

STATE OF TENNESSEE

**SPECIAL REPORT ON THE
CARTER STREET CORPORATION**
**FOR THE PERIOD DECEMBER 2005
THROUGH DECEMBER 2009**



COMPTROLLER OF THE TREASURY

Division of County Audit

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COMPTROLLER OF THE TREASURY
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February 23, 2010

To the Board of Directors of the Carter Street Corporation,
Honorable Claude Ramsey, Mayor, Hamilton County, Tennessee, and
the Honorable Ron Littlefield, Mayor, City of Chattanooga, Tennessee

As a result of certain allegations this office received concerning the purchase of vehicles by the Carter Street Corporation, we conducted a special investigation of vehicle transactions of the Carter Street Corporation, a joint venture between Hamilton County and the City of Chattanooga. This investigation was for the period December 2005 through December 2009 and included interviews; an examination of invoices, vehicle titles, other corporate records; and an evaluation of board policies and procedures.

We reviewed a finding resulting from this special investigation with the former executive director, two board members, and the independent auditor of the Carter Street Corporation. The finding and recommendation resulting from our special investigation together with a written response from a member of the board of directors are presented in this report.

Sincerely,

A handwritten signature in black ink that reads "Jim Arnette".

Jim Arnette, Director
Division of County Audit

cc: Bill McGriff, Hamilton County Internal Auditor
Curtis Adams, Chairman Hamilton County Commission
Stan Sewell, City of Chattanooga Internal Auditor
Jack Benson, Chairman City of Chattanooga City Council
Stephen Keown, CPA, Independent Auditor
Bill Cox, District Attorney General
Tim Riddle, Ex-Director of Carter Street Corporation

**SPECIAL REPORT ON THE
CARTER STREET CORPORATION
For the Period December 2005 through December 2009**

We received allegations concerning the purchase of vehicles by the Carter Street Corporation. We investigated these allegations and determined that board policy had been violated concerning the purchase of vehicles. Our special investigation was for the period December 2005 through December 2009.

Background

The Carter Street Corporation is a nonprofit joint venture between the City of Chattanooga, Tennessee, and Hamilton County, Tennessee. Carter Street Corporation serves as the coordinating body for the development, operation, and management of the Chattanooga Hamilton County Convention and Trade Center and parking garage, and is the lessor of the adjoining hotel.

The policies of the board of directors of the Carter Street Corporation require the public solicitation of competitive bids and board approval for purchases exceeding \$10,000, and checks exceeding \$5,000 must be signed by the executive director and the board chairman.

FINDING 09.01

DEFICIENCIES IN THE PURCHASE OF VEHICLES

(A., B., C., and D. – Material Noncompliance Under Government Auditing Standards; E. – Internal Control – Material Weakness Under Government Auditing Standards)

Our investigation noted the following vehicle transactions:

1. Purchase of 2006 Dodge Ram

Prior to 2005, the Carter Street Corporation leased vehicles for the use of the executive director. On December 27, 2005, the Carter Street Corporation purchased a 2006 Dodge truck for \$36,645.16. The Carter Street Corporation made monthly payments of \$649.97 directly to the financing company. On June 25, 2007, the Carter Street Corporation paid off the balance due on the vehicle totaling \$29,880.29. Our investigation disclosed the following deficiencies concerning these transactions:

- A. The purchase was not competitively bid. Board policy requires competitive bids on purchases exceeding \$10,000.
- B. The purchase was not approved by the board of directors as required by its policy. The executive director, Mr. Tim Riddle, advised us that he received approval for this purchase from board chairman, Mr. Jimmy Hudson, III. Mr. Hudson advised us that he approved the purchase and payoff of the loan by telephone, and although Mr. Hudson knew the board's policy on purchases, he had forgotten it. The other members of the board had no knowledge of the purchase.

- C. The payoff check for \$29,880.29 was signed by the executive director and the assistant business manager. It was not signed by the board chairman as required by board policy.
 - D. The vehicle was placed on the capital asset records of the Carter Street Corporation at the time it was paid off rather than at the time of the purchase. Also, it was placed on the accounting records at the payoff amount rather than the original purchase price as required by generally accepted accounting principles.
 - E. The vehicle was titled in the name of Mr. Tim Riddle instead of in the name of the Carter Street Corporation.
2. Purchase of 2008 Ford F-250 Truck

On March 11, 2008, the 2006 Dodge truck noted in part No. 1 was traded for a 2008 Ford truck. The loan balance of \$27,289.82, after the trade-in, was financed with monthly payments of \$538.64. On February 24, 2009, the Carter Street Corporation paid off the balance of \$23,514.14. Our investigation disclosed the following deficiencies concerning these transactions:

- A. The purchase was not competitively bid. Board policy requires competitive bids on purchases exceeding \$10,000.
- B. The purchase was not approved by the board of directors as required by its policy.
- C. The pay-off check for \$23,514.14 was signed by the executive director and the assistant business manager. It was not signed by the board chairman as required by board policy.
- D. The vehicle was placed on the capital asset records of the Carter Street Corporation at historical cost on July 1, 2008, rather than at the time of the purchase (March 11, 2008) as required by generally accepted accounting principles.
- E. The vehicle was titled in the name of Mr. Tim Riddle instead of the Carter Street Corporation. On December 11, 2009, after the independent auditors questioned Mr. Riddle and the board of directors concerning the vehicle payments, the title was transferred from Mr. Riddle to the Carter Street Corporation.

3. Other Vehicle Purchases

During the period under examination, the Carter Street Corporation purchased two other vehicles. The executive director received verbal approval of the board chairman for these purchases. On December 24, 2008, the Carter Street Corporation purchased a 2008 Jeep Grand Cherokee with a down payment of \$2,440.75 and financed the balance of \$21,966.75. On February 26, 2009, the Carter Street Corporation purchased a 2009 Hyundai Genesis with a down payment of \$10,000 and financed the balance of \$34,000. These vehicles were titled in the name of the Carter Street Corporation and were properly reflected on the capital asset records of the corporation. However, our investigation did disclose the following deficiencies concerning these transactions:

- A. The purchases were not competitively bid as required by board policy. Board policy requires competitive bids on purchases exceeding \$10,000.
- B. The purchases were not approved by the board of directors as required by board policy.
- C. The down payment check for \$10,000 was signed by the executive director and did not include the signature of the board chairman as required by board policy.

We discussed these deficiencies with Mr. Riddle, two members of the board of directors, and the independent auditor. On January 20, 2010, Mr. Riddle resigned his position as executive director of the Carter Street Corporation effective January 31, 2010.

RECOMMENDATION

The board of directors should ensure that all vehicles purchased are properly titled to Carter Street Corporation and are reflected as corporate capital assets at historical cost. Board approval and publicly advertised competitive bids should be solicited for all purchases exceeding \$10,000. Checks exceeding \$5,000 should be signed by the executive director and chairman of the board in compliance with board policy.

MANAGEMENT'S RESPONSE – BOARD MEMBER MS. ANNE WILKINS

The board of directors concurs with the finding and has taken appropriate actions.