

CITY OF JOHNSON CITY
GENERAL NOTIFICATION AND DISCLAIMER
Related to
AUDIT REPORTS OF FY 2016, FY 2017, FY 2018, AND FY 2019

Posted February 2022

The City issues this **General Notification and Disclaimer** concerning Notes reported by the Auditor on financial transactions and incidents and discussed in each of the Audit Reports for Fiscal Years 2016, 2017, 2018 and 2019. This Notification and Disclaimer is provided as an update to and for full comprehension of the events reported.

1) Misappropriated Funds; Embezzlement

Auditor Notes. The Auditor's Notes in reports for FY 2017, 2018, and 2019 reported on "misappropriated funds" of \$302,800 for a purported paving project, and of \$455,037 (uncovered through 2020) transferred to a personal bank account.

Background and Update. In 2021, a federal criminal investigation found that former Chief Administrative Officer/City Secretary Anthony Holland had embezzled over \$1 million, (including the reported misappropriated funds) from the City over a period of years during his tenure with the City. Holland used the money for his personal benefit, including purchasing a residence in San Antonio. He concealed the embezzlement by falsifying city financial records and other documents. In December 2021, Holland pled guilty to theft from the City in the amount of \$1,175,866.91 and agreed to forfeit the money and the house.

2) Payroll Taxes

Auditor Notes. The Auditor's Notes in reports for FY 2018 and 2019 state that payroll taxes of \$367,818 for the years 2017 through 2020 had not been paid by the City.

Background and Update. In 2021, upon learning the of delinquent taxes, the City contacted the Internal Revenue Service ("IRS") and negotiated with the IRS for payment in lieu of litigation. (The City posits that the nonpayment stems from the illegal activities discussed above.) The City assumed a general obligation refunding bond in August 2021 with the proceeds used to pay the IRS debt in full. Repayment of the bond is via assessment of tax on the interest and sinking portion of the city property tax.

3) Unauthorized Audit; Delinquent Audits; I&S Fund

Auditor Notes. The Auditor's Notes in reports for FY 2016, 2017, 2018, and 2019 state that a document purporting to be the 'FY 2016 Audit Report' had been filed on the Electronic Municipal Marketplace Access ("EMMA") of the Municipal Securities Rulemaking Board, that audits for those years were delinquent, and that a required interest and sinking fund had not been established.

Background and Update. This 'FY 2016 Audit Report' had not been created by the City Auditor nor approved by the City Council. Regardless, it had been posted on the City's website in 2018 and later inadvertently posted on EMMA in 2019. In 2020, the City posted on EMMA a notice advising of this unauthorized audit. In October 2020, the Securities and Exchange Commission initiated a formal investigation into the report with which the City has cooperated and assisted. To date, the matter remains pending. (The City posits that the fraudulent audit was created to cover up the fund embezzlement discussed above.) Regarding the other matters stated, the audits for 2016 and 2017 were completed and the reports approved by Council in 2020 and the audits for 2018 and 2019 were completed and approved in 2021. An interest and sinking fund was created in 2020 for all bond series and is in effect.