

INVESTIGATIVE AUDIT REPORT

LAKeway CENTER FOR THE HANDICAPPED, INC.

JULY 1, 2001, THROUGH APRIL 30, 2004



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
Department of Audit
Division of Municipal Audit



STATE OF TENNESSEE

John G. Morgan

C O M P T R O L L E R O F T H E T R E A S U R Y

Comptroller

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-0260

PHONE (615) 741-2501

November 4, 2004

Mr. Jerry Hammontree, Executive Director
and Board of Directors
Lakeway Center for the Handicapped, Inc.
320 Industrial Avenue
Morristown, TN 37813

Ladies and Gentlemen:

Presented herewith is the report on our investigative audit of the records of the Lakeway Center for the Handicapped, Inc. This examination focused on the period July 1, 2001, through April 30, 2004. However, when the examination warranted, this scope was expanded.

The Comptroller has prescribed a minimum system of recordkeeping for nonprofit agencies, which is detailed in the *Accounting and Financial Reporting for Not-For-Profit Recipients of Grant Funds in Tennessee*. The purpose of our examination was to determine the extent of the entity's compliance with certain laws and regulations, including those in the above-mentioned manual.

Our investigative audit revealed that the former director of finance took or used agency funds totaling \$46,260 that she was not entitled to for her personal benefit. She acknowledged that she was in a financial crisis and took the funds to pay for family necessities. This matter was referred to the local district attorney general. In October 2004, Traysi Elkins, former director of finance, was indicted by a Hamblen County Grand Jury on one count of Theft over \$10,000. Other issues in this report relate to those conditions that we believe warrant your immediate attention.

Mr. Jerry Hammontree, Executive Director
and Board of Directors
Lakeway Center for the Handicapped, Inc.
November 4, 2004

Copies of this report are being forwarded to Governor Phil Bredesen, the State Attorney General, the District Attorney General, certain state legislators, and various other interested parties. A copy is available for public inspection in our office.

Very truly yours,

John G. Morgan
Comptroller of the Treasury



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF MUNICIPAL AUDIT**

John G. Morgan
Comptroller of the Treasury

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Dennis F. Dycus, CPA, CFE, Director
Division of Municipal Audit

November 4, 2004

Mr. John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, TN 37243-0260

Dear Mr. Morgan:

As part of our on-going process of examining the records of nonprofit organizations, we have completed our investigative audit of the records of the Lakeway Center for the Handicapped, Inc.. This examination focused on the period July 1, 2001, through April 30, 2004. However, when the examination warranted, this scope was expanded.

The Comptroller has prescribed a minimum system of recordkeeping for nonprofit organizations, which is detailed in the *Accounting and Financial Reporting for Not-For-Profit Recipients of Grant Funds in Tennessee*. The purpose of our examination was to determine the extent of the entity's compliance with certain laws and regulations, including those in the above-mentioned manual.

Our investigative audit revealed that the former director of finance took or used agency funds totaling \$46,260 that she was not entitled to for her personal benefit. She acknowledged that she was in a financial crisis and took the funds to pay for family necessities. This matter was referred to the local district attorney general. In October 2004, Traysi Elkins, former director of finance, was indicted by a Hamblen County Grand Jury on one count of Theft over \$10,000. Other issues in this report relate to those conditions that we believe warrant the immediate attention of the executive director and board of directors.

Mr. John G. Morgan
Comptroller of the Treasury
November 4, 2004

If after your review, you have any questions, I will be happy to supply any additional information which you may request.

Sincerely,

Dennis F. Dycus, CPA, CFE, Director
Division of Municipal Audit

**INVESTIGATIVE AUDIT OF THE RECORDS
OF THE LAKEWAY CENTER FOR THE HANDICAPPED, INC.
FOR THE PERIOD JULY 1, 2001, THROUGH APRIL 30, 2004**

LEGAL ISSUES

1. **ISSUE: Unauthorized pay increases**

The former director of finance increased the amount of her paychecks with unauthorized and unapproved supplements and pay increases. Her responsibilities included preparing agency payroll records and payroll checks or direct deposit. During the period December 1, 2001, through April 30, 2004, she received supplements to her paycheck that she was not entitled to totaling \$26,452.60. In addition, she received pay raises that were not approved by management totaling \$2,091.98.

2. **ISSUE: Unauthorized insurance benefits**

The agency's personnel policy states that employee insurance costs of up to \$180 per month are paid by the agency. The employee is responsible for any insurance costs above that amount through payroll deductions. The former director of finance was responsible for calculating the employee's portion of insurance costs and ensuring that the appropriate amount was withheld from the employees' pay. However, our investigative audit revealed that the former director of finance received \$15,469.28 in insurance benefits beyond what the agency covered and what she paid for.

3. **ISSUE: Personal credit card charges**

The executive director obtained a credit card to use for agency purposes. However, our investigative audit revealed that the former director of finance used this credit card to make personal purchases. In addition, the former director of finance prepared a fraudulent invoice to justify issuing an agency check to pay for some of these personal charges. The cost to the agency for these charges was \$2,245.73.

The former director of finance acknowledged to auditors that she took or used agency funds that she was not entitled to for her personal benefit. She stated that she was in a financial crisis and used the funds to pay for family necessities.

Schedule of Shortage

Scheme	Amount
Unauthorized Pay	\$ 26,452.60
Unauthorized Insurance Benefits	15,469.28
Personal Credit Card Purchases	2,245.73
Unauthorized Pay Raises	<u>2,091.98</u>
Total	<u>\$ 46,259.59</u>

In October 2004, Traysi Elkins, former director of finance, was indicted by a Hamblen County Grand Jury on one count of Theft over \$10,000.

OTHER ISSUES

Several other issues came to the attention of auditors during the examination.

1. Excess payroll payments to employees

The director of operations apparently inadvertently received unauthorized extra pay for a six-month period. The unauthorized increase almost doubled his bi-monthly take-home pay. He told auditors that he did not notice the increase. Agency management did not discover the overpayment until over a year later. The director of operations has repaid the agency. Auditors also noted that two other employees received unauthorized excess pay or pay increases. We could not determine that the employees who received these unauthorized funds solicited the increases.

The board should ensure that payroll is periodically reviewed to determine that employees' compensation is in accordance with management's wishes.

2. Excess cellular phone minutes

We noted that the former executive director exceeded his agency cellular phone plan minutes of 950 minutes per month by 700, 1,650, and 1,500 minutes during a three-month period. These overages resulted in additional cost to the agency of \$970.25. The former executive agreed to reimburse this extra cost after auditors brought it to his attention.

Our investigative audit also revealed that several cellular phones on the agency plan were for the personal use of employees or used by individuals that were not employees of the agency. The user was supposed to pay for these phones; however, there did not appear to be any controls to ensure that these costs were reimbursed fully and promptly to the agency.

Management should develop and adopt a written cellular phone policy. The policy should prohibit personal use of agency cellular phones and the inclusion of cellular phones for nonagency purposes on the agency plan.