controls of the Town of Oakland and noted the following accounting and administrative deficiencies:

- A. Duties were not segregated adequately. Municipal clerks responsible for collecting and recording traffic fines were also responsible for maintaining the records of traffic citations issued. Internal controls should be designed to give reasonable assurance of the reliability of financial reporting and of the effectiveness and efficiency of operations. This lack of segregation of duties increases the risk of unauthorized transactions.
- B. Collections for the night deposit are dropped into an open cardboard box instead of a secured locked container.
- C. The Town of Oakland did not issue official prenumbered receipts for all collections as required by Sections 9-2-104, *Tennessee Code Annotated (TCA)*.
- D. The audit of the financial records of the Town of Oakland has not been completed on a timely basis due to deficiencies in the accounting records.
- E. Bank accounts were not reconciled on a timely basis during the fiscal year ending June 30, 2015. We noted this condition has been corrected after an accounting firm was hired to perform those duties.

Effective June 30, 2016, *TCA 9-18-102*, requires that each agency of state government, institution of higher education, and each county, municipal, and metropolitan government shall establish and maintain internal controls, which shall provide reasonable assurance that revenues and expenditures are properly recorded and accounted for to permit the preparation of accurate and

reliable financial and statistical reports. Also, internal controls should be designed to provide reasonable assurance of the reliability in financial reporting and of the effectiveness and efficiency of operations.

RECOMMENDATION

The Town of Oakland should segregate duties to the extent possible using available resources. Collections in the night deposit should be securely stored in a locked container. The board of mayor and aldermen should establish and maintain internal controls to ensure prenumbered receipts are issued for all collections. Town officials should ensure accounting records are properly maintained so audits of the financial records of the town are completed on a timely basis. Bank accounts should be reconciled on a current basis.
