



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

Justin P. Wilson
Comptroller of the Treasury

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April 3, 2014

Chris T. Russell, Chief
Spencer Volunteer Fire Department
495 Drake Drive
Spencer, Tennessee 38585

Chief Russell:

Our office received allegations of the mishandling of funds in the Spencer Volunteer Fire Department (SVFD). We conducted a limited scope investigation of the SVFD for the period July 1, 2010, through August 31, 2013, to determine if collections were expended appropriately. The SVFD receives funds from annual contributions from Van Buren County, donations from citizens, and various local fund-raising events. During the period examined, the SVFD received \$63,000 from Van Buren County and \$48,979 from other sources while disbursements totaled \$105,446.

During the period of our examination, we reviewed all disbursements from the SVFD and conducted various interviews. 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. Also, these findings and recommendations have been reviewed with the district attorney general.

INVESTIGATIVE FINDING

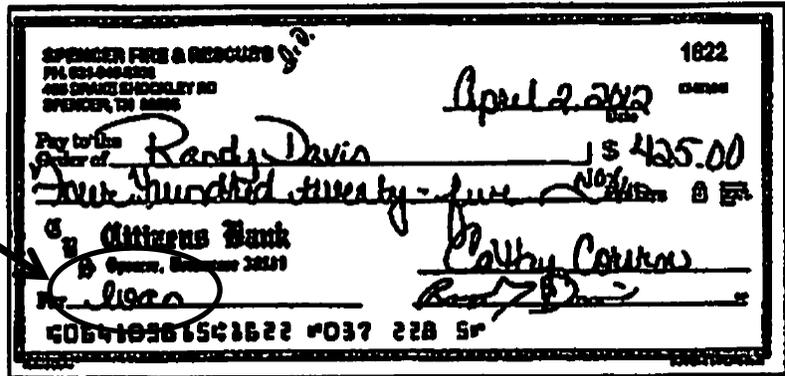
FINDING 13.01 EIGHT CHECKS TOTALING \$4,325 WERE ISSUED TO MEMBERS OF THE SPENCER VOLUNTEER FIRE DEPARTMENT AS PERSONAL LOANS

The investigative audit revealed that beginning at least in January 2011, and continuing through January 2013, eight checks totaling \$4,325 were issued by one of the three acting fire chiefs to either themselves or various department members as personal loans. These personal loans ranged from \$100 to \$1,500.

In all but one instance, management could not provide documentation to support the repayment of these personal loans since the repayments were purportedly made in cash. Therefore, we could not determine if the loans had been repaid to the SVFD.¹

¹ Deposit slips with handwritten notes by the treasurer noting a cash deposit as loan repayment were found; however, these notes were not considered adequate support and did not agree with the amount we were advised as repaid.

Copy of actual check issued for loan to former chief



1622 04/03/12 \$425.00

Volunteer fire department funds should not be used for the personal benefit of the chief or other volunteer members. The following table summarizes the SVFD funds used for loans to department members:

Date	Check Number	Payee		Amount	For
1-23-11	1464	Chief Randy and Sherrilyn Davis		\$ 500	loan
2-20-11	1475	Summer Walling	1	300	loan
9-26-11	1544	Summer Walling	1	800	-
1-19-12	1585	Chief Randy Davis		500	loan
3-12-12	1606	Chief Randy Davis		200	loan
4-2-12	1622	Chief Randy Davis		425	loan
9-12-12	1738	Sherrilyn Davis	2	100	-
1-12-13	1803	Chief Chris Russell	3	1,500	loan
				\$ 4,325	

1 - Spouse of Former Chief Jamie Walling
 2 - Spouse of Former Chief Randy Davis
 3 - Loan repaid with personal check March 2013

RECOMMENDATION

Management should take immediate steps to determine if all loans made to members have been repaid to the volunteer fire department. Volunteer fire department funds should not be loaned to its members.

MANAGEMENT'S RESPONSE – CHIEF CHRIS RUSSELL

Rumors of mishandling of funds are only correct in that proper receipts have not been kept to account for \$4,300 of the \$106,000 of expenditures of the Spencer Fire Rescue during the 37-month audit period. The audit showed that monies had been loaned to members of the organization without proper documentation. While the practice of in-house loans is not illegal, it is a bad business practice and therefore was discontinued within the Spencer Fire Rescue organization as of the beginning of 2013. We firmly believe that the missing dollar

amount was paid back by the members, but without proper documentation this cannot be proven. We know that there are errors that have occurred within our department. Given that, we are a small town volunteer organization and do try very hard to maintain accurate books.

INTERNAL CONTROL AND COMPLIANCE DEFICIENCY

FINDING 13.02 DEFICIENCIES WERE NOTED IN THE OPERATION OF THE VOLUNTEER FIRE DEPARTMENT

The investigative audit revealed the following internal control and compliance deficiencies in the Spencer Volunteer Fire Department (SVFD). These deficiencies can be attributed to a lack of management oversight and inadequate maintenance of accounting records.

- A. The SVFD operated with no management oversight. The SVFD had no written guidelines governing the use and distribution of funds. As noted above, personal loans were made to members of the SVFD solely at the direction of the acting fire chief.
- B. Duties related to the SVFD were not segregated adequately among its members. The member responsible for maintaining records was also involved in depositing and/or disbursing funds. Allowing one member complete control over a financial transaction increases the risk of fraud.
- C. Transactions were not included in an official cash journal or other type of accounting system. An official cash journal or other type of accounting system should be the department's control record and should reflect all financial activity.
- D. Receipts were not issued for collections. Therefore, we could not determine if all funds donated by individuals were remitted to the SVFD.
- E. Checks were issued with only one signature. Furthermore, some checks were signed by the department treasurer prior to a purchase.

RECOMMENDATION

Management should provide sufficient oversight over all financial transactions. The SVFD should adopt written guidelines governing the use and distribution of funds. Duties should be segregated to the extent possible using available resources. All transactions should be posted to an official cash journal or other type of accounting system. Official prenumbered receipts should be issued for all collections. Checks should require two authorizing signatures and should not be signed in advance.

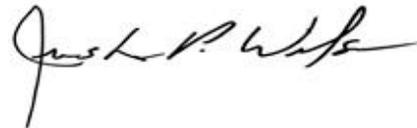
MANAGEMENT'S RESPONSE – CHRIS RUSSELL

We will issue receipts for everything, i.e., donations, contributions, sales, etc., in order to provide a paper trail for all monies. We will appoint a designee to assist the treasurer with keeping all income and expenses documented. All checks will require two signatures for endorsement by the treasurer and either the chief or assistant chief. We will also hold all members of this organization accountable for the proper documentation, not just the treasurer and officers. We feel that with the shared responsibility a more professional atmosphere will be attained.

I would like to thank the auditors. This audit opened our eyes to changes that needed to be implemented in order to better serve the citizens of the City of Spencer and Van Buren County. We are committed to correcting all of our internal issues, and promise that we will do everything in our power to continue to improve. With your help, we hope that there will be no future issues to address. We strive to have an open information policy for any citizen that requests accountability of our organization. The citizens of Spencer and Van Buren County have been there for us every step of the way. Without the citizens of Spencer and Van Buren County, Spencer Fire Rescue does not exist.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Justin P. Wilson". The signature is fluid and cursive, with a prominent vertical stroke on the left side.

Justin P. Wilson, Comptroller of the Treasury