



COMPTROLLER'S INVESTIGATIVE REPORT

City of Church Hill

August 22, 2022

Jason E. Mumpower
Comptroller of the Treasury



DIVISION OF INVESTIGATIONS



JASON E. MUMPOWER
Comptroller

August 22, 2022

City of Church Hill
Board of Mayor and Alderman
300 East Main Boulevard
Church Hill, TN 37642

City of Church Hill Board of Mayor and Alderman:

The Office of the Comptroller of the Treasury conducted an investigation of selected records of the City of Church Hill, 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 3rd 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

CITY OF CHURCH HILL

The Office of the Comptroller of the Treasury investigated allegations of malfeasance related to the City of Church Hill. The investigation was limited to selected records from July 2020, through May 2022. The results of the investigation were communicated with the Office of the District Attorney General of the 3rd Judicial District.

BACKGROUND



The City of Church Hill (city) is in Hawkins County, Tennessee, and is governed by a mayor, vice mayor, and five aldermen. With a population of approximately 6,700 residents, the city operates a police and fire department, a public works department, a fitness center, and a senior center.

Stacy Mayes worked for the city beginning in 2015 as the court clerk. In this capacity, some of Mayes' responsibilities included attending court proceedings, managing records, accepting daily collections, and making deposits for the police department. Mayes left the employment of the court clerk's office in November 2021.

RESULTS OF INVESTIGATION

1. COURT CLERK STACY MAYES MISAPPROPRIATED CHURCH HILL FUNDS TOTALING AT LEAST \$2,941

During the period March 2021 through October 2021, Mayes misappropriated city funds totaling at least \$2,941. In most instances, Mayes concealed her misappropriation by using the same official receipt for multiple transactions, allowing her to remove cash from her collection drawer equal to the amount of the initial receipt and still balance her collection drawer at the end of the day. Mayes issued the customer the white copy of the carbon copy receipt at time of collection and then issued the yellow and/or pink receipt copies for other transactions. For example, in March 2021, Mayes issued receipt #101954 for two collections: a \$3.00 cash copy fee which was deposited into a city bank account, and a \$150.00 cash traffic citation fine which was not deposited into a city bank account but rather used by Mayes for her personal benefit [Refer to Exhibit 1].

Exhibit 1

CITY OF CHURCH HILL
P. O. Box 366 City-County Building
Phone: 357-6161
Church Hill, TN 37642

Date 3-24 2021 **101954**

RECEIVED OF [REDACTED]

For [REDACTED] Dollars \$ 157.00

Cash THANK YOU CITY OF CHURCH HILL
Check By [Signature]

Same receipt number (101954) shows different names, dates, and amounts.

CITY OF CHURCH HILL
P. O. Box 366 City-County Building
Phone: 357-6161
Church Hill, TN 37642

Date 3-23 2021 **101954**

RECEIVED OF [REDACTED]

For [REDACTED] Dollars \$ 3.00

Cash THANK YOU CITY OF CHURCH HILL
Check By [Signature]

Mayes altered receipts for #101954.

Mayes was responsible for reconciling daily cash collections and making deposits for the police department. Mayes acknowledged to investigators that she had been taking city collections and using the cash for her personal benefit. Investigators determined that at least two prenumbered receipt books were missing, which created a high risk that additional collections were misappropriated.

2. CASH OF AT LEAST \$192 WAS UNACCOUNTED FOR IN THE CHURCH HILL COURT CLERK'S OFFICE

On December 14, 2021, city officials discovered that operating cash totaling at least \$192 was missing from the court clerk's office in city hall. Due to the lack of controls and since multiple personnel had access to the cash, investigators were unable to determine who was responsible for this missing cash.

Summary of Misappropriated and Unaccounted for Cash

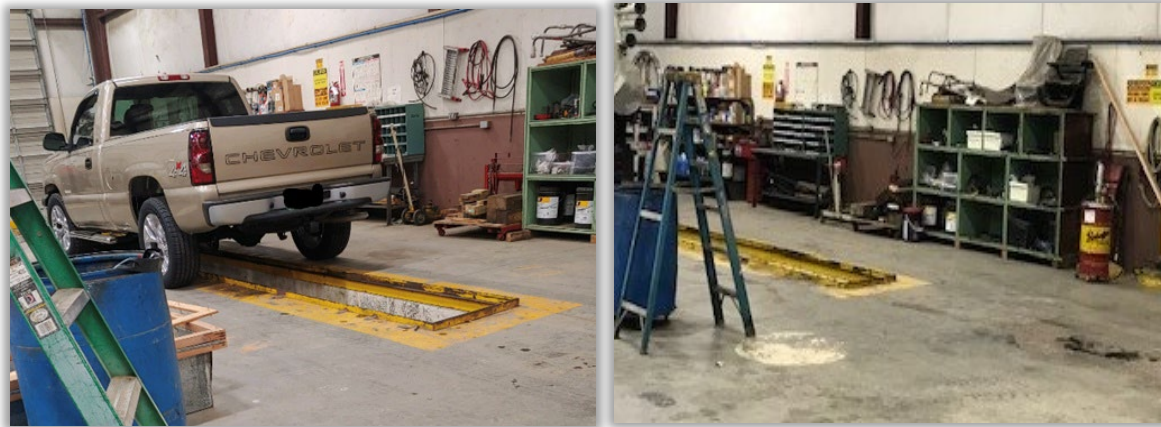
Type	Amount
Misappropriated Cash Collections	\$ 2,941
Unaccounted for Cash	192
Total	<u>\$ 3,133</u>

3. CHURCH HILL MAYOR USED CITY PERSONNEL AND ASSETS FOR PRIVATE PURPOSES

Investigator interviews with city employees revealed the mayor had been misusing city personnel and assets during his tenure. Investigators determined some employees performed work on private property during and after work hours using city assets. These employees stated they felt pressured to perform the private work for fear of losing their jobs. Investigators noted the following improprieties:

- The mayor and employees used city equipment, the maintenance shop, and city time to work on the mayor’s personal property during the period examined. For example, employees stated they worked on automobiles owned by the mayor **[Refer to Exhibit 2]**. Investigators were unable to determine if city supplies were used for these projects.

Exhibit 2



Picture of the mayor’s personal truck in the city maintenance shop on Saturday, April 24, 2021, and picture of the city maintenance shop taken in August 2021.

- City employees stated the mayor used city tools and equipment, including a chainsaw and pressure washer, for his personal benefit. Employees further stated the mayor obtained weed killer from the city for his personal use. Additionally, an employee stated he worked on cabinet knobs belonging to the mayor using the city shop and tools in early 2021.

The mayor acknowledged to investigators that he had used a city chainsaw and pressure washer for his personal use, as well as received weed killer from the city for his personal benefit. He also indicated that he had worked on personal vehicles in the city garage. He further stated that, prior to speaking with investigators, he did not realize using city equipment, city supplies, or the city garage for his personal use was wrong.

On August 15, 2022, the Hawkins County Grand Jury indicted Stacy Mayes on one count of Theft over \$2,500.

The charges and allegations contained in the indictment are merely accusations of criminal conduct, and not evidence. The defendant is presumed innocent unless and until proven guilty beyond a reasonable doubt and convicted through due process of law.

[City of Church Hill Investigative Exhibit](#)

INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES

Our investigation revealed deficiencies in internal control and compliance, some of which contributed to the court clerk's ability to perpetrate her fraudulent transactions without prompt detection. These deficiencies can be attributed to the lack of management oversight and inadequate maintenance of accounting records as noted below:

Deficiency 1: City officials violated the city's garbage policy

Several city employees told investigators that it was a common practice to park city trucks at private residences, thereby enabling property owners to load rubbish from contractors, house remodels, tree cuttings, etc. Employees would subsequently retrieve the loaded city vehicle and take the rubbish to the landfill. The city's garbage policy states materials from contracted jobs, brush, and remodeling jobs must be hauled off by the contractor. Due to the lack of reliable records, investigators were unable to determine when city vehicles were left for private residence use.

Deficiency 2: City officials did not adequately account for its equipment inventory

Officials did not adequately account for its equipment inventory. Investigators performed a physical observation of equipment and noted inventory logs did not exist. A lack of accountability over equipment increases the risk of loss. Management should maintain a current inventory of all equipment owned by the city.

Deficiency 3: City officials had a lack of management oversight which contributed to multiple purchasing deficiencies

Investigators noted the following purchasing deficiencies and noncompliance with city purchasing policies, which are a direct result of a lack of management oversight:

- A. Those with purchasing authority did not always issue purchase orders/authorizations. City policies require purchase orders/authorizations for purchases over \$200, and purchase orders/authorizations are necessary to control who has purchasing authority and to document purchasing commitments. The failure to properly issue purchase orders/authorizations increases the risk of unauthorized purchases.
- B. Management failed to ensure the city promptly and fully paid its credit card and charge cards, incurring finance charges and late fees totaling at least \$672. Management should ensure all credit and charge card balances are paid timely to avoid unnecessary finance charges and late fees.
- C. Management did not require or retain adequate supporting documentation for some disbursements. Investigators could not determine whether these disbursements were for the benefit of the city. Requiring adequate supporting documentation, such as invoices or receipts, allows management to verify the payment is proper and reasonable.
- D. On September 16, 2020, 100 gift cards were purchased from a local store totaling \$5,937.50 (\$50 per 50 cards and \$75 per 50 cards less a \$312.50 discount) [Refer to Exhibit 3]. Also on November 16, 2020, 50 gift cards were purchased from a local store totaling \$1,212.50 (\$25 per 50 cards less a \$37.50 discount) [Refer to Exhibit 4]. Officials stated the gift cards were given to the mayor, aldermen, and employees as holiday gifts. Management did not maintain documentation to support the distribution of the gift cards. Sound business practices dictate that documentation, including employee signatures signifying delivery, should be on file to support all payments. The practice of issuing gift cards without adequate documentation increases the risks of fraud and abuse.

Exhibit 3

<u>Quantity</u>	<u>Beginning Card No.</u>	<u>Ending Card No.</u>	<u>Dollar Amount</u>	<u>Extension</u>
50	6016981050000581680	6016981050000582175	\$50.00	\$2,500.00
50	6016983521000035018	6016983521000035506	\$75.00	\$3,750.00
			SUBTOTAL:	\$6,250.00
			Discount Amount:	\$312.50
			Shipping & Handling:	\$0.00
This amount is due if paid by: October 01, 2020			Total:	<u>\$5,937.50</u>

September 16, 2020, purchase of 100 gift cards.

Exhibit 4

Quantity	Beginning Card No.	Ending Card No.	Dollar Amount	Extension
50	6016980502001347679	6016980502001348164	\$25.00	\$1,250.00
			SUBTOTAL:	\$1,250.00
			Discount Amount:	\$37.50
			Shipping & Handling:	\$0.00
This amount is due if paid by: December 01, 2020			Total:	\$1,212.50

November 16, 2020, purchase of 50 gift cards.

- E. On August 10, 2021, 10 gift cards were purchased from a local restaurant totaling \$500 (\$50 per 10 cards) and given to emergency personnel for their response to a potential crisis event. Management did not maintain documentation to support the distribution of the gift cards. Sound business practices dictate that documentation, including employee signatures signifying delivery, should be on file to support all payments. The practice of issuing gift cards without adequate documentation increases the risks of fraud and abuse.

Deficiency 4: City officials had a lack of management oversight which contributed to payroll deficiencies and noncompliance with city payroll policies

The city had the following payroll deficiencies and noncompliance with city payroll policies due in part to a lack of management oversight as noted below:

- A. In some instances, management did not sign the employees' timesheets as evidence of review and approval. Sound business practice dictates that payroll records be properly reviewed and approved. Management's failure to review and approve timesheets increases the risk of improper payroll payments.
- B. Payroll liability accounts for employee deductions were not reconciled with payroll records, invoices, and payments. In some instances, employee health insurance and other deduction amounts were miscalculated by payroll personnel, resulting in insufficient deductions from these employees' payroll. Therefore, the city was erroneously paying the difference for these employees. This deficiency occurred because payroll personnel did not verify the proper employee deduction amounts. Sound business practices dictate that payroll liability accounts should be reconciled with payroll records, invoices, and payments monthly. The failure to regularly reconcile payroll liability accounts increases the risk that errors will not be discovered and corrected in a timely manner. In addition, retirement and other contributions were not always remitted in a timely manner.
- C. From July 2020 through July 2021, several executive employees received questionable overtime compensation totaling at least \$20,642. According to the Church Hill personnel policy provided to investigators by the city clerk; executive, administrative, and professional employees are exempt from overtime provisions of the Fair Labor Standards Act and are expected to render necessary and reasonable overtime services with no additional compensation.

Deficiency 5: The city had a lack of management oversight which contributed to multiple operating deficiencies

Investigators noted the following operating deficiencies which are a direct result of a lack of management oversight:

- A. The office did not adequately secure cash in the city hall. Office employees stored cash in an unlocked collection drawer [Refer to Exhibit 5] in the court clerk's office. The court clerk's office door was locked at night; however, several employees had keys to the office, and multiple personnel had access to the office where the cash was stored during the day. To ensure accountability and reduce the risk of loss, employees should secure their cash drawer, and management should restrict access to the cash drawer, which should be locked when not in use.

Exhibit 5



Cash drawer in the court clerk's office.

- B. Duties were not segregated adequately among employees in the city hall. The same employees collected funds, issued and voided receipts, prepared deposits, carried deposits to the bank, maintained the accounting records and accounts receivable system, and wrote-off account balances without proper oversight. Sound internal controls require segregation of incompatible duties involving the receipting, disbursing, and recording of funds.
- C. In some instances, city employees did not deposit collections to the office bank account within three days of collection as required by Section 6-56-111, *Tennessee Code Annotated*. This statute requires that city officials deposit all funds no later than three working days after receipt.
- D. A city clerk did not issue official receipts for collections in some instances. Section 9-2-103, *Tennessee Code Annotated*, requires that official prenumbered receipts should be issued for all collections. Without official prenumbered receipts, investigators were unable to determine if the department had accounted for all funds.
- E. Employees did not prepare daily collection reports. Officials should ensure that each day employees 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 any cash over or short. Each report should be dated, and the date should be recorded on the corresponding deposit slip. The total on the corresponding deposit slips as the total of all applicable prenumbered receipts should agree with the total collections recorded on the daily collection report.

- F. The software application utilized by the police department provided a detailed listing of accounts receivable; however, investigators determined that this listing was not accurate. In some instances, the clerk failed to update the records recognizing payments received. Accounting standards provide that internal controls be designed to provide reasonable assurance of the reliability of financial records.
- G. Bank statements were not reconciled with the general ledger timely. In addition, daily cash drawer reconciliations were not performed timely, resulting in cash shortages. Sound business practices dictate that bank statements should be reconciled with the general ledger monthly, and cash drawers should be reconciled with collections daily. Failing to reconcile bank statements and cash drawers on a current basis increases risk that errors or misappropriations will not be detected in a timely manner.

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