



COMPTROLLER'S INVESTIGATIVE REPORT

Town of Lynnville

July 20, 2022

Jason E. Mumpower
Comptroller of the Treasury



DIVISION OF INVESTIGATIONS



JASON E. MUMPOWER
Comptroller

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Town of Lynnville
Board of Aldermen
PO Box 158 151 Mill Street
Lynnville, TN 38372

Town of Lynnville Officials:

The Office of the Comptroller of the Treasury conducted an investigation of selected records of the Town of Lynnville, and the results are presented herein.

Copies of this report are being forwarded to Governor Bill Lee, the State Attorney General, the District Attorney General of the 22nd Judicial District, certain state legislators, and various other interested parties. A copy of the report is available for public inspection in our Office and may be viewed at <http://www.comptroller.tn.gov/ia/>.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jason E. Mumpower", with a long horizontal flourish extending to the right.

Jason E. Mumpower
Comptroller of the Treasury

JEM/MLC

INVESTIGATIVE REPORT

Town of Lynnville

The Office of the Comptroller of the Treasury investigated allegations of malfeasance related to the Town of Lynnville. The Comptroller's Office initiated the investigation after town officials reported concerns about the town's finances after several employees' resignations. The investigation was limited to selected records for the period from January 1, 2020, through September 1, 2021; and extended through October 4, 2021, for the examination of petty cash. The results of the investigation were communicated with the Office of the District Attorney General of the 22nd Judicial District.

BACKGROUND



The Town of Lynnville (town) is in Giles County, Tennessee, and, as of 2020, it had a population of approximately 290 persons. For the past several years, the town's administrative office has operated on a three-day work week. In 2020, the town employed a town recorder, water department manager, maintenance employee, and police officer. In August 2020, the town's mayor and board of aldermen voted to eliminate the town recorder position because the town could not afford to pay four employees. The mayor and board of aldermen assigned the duties of the town recorder to the water department manager. In

August 2021, the water department manager, while still performing the duties of the town recorder, submitted a separation notice and subsequently resigned from employment. All other employees had also resigned. Town officials were not present at the water department manager/recorder's final day of employment to ensure that adequate town records, passwords, equipment, keys, and cash were counted and verified. The town received an external audit for the fiscal year ended June 30, 2021; however, the contracted auditor was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the town's financial statements.

RESULTS OF INVESTIGATION

1. FOR OVER ONE YEAR TOWN OFFICIALS FAILED TO ENSURE THE DUTIES OF THE RECORDER WERE BEING PERFORMED

In August 2020, the town's mayor and board of aldermen eliminated the town recorder position and consolidated the recorder's duties with the water department manager position. In the year following this consolidation, town officials failed to ensure the duties of the recorder were being performed.

The water department manager's duties include the operation, maintenance, and administration of the town's water system. Those responsibilities include checking levels in the town's water tank, reading water meters at least two days per month, assessing possible water system damage and hiring contractors for repairs, testing water samples and reporting data to the state, updating meter data for billing, issuing bills, receipting collections, updating accounting records, preparing deposits, and other duties.

The duties of the town recorder are to collect taxes and other miscellaneous payments to the town, update accounting records, prepare checks, complete debit card purchases, prepare deposits, reconcile bank statements, conduct business with contractors and vendors, direct maintenance personnel, make reservations for the town's municipal building, answer phone calls and walk-in inquiries, keep board minutes, prepare traffic court dockets, collect payments for traffic court, remit litigation taxes, administer payroll, prepare the budget, and other duties.

The mayor and board of aldermen consolidated the town recorder position with the water department manager position without providing additional oversight or accounting training to ensure that the duties of both positions were completed by the water department manager during the three-day work week. Due to this lack of oversight, town officials did not know that supporting documentation and records related to the town's finances were not being properly maintained. As a result, the duties of the recorder were insufficiently performed after August 2020, and the town had inadequate records in place for an auditor to provide an opinion on the town's financial statements.

Exhibit 1



Lynnville's file storage area at its City Hall building.

2. TOWN OFFICIALS FAILED TO ENSURE ADEQUATE ACCOUNTING RECORDS WERE MAINTAINED AND DUTIES FULFILLED

Town officials failed to maintain adequate records of the town's funds and financial activities and did not ensure the duties of the town recorder were sufficiently fulfilled. Investigators reviewed numerous aspects of the town's accounting functions and recordkeeping processes and determined that the town's accounting records were inadequate for the period from August 2020 through August 2021.

A. Investigators reviewed available records of the town's collections and determined the following:

- Investigators reviewed traffic ticket data from 2020 and 2021 and were able to identify \$21,605 of the \$24,347.75 in traffic citation fees issued and deposited into the town's bank account. However, due to the inadequate condition of the town's accounting records, such as no record of the payment date for some citations and the lack of formal procedures pertaining to recordkeeping in its traffic court function, investigators were unable to determine when the remaining \$2,742.75 (\$24,347.75 less \$21,605) of traffic citation fees were deposited into the bank.
- Investigators reviewed all receipts issued for water bill payments made by cash and check from January through August 2021, including over 400 manually written receipts accounting for over \$39,000 of revenue for the water department. The town failed to keep records of collections beyond the receipts. Cash collections therefore could not be directly linked to specific deposits because deposit slips only listed the total cash but did not identify the individuals who had made the payments. However, investigators were able to identify enough aggregate cash deposited in the bank to account for the amount of cash expected to be collected and deposited from information on the receipts.

B. Investigators reviewed available records of the town's disbursements and determined the following:

- Investigators reviewed check images in the bank statements from August 2020 to August 2021 and noted all checks contained the required two authorized signatures, which included the town's mayor and one alderman. All checks for the period were printed from QuickBooks; not manually written. The checks were issued to vendors who regularly conducted business with the town, such as local utilities, equipment vendors and the town's other funds. Moreover, no checks were issued to "Cash." But investigators noted that many of the town's checks had no supporting documentation on file such as invoices, purchase orders, or receipts.
- The town's accounting records for purchases were incomplete and not adequate to properly account for all purchases. Investigators observed many of the town's purchases were made using the town's debit card and that most of the town's debit card purchases from August 2020 through August 2021 lacked any supporting

documentation. In addition, debit card purchases were sporadically entered into the town's QuickBooks records. Based on records recovered by investigators, no updates were made to the QuickBooks records after May 2021. Investigators obtained as many receipts as possible from vendors listed in the town's bank statements, and all those purchases appeared to be for the benefit of the town. Furthermore, the town's mayor stated he regularly reviewed the town's bank statements and retained possession of the town's debit card after August 2020.

- In October 2021, town officials informed investigators that a \$25 purchase made at a Taco Bell restaurant by the town's former maintenance employee, who is also the son of the former water department manager, might have been an act of misappropriation of town funds. Investigators reviewed the town's bank records and determined the purchase was made in August 2020. Both the mayor and the former water department manager confirmed to investigators that the mayor confronted the water department manager about the purchase, and the \$25 was immediately repaid. Investigators observed in the minutes of the town's board of mayor and aldermen meetings after the incident that the mayor advocated for the former water department manager's son be retained as an employee of the town, identified him as a "hard worker" on multiple occasions, and eventually advocated for him to receive a pay raise in July 2021. The son of the former water department manager was retained as a maintenance employee until he resigned in August 2021.
- Because numerous purchases were never entered into the town's accounting records, bank statements could not be reconciled with the accounting records. The former water department manager told investigators that she never attempted to reconcile the town's bank statements because she did not know how to do it. Town officials did not recognize or rectify this deficiency at any point during the August 2020 to August 2021 period.

3. TOWN OFFICIALS FAILED TO REQUIRE TOWN PERSONNEL TO KEEP RECORDS OF TIME WORKED

Investigators were unable to locate consistent records of time worked by town employees after August 2020, and therefore could not recalculate the town's payroll for accuracy. The town removed its time clock for unknown reasons after August 2020. Subsequently, employees were not required to make or retain records of their time worked. The timing of this change coincided with the consolidation of the duties of the recorder position with the duties of the water department manager, and this consolidation placed all town payroll recordkeeping with one individual. The town provided no additional oversight to ensure recordkeeping was adequate, or that there was no abuse of the payroll function. As a result, payroll records at the town were inadequate and incomplete.

Investigators reviewed all payroll checks written to the former water department manager and three of her children who had worked for the town at different times from 2020 through August 2021. There were consistent timekeeping records available for only one of those four persons, and that one person stopped working for the town in August 2020. Payroll checks to the

remaining three persons were reviewed for consistency and frequency. Investigators noted all payroll checks were signed by the mayor and an alderman in accordance with the town's established check disbursement procedures. Based on the relative amount and frequency of pay, and the fact all payroll checks were signed by the appropriate parties, investigators could not conclude any compensation to the former water department manager and her three children was inappropriate.

4. TOWN OFFICIALS FAILED TO ENSURE THE TOWN'S PETTY CASH WAS ACCOUNTED FOR ADEQUATELY

The town maintained a petty cash box in its safe for its general and water department funds. The town used these funds to purchase supplies, reimburse employees who used their personal funds to purchase supplies for the town, and as a cash drawer for transactions related to the respective funds. The town used checks and a debit card for purchases, and there was no explanation for the regular use of petty cash to reimburse employees who made purchases with personal funds. Investigators determined petty cash was replenished with checks written to petty cash from the respective funds (general or water department). All checks reviewed were appropriately signed by the mayor and an alderman.

The cash box contained informal handwritten ledgers to account for the use of petty cash. The ledgers contained information concerning when reimbursements were paid to employees, or when cash was used directly to buy supplies. There were also envelopes containing some receipts for purchases made with or reimbursed by petty cash funds. Investigators concluded there was not a complete accounting of the use of the petty cash funds since the ledgers were sporadically maintained. For example, there was a complete accounting of petty cash usage for each fund from July to September 2020, but records became sporadic thereafter stating only on arbitrary dates that the funds "balanced" without further explanation. Also, there was no recordkeeping for the use of the petty cash funds as a cash drawer for water bills and other customer collections.

Several weeks after the former water department manager left town employment, investigators conducted a cash count of the petty cash on hand. According to the ledger maintained with the town's petty cash funds, the amount on hand for the water department's petty cash fund was supposed to be \$459.12. The count conducted by investigators and verified by town personnel reflected the amount of cash on hand was \$242.02. Town personnel had no explanation for the \$217.10 difference or the lack of records to account for the use of the town's cash. Town personnel stated that several persons – a volunteer, a newly hired employee, the mayor, and various aldermen – had all worked at the office at one point or another after the former water department manager left on August 31, 2021. There was no way for investigators to determine if a true cash shortage existed due to the lack of records of the use of cash and the number of persons involved in the town's cashing function for the office after August 31, 2021.

INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES

Our investigation revealed the following deficiencies in internal control and compliance. These deficiencies included:

Deficiency 1: Town officials did not ensure accounting records were prepared and maintained properly

Town officials did not ensure accounting records were prepared and maintained properly in accordance with generally accepted accounting principles. For example, investigators noted bank statements were not reconciled with general ledger accounts after the recorder position was consolidated with the water department manager position in August 2020. Also, the town's files did not include adequate supporting documentation for most disbursements; therefore, authorized check-signers did not review and approve adequate supporting documentation before they signed checks. If the town's governance had been monitoring the town's finances from August 2020 to August 2021, they could have noted the water department manager's failure to prepare and maintain adequate records of the town's financial transactions.

The condition of the town's physical and digital financial records was inadequate. Records were either incomplete or inaccessible in the condition in which they were maintained by town officials. These deficiencies can be attributed to a lack of oversight and the failure of officials to take proper responsibility for the town's accounting processes and records. Inadequate or nonexistent accounting records inherently increase the risk that the town's funds could be used inappropriately or misappropriated.

According to Article VI, Section 10 of the *Charter of the Town of Lynnville*, "There shall be installed and maintained adequate accounting records in accordance with generally accepted principles of municipal accounting." The town's governance failed to ensure compliance with that element of the charter. Furthermore, the failure to maintain accounting records on a current basis diminishes the usefulness of the financial records as a management tool and results in a loss of budgetary and accounting control.

Town officials also stated to investigators that someone had removed records from the town's office. However, town officials could not identify specifically what records or when the records had been removed. If town officials had provided sufficient oversight and monitoring, any removal of records could have been promptly detected.

Deficiency 2: Town officials assigned incompatible duties to town personnel

Town officials failed to separate incompatible financial duties. The Town of Lynnville concurrently employed the water department manager, a maintenance employee, and a police officer. It also had a mayor, vice-mayor, and four aldermen. Town officials should have separated some elements of the collection of funds, issuance of receipts, preparation of deposits, posting of collections to records, counting cash, and verification of accounting entries among its employees and town officials, which could have created a layer of internal control. After the consolidation of

the duties of the town recorder position with the water department manager's position, the town predominantly relied on the same person for all the above-noted duties, but officials failed to increase their monitoring activities, which diminished its control environment. A weak or nonexistent internal control environment inherently increases the risk that the town's funds could be used inappropriately or misappropriated.

Deficiency 3: Town officials failed to implement sufficient control activities related to collections

The Comptroller of the Treasury's *Internal Control and Compliance Manual for Governmental Units and Other Organizations* (Manual) defines control activities as "...the actions management establishes through internal control policies and procedures to achieve objectives and manage risks." The water department manager was not required to and did not prepare daily collection reports or any other documentation to clearly identify specific collections made on particular business days, and by whom. Furthermore, no other persons were monitoring any activity of this type, therefore increasing the risk that the process could be manipulated without prompt detection. The Manual states that "All these processes should be monitored on an ongoing basis." Officials should ensure each day employees who collect cash summarize 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, when applicable. The total on the corresponding deposit slips as well as the total of all applicable prenumbered receipts should agree with the total collections recorded on the daily collection report. Weak or nonexistent internal control activities inherently increase the risk that the town's funds could be used inappropriately or misappropriated.

Deficiency 4: Town officials failed to ensure adequate documentation for petty cash was maintained and permitted commingling of petty cash with other funds

Petty cash was maintained on hand at the town's office for multiple reasons. One reason was to make small purchases for the town or to reimburse employees or officials who made purchases on the town's behalf. Investigators could not locate adequate supporting documentation for many petty cash transactions. The lack of supporting documentation and internal controls over petty cash transactions creates a risk that the town's funds could be used inappropriately or misappropriated.

As noted above, the town's petty cash fund was maintained to make small purchases for the town, but it also served as a cash and change drawer for collections for the general fund and water department fund. There was no set amount for the town's petty cash. A petty cash fund should be established at a "fixed sum" and only used for minor purchases. Petty cash should not be used to make change for other collections and is maintained separately from other town business collections. Investigators' review of petty cash funds revealed an inadequate accounting of those funds. Inadequate documentation and commingling of different sets of funds increases the risk that the town's funds could be used inappropriately or misappropriated.

Deficiency 5: Town officials failed to prepare and submit a budget to the Comptroller of the Treasury for the fiscal year 2021-2022

Town officials failed to prepare and submit a budget to the Comptroller of the Treasury’s Division of Local Government Finance for fiscal year 2021-2022. According to the Comptroller of the Treasury’s *Tennessee Budget Manual for Local Governments*, “Prior to the beginning of each fiscal year, a local government should adopt a budget that meets all legal and program requirements and email it...to the Division of Local Government Finance...within 15 days after adoption.” A local government has two months after the beginning of its fiscal year to comply with this requirement. Among other issues, failure to draft, approve, and submit a budget reduces a town’s ability to manage the use of its funds during an accounting period. Such a failure inherently increases the risk that the town’s funds could be used inappropriately or misappropriated.

Deficiency 6: Town officials failed to approve or document adjustments to utility bills

Town officials who oversee the town’s water department failed to create a policy or process to review and approve adjustments to utility bills. Officials should ensure that charges disputed by utility customers are reviewed, and adjustments to those charges are approved by the governing body of the utility. A policy should be in place to direct the adjustment process, but town officials had no such policy. Town officials also did not ensure personnel maintained a record of all adjustments to customers’ utility bills or document that adjustments were approved. Each adjustment should be documented, and that documentation should be maintained by the department. Inadequate documentation of adjustments and approvals of adjustments increases the risk that town’s funds could be misappropriated.

Deficiency 7: Town officials approved hiring the former water department manager’s family members in violation of the town’s personnel policy

Town officials failed to follow or enforce the *Town of Lynnville, Tennessee Personnel Policy* regarding nepotism. According to Section 2.10 of that policy, “No two employees who are relatives shall be placed in the same line of supervision.” Town officials supported the hiring of the former water department manager’s two sons and a daughter as employees of the water department. The former water department manager was the supervisor of that department. Even though one of her sons was designated to report to the mayor, the former water department manager was the only employee regularly working and present at the town and typically gave that person (her child) assignments, especially those pertaining to the water department. Minutes of different meetings of the board of mayor and aldermen indicate they chose to permit these hirings but made no effort to increase monitoring of those persons’ (the water department manager’s children) time reporting. Actively violating a town policy inherently increases the risk the town’s funds could be misappropriated.

Town officials indicated that they have corrected or intend to correct these deficiencies.