



COMPTROLLER'S INVESTIGATIVE REPORT

Hiwassee College

October 15, 2020

Justin P. Wilson
Comptroller of the Treasury



DIVISION OF INVESTIGATIONS



JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Deputy Comptroller

October 15, 2020

Mr. Jason Gattis
Chairman of the Board of Trustees
Hiwassee College
225 Hiwassee College Dr
Madisonville, TN 37354

Chairman Gattis:

The Office of the Comptroller of the Treasury conducted an investigation of selected records of the Hiwassee College, 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 10th Judicial District, certain state legislators, and various other interested parties. A copy of the report 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 that reads "Justin P. Wilson".

Justin P. Wilson
Comptroller of the Treasury

JPW/MLC

INVESTIGATIVE REPORT

Hiwassee College

The Office of the Comptroller of the Treasury, in conjunction with the Tennessee Bureau of Investigation, investigated allegations of malfeasance related to Hiwassee College (HC). The Comptroller's Office initiated the investigation after receiving a request for assistance from the District Attorney General of the 10th Judicial District related to questionable transactions. The results of the investigation were communicated with the Office of the District Attorney General of the 10th Judicial District.

BACKGROUND



Hiwassee College, located in Monroe County, was founded in 1849 and is a four-year college with a focus on liberal arts instruction. The college is a non-profit corporation and is governed by a president and board of trustees. HC generates revenue primarily from tuition and fees, investment income, gifts, and contributions.

The use of some gifts is restricted by the donors, and these gifts constitute a portion of HC's endowment. *Tennessee Code Annotated*, Section 35-10-206(d), authorizes institutions to release or modify donor imposed restrictions in whole or in part if the institution determines that the restriction is unlawful, impracticable, impossible

to achieve, or wasteful to the institution, sixty days after notification to the attorney general and reporter, if:

- a. The fund subject to the restriction must be less than \$150,000 in 2012, to be increased by \$5,000 every July 1 thereafter (\$195,000 in 2020);
- b. More than 20 years have elapsed since the fund was established; and
- c. The institution must use the released or modified funds in a manner consistent with the charitable purposes expressed in the gift instrument.

Over a period of years, HC's attendance dwindled, and it struggled financially. On March 28, 2019, the board of trustees determined the funding shortfall was insurmountable and voted to close the college. HC officials indicated that they are aware of, and are complying with *Tennessee Code Annotated*, Section 48-64-101, *et seq.*, which governs voluntary dissolution of nonprofit corporations.

HC advised the attorney general of the intended dissolution and termination in May 2019 and has continued to communicate with the attorney general regarding its plans and actions to release restrictions on gifts, sell assets, pay creditors, and distribute any remaining assets.

The dissolution and termination of HC is ongoing.

RESULTS OF INVESTIGATION

• HIWASSEE COLLEGE HAD MULTIPLE OPERATING DEFICIENCIES

Investigators interviewed former and current HC employees and reviewed accounting records, bank statements, and supporting documentation for the period July 1, 2016 through September 2, 2019, and noted operating deficiencies related to disbursements, travel reimbursements, and the release of restrictions on monetary gifts. These deficiencies can be attributed to a lack of management oversight and inadequate maintenance of accounting records. These deficiencies are noted below:

- A. HC officials did not adequately review supporting documentation for some disbursements. The former president gave receipts for her travel expenses to her assistant who prepared her expense reports. The former president reviewed the expense reports and approved them by signing the reports. Investigators determined the former president approved an expense report in November 2017 and was reimbursed \$1,510.77 for lodging. The former president approved a second expense report in March 2018 and was reimbursed \$1,510.77 for the same lodging expenses. The former president explained that her assistant mistakenly submitted the same expense report twice, and she (the former president) has agreed to reimburse this amount to the college.
- B. HC officials did not ensure all provisions required by *Tennessee Code Annotated*, Section 35-10-206(d) were met before funds were released from donor imposed restrictions. During the period September 6, 2013 through July 29, 2019, HC officials released at least \$1,135,170.56 from donor restrictions that did not comply with provisions of *Tennessee Code Annotated*, Section 35-10-206(d) as summarized:
 1. Although HC officials provided notice to the Attorney General, officials released funds totaling \$1,068,718.47 prior to the expiration of the 60-day notice period.
 2. HC officials released funds totaling \$66,452.09 from restrictions prior to the fund being at least 20 years old.

It should be noted that released funds were deposited into the operating account and our review found no indication that the institution failed to use the released funds for the benefit of the college.

Board members indicated that they have corrected or intend to correct these deficiencies.