



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF LOCAL GOVERNMENT AUDIT**

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May 22, 2015

MEMORANDUM

TO: Honorable Justin P. Wilson
Comptroller of the Treasury

FROM: Jim Arnette, Director
Division of Local Government Audit 

SUBJECT: Cash Shortages and Other Thefts
for Tennessee Municipalities and Other Organizations Subject to
Contract Audit or Oversight for Fiscal Years Ended 2013 and Earlier

The Division of Local Government Audit has compiled the enclosed cash shortages and other thefts exhibits for the fiscal years ended 2013 and earlier for municipalities and other organizations subject to contract audit or oversight. The information contained herein is based upon information in investigative reports released by the Division of Investigations of the Tennessee Comptroller's Office as well as contract audits submitted by Certified Public Accounting firms to our division. As of the date of this memo, 11 of the 2013 contract audits had not been filed with our office.

The enclosed exhibits represent instances of reported fraud, including balances from prior years, which had not been resolved through restitution, insurance, write-off or other means. Following is a summary of total audited entities by type in relation to the number of entities reporting current and/or prior-year balance(s).

Entity Type	Description	Number of Entities	Reporting Fraud
Municipalities		342	20
Schools	Internal School Funds	143	5
	Public Charter Schools	50	0
	Special School Districts	15	0
Quasi Governments	Utility Districts	183	5
	Housing Authorities	85	7
	Other Quasi Governments ¹	189	4
Nonprofit, Other ²		297	0
Totals		1304	41

Additionally, the following unaudited entities reported fraud:

Entity Type	Description	Number of Entities	Reporting Fraud
Unaudited Entities	School Support Organizations	Not Available	1
	Volunteer Fire Departments	Not Available	1
Totals		Not Available	2

Please let me know if you have any questions.

Enclosures: Exhibit A – Schedule of Cash Shortages and Other Thefts
Exhibit B – Explanations of Cash Shortages and Other Thefts

This report is available at www.comptroller.tn.gov

¹ “Other Quasi Governments” include, but are not limited to, joint ventures between governments, legally separate component units of other governments, human resource agencies, development districts, and community action agencies.

² “Nonprofits, Other” include nonprofit and for-profit organizations that are audited as required by state contracts and agreements in connection with public dollars received by the respective organizations.

**Report of Cash Shortages and Other Thefts
Municipalities and Other Organizations Subject to Contract Audit or Oversight
Reported in Comptroller Investigative Reports and Annual Financial Audits
Fiscal Years Ended 2013 and Earlier**

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Division of Local Government Audit
 Schedule of Cash Shortages and Other Thefts
 Municipalities and Other Organizations Subject to Contract Audit or Oversight
 as Reported in Comptroller Investigative Reports and Annual Financial Audits for the Fiscal Years Ended 2013 and Earlier

Entity Name	Fiscal Year First Reported (1)	Comptroller Investigative Report Release Date (2)	Original Amount of Shortage	Beginning/ Carry- Forward Balance	Current Year Increase	Current Year Reduction	End of Year Balance
Municipalities							
Brighton							
1. Water and Sewer Department	6/30/2013	5/22/2014	\$ 745	\$ 0	\$ 745	\$ 0	745
Chapel Hill							
2. General Government/Fire Department	6/30/2013	(3)	3,130	0	3,130	0	3,130
Collinwood							
3. General Government	6/30/2013	4/7/2014	879	0	879	0	879
Recreation Department	6/30/2013	4/7/2014	1,865	0	1,865	0	1,865
Utility Department	6/30/2013	4/7/2014	91,682	0	91,682	0	91,682
4. Water Department	6/30/2012	(3)	76,497	76,497	0	0	76,497
5. General Government	6/30/2009	2/6/2012	20,375	20,375	0	0	20,375
Utility Department	6/30/2009	2/6/2012	63,803	63,803	0	0	63,803
Friendsville							
6. Water Department	6/30/2013	4/22/2014	15,183	0	15,183	0	15,183
Gadsden							
7. General Government	6/30/2013	12/10/2014	35,241	0	35,241	0	35,241
Gibson							
8. Water and Sewer Department	6/30/2013	9/24/2013	25,850	0	25,850	0	25,850
Water and Sewer Department	6/30/2013	(3)	61,252	0	61,252	0	61,252
Grand Junction							
9. Police Department	6/30/2013	4/10/2013	1,523	0	1,523	(1,523)	0

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Entity Name	Fiscal Year First Reported (1)	Comptroller Investigative Report Release Date (2)	Original Amount of Shortage	Beginning/ Carry- Forward Balance	Current Year Increase	Current Year Reduction	End of Year Balance
Harriman							
10. Recreation Department	6/30/2013	(3)	\$ 25,000	\$ 0	\$ 25,000	\$ 0	\$ 25,000
Henning							
11. General Government	6/30/2013	(3)	424	0	424	0	424
Jellico							
12. General Government	(4)	6/5/2014	96,450	0	96,450	0	96,450
Memphis							
13. Memphis Light, Gas and Water Division	12/31/2013	(3)	18,717	0	18,717	(16,470)	2,247
Morristown							
14. General Government	6/30/2013	(3)	797	0	797	(797)	0
New Market							
15. General Government	(4)	1/16/2014	38,802	0	38,802	0	38,802
Public Works	(4)	1/16/2014	1,285	0	1,285	(1,285)	0
Pikeville							
16. General Government	6/30/2012	8/9/2012	177,599	177,599	0	0	177,599
Philadelphia							
17. General Government	6/30/2013	5/14/2014	6,714	0	6,714	(1,729)	4,985
Ripley							
18. Fire Department	6/30/2013	10/16/2013	971	0	971	(450)	521
Rockwood							
19. General Government	6/30/2012	2/27/2013	33,710	33,710	0	0	33,710

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Entity Name	Fiscal Year First Reported (1)	Comptroller Investigative Report Release Date (2)	Original Amount of Shortage	Beginning/ Carry- Forward Balance	Current Year Increase	Current Year Reduction	End of Year Balance
Unicoi							
20. General Government	6/30/2013	(3)	\$ 657	\$ 0	\$ 657	\$ 0	\$ 657
Watertown							
21. Water and Sewer Department	6/30/2013	9/29/2014	4,139	0	4,139	(4,139)	0
22. Water and Sewer Department	6/30/2012	9/29/2014	14,402	14,402	0	(14,402)	0
23. Water and Sewer Department	6/30/2011	9/29/2014	10,858	10,858	0	(10,858)	0
24. Water and Sewer Department	6/30/2010	(3)	3,580	3,580	0	(3,580)	0
Whiteville							
25. Police Department	6/30/2013	(3)	10,605	0	10,605	0	10,605
Total Municipalities			<u>\$ 842,735</u>	<u>\$ 400,824</u>	<u>\$ 441,911</u>	<u>\$ (55,233)</u>	<u>\$ 787,502</u>
Internal School Funds							
Cannon County Schools							
26. West Side School	6/30/2013	2/13/2014	\$ 2,926	\$ 0	\$ 2,926	\$ 0	\$ 2,926
Cleveland City Schools							
27. Cleveland Middle School	6/30/2013	(3)	265	0	265	(265)	0
Dyersburg City Schools							
28. Dyersburg High School	6/30/2013	(3)	500	0	500	(500)	0
Lawrence County Schools							
29. EO Coffman Middle School	6/30/2013	(3)	6,000	0	6,000	0	6,000

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Entity Name	Fiscal Year First Reported (1)	Comptroller Investigative Report Release Date (2)	Original Amount of Shortage	Beginning/ Carry- Forward Balance	Current Year Increase	Current Year Reduction	End of Year Balance
Marion County Schools							
30. Whitwell High School	6/30/2010	6/10/2014	\$ 35,332	\$ 35,332	\$ 0	\$ 0	\$ 35,332
Total Internal School Funds			\$ 45,023	\$ 35,332	\$ 9,691	\$ (765)	\$ 44,258
Utility Districts							
31. Chuckey Utility District and Cross Anchor Utility District	6/30/2013	8/18/2014	\$ 209,454	\$ 0	\$ 209,454	\$ 0	\$ 209,454
32. First Utility District of Tipton County	12/31/2013	10/14/2013	400	0	400	(400)	0
33. Oak Ridge Utility District	9/30/2013	(3)	746	0	746	(746)	0
34. Sneedville Utility District	3/31/2013	3/13/2013	27,008	0	27,008	(27,008)	0
Total Utility Districts			\$ 237,608	\$ 0	\$ 237,608	\$ (28,154)	\$ 209,454
Housing Authorities							
35. Ripley Housing Authority	12/31/2010	(3)	\$ 249,479	\$ 249,479	\$ 0	\$ (249,479)	\$ 0
36. Other Related Thefts - Tenant Income Falsifications							
Chattanooga Housing Authority	12/31/2013	(3)	167,577	0	167,577	(150,159)	17,418
Columbia Housing & Redevelopment Corp.	12/31/2012	(3)	3,728	3,728	0	0	3,728
Columbia Housing & Redevelopment Corp.	12/31/2013	(3)	7,801	0	7,801	(3,750)	4,051
Dickson Housing Authority	6/30/2013	(3)	4,686	0	4,686	(4,686)	0
Lawrenceburg Housing Authority	12/31/2012	(3)	1,634	1,561	0	(1,561)	0

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Entity Name	Fiscal Year First Reported (1)	Comptroller Investigative Report Release Date (2)	Original Amount of Shortage	Beginning/ Carry- Forward Balance	Current Year Increase	Current Year Reduction	End of Year Balance
Lawrenceburg Housing Authority	12/31/2013	(3)	\$ 1,332	\$ 0	\$ 1,332	\$ (743)	\$ 589
Maryville Housing Authority	12/31/2013	(3)	1,854	353	297	(307)	343
Morristown Housing Authority	12/31/2013	(3)	5,846	0	5,846	(5,846)	0
Total Housing Authorities			\$ 443,937	\$ 255,121	\$ 187,539	\$ (416,531)	\$ 26,129
<i>Other Governmental Entities</i>							
Municipal Energy Acquisition Corporation							
37. Investments with Trustee	12/31/2013	(3)	\$ 3,482,000	\$ 0	\$ 3,482,000	\$ (3,482,000)	\$ 0
38. Investments with Trustee	12/31/2012	(3)	949,000	949,000	0	(949,000)	0
Upper Cumberland Human Resource Agency							
39. Indian Mound Residential Home	6/30/2013	(3)	957	0	957	(957)	0
Venale Corporation							
40. Accounting Department	12/31/2013	(3)	23,318	0	23,318	0	23,318
Westate Corrections Network, Inc.							
41. General Government	6/30/2013	8/22/2013	63,972	0	63,972	0	63,972
Total Other Governmental Entities			\$ 4,519,247	\$ 949,000	\$ 3,570,247	\$ (4,431,957)	\$ 87,290
Total Audited Entities			\$ 6,088,550	\$ 1,640,277	\$ 4,446,996	\$ (4,932,640)	\$ 1,154,633

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Entity Name	Fiscal Year First Reported (1)	Comptroller Investigative Report Release Date (2)	Original Amount of Shortage	Beginning/ Carry- Forward Balance	Current Year Increase	Current Year Reduction	End of Year Balance
<i>Unaudited Entities</i>							
<i>School Support Organizations</i>							
42. Carter High School Band Booster Club (Knox County Schools)	Unaudited	10/6/2014	\$ 33,700	(5)	\$ 33,700	(5)	(5)
<i>Volunteer Fire Departments</i>							
43. Spencer Volunteer Fire Department	Unaudited	4/3/2014	4,325	(5)	4,325	(5)	(5)
Total Unaudited Entities			\$ 38,025	(5)	\$ 38,025	(5)	(5)

Footnotes:

- (1) Annual audit reports are located on the Division of Local Government Audit's website at <http://www.comptroller.tn.gov/la/ReportsAudits.asp>.
- (2) Comptroller investigative reports are located on the Division of Investigation's website at <http://www.comptroller.tn.gov/ia/>.
- (3) No separate investigation was conducted by the Tennessee Comptroller of the Treasury, Division of Investigations.
- (4) As of the date of this report, the 2013 audited financial statements had not been filed with the Division of Local Government Audit.
- (5) For organizations that do not have a statutory annual audit requirement, carry-forward amounts, reductions for restitution, insurance, and/or write-off amounts, and ending balances are not available.

**Division of Local Government Audit
Explanations of Cash Shortages and Other Thefts
Municipalities and Other Organizations Subject to Contract Audit or Oversight
as Reported in Comptroller Investigative Reports and Annual Financial Audits
for Fiscal Years Ended 2013 and Earlier**

Municipalities

Brighton

1. *Water and Sewer Department* - The audit for the Town of Brighton for the fiscal year ended June 30, 2013, reported misuse of municipal equipment and employees from the water and sewer department. An investigative report released by the Division of Investigations on May 22, 2014, details the events involving the mayor's improper use of town-owned assets and employees for private purposes. The investigative audit recommended that the board of aldermen determine the amount of restitution required by the mayor. The report also recommended that the town have written policies prohibiting the use of municipal assets and employees on private property. The board determined that the amount of restitution due to the town was \$745.

Disposition: The \$745 restitution amount determined by the board of aldermen was paid by the mayor subsequent to the town's June 30, 2013, fiscal year end.

Chapel Hill

2. *General Government – Fire Department* – The audit for the Town of Chapel Hill for the fiscal year ended June 30, 2013, reported that the town identified a fictitious invoice, theft of property, and misuse of town assets. Once identified, town officials notified the appropriate authorities and the Tennessee Bureau of Investigation (TBI) investigated the allegations.

Disposition: Once the fraud was discovered, town officials immediately terminated the responsible employee and took steps to strengthen the town's internal controls. The town had not received restitution at June 30, 2013. Subsequent to June 30, 2013, the case went to court and the former employee was indicted on theft of property between \$1,000 and \$10,000. According to the Criminal Fees Summary Schedule provided by the Marshall County Circuit Court, the theft was determined to be \$3,130.

Collinwood – (June 30, 2013)

3. The audit for the City of Collinwood for the fiscal year ended June 30, 2013, reported misappropriated municipal collections of at least \$94,426. An investigative report released by the Tennessee Comptroller of the Treasury, Division of Investigations, on April 7, 2014, details the thefts during the period from July 1, 2012, through July 31, 2013. The thefts resulted from the following:

General Government – The former recorder failed to deposit at least \$879 in property tax collections into a city bank account. Property tax records reflected that the

Exhibit B

former city recorder collected \$879 in cash from certain taxpayers; however, she did not deposit the tax collections into a city bank account.

Recreation Department – Comptroller investigators determined that the former recorder failed to deposit at least \$1,865 in municipal swimming pool cash collections into a city bank account.

Utility Department – The former recorder misappropriated at least \$91,682 in utility cash collections. The recorder was responsible for collecting, recording, and depositing customer utility payments. Comptroller investigators found that the recorder did not deposit all cash collections she received and recorded. For example, during the months of May and June of 2013, she recorded over \$19,000 in cash collections; however, she deposited only \$117 in cash into the city’s utility bank account during this period.

Disposition: No restitution had been made as of June 30, 2013. The former city recorder was indicted on March 14, 2014, by the Wayne County Grand Jury on one count of theft over \$60,000.

Collinwood – (June 30, 2012)

Water Department – The audit for the City of Collinwood for the fiscal year ended June 30, 2012, revealed a cash shortage of \$76,497 in the city’s water department. This shortage was not investigated by the Comptroller’s Office. During the year, two different city recorders were responsible for collections.

Disposition: No restitution had been made as of June 30, 2013. However, both former recorders have since been indicted by the Wayne County Grand Jury for other thefts investigated by the Comptroller’s Office.

Collinwood – (June 30, 2009)

4. The audit for the City of Collinwood for the fiscal year ended June 30, 2009, reported misappropriated municipal collections of at least \$84,178. An investigative report released by the Tennessee Comptroller of the Treasury, Division of Investigations, on April 7, 2014, focused on the period July 1, 2008, through September 30, 2010, and details the thefts. The thefts resulted from the following:

General Government – From July 1, 2008, through September 30, 2010, the former recorder failed to deposit into a city bank account at least \$20,375 in receipted municipal collections, including meter deposits, traffic citations, and building permits.

Utility Department – From July 1, 2008, through September 30, 2010, the former recorder misappropriated at least \$63,803 in utility collections. The recorder did not deposit all cash collections she received and recorded. The recorder destroyed or discarded the city’s paper records for certain utility customers. Auditors discovered that the amounts related to these missing records were equal to the cash shortages in the recorder’s bank deposits.

Disposition: No restitution had been made as of June 30, 2013. The former city recorder was indicted on January 12, 2012, by the Wayne County Grand Jury on one count of theft.

Friendsville

5. *Water Department* – The audit for the City of Friendsville for the fiscal year ended June 30, 2013, reported misappropriated municipal collections of at least \$15,183 in the city’s water department. An investigative report released by the Tennessee Comptroller of the Treasury, Division of Investigations, on April 22, 2014, details the thefts that occurred during the period from January 1, 2012, through April 30, 2013. A former part-time city clerk misappropriated at least \$7,768 in utility cash collections by falsely recording customer cash payments as adjustments, and removing and using the cash for her personal benefit. The remaining \$7,415 was misappropriated by the same clerk by failing to deposit properly recorded cash collections into a city bank account.

Disposition: At June 30, 2013, no restitution payments had been made. Subsequently, in April of 2014, the clerk pled guilty of theft over \$10,000 and was scheduled to be sentenced in June of 2014.

Gadsden

6. *General Government* – The audit for the Town of Gadsden for the fiscal year ended June 30, 2013, reported misappropriated municipal collections of at least \$35,241 in connection with an investigation conducted by the Tennessee Comptroller of the Treasury, for the period April 1, 2009, through December 31, 2013. An investigative report was issued on December 10, 2014, by the Division of Investigations. The investigation details the cash shortage resulting from the former mayor/fire chief diverting municipal funds for his own use, summarized below.

Summary of Amounts Diverted for Personal Use by former Mayor/Fire Chief	
Gasoline, cigarettes, and food items charged to the town from a local convenience store	\$ 33,775
Wal-Mart, Lowes, J&W Surplus and Office Max purchases that appeared to be for personal benefit and were not in the town’s possession	1,416
Community Center rental revenue – check payment cashed and used for personal benefit	50
	\$ 35,241

Additional purchases of \$39,925 were questioned in the Comptroller’s investigative report. Investigators could not determine whether these disbursements were related to municipal purposes, and as a result, questioned their legitimacy. The questioned purchases are explained further in the investigative audit.

Disposition: The investigative audit recommended that town officials take steps to seek recovery of the \$35,241. Additionally, the shortage and other findings addressed in the investigation were reviewed with the local district attorney general. At June 30, 2013, no restitution payments had been made.

Gibson

7. *Water and Sewer Department* – The audit for the Town of Gibson for the fiscal year ended June 30, 2013, reported misappropriated municipal collections of at least \$87,102. The Tennessee Comptroller of the Treasury, in conjunction with the Tennessee Bureau of Investigation, performed an investigative audit of selected records of the Town of Gibson. An investigative report was issued on September 24, 2013, by the Division of Investigations of the Tennessee Comptroller’s Office. The Town of Gibson conducted an internal investigation and determined an additional \$61,252 in misappropriated funds.

TN Comptroller / TBI Investigation

The investigation focused on the period January 1, 2012, through May 31, 2012, during which the former recorder failed to deposit at least \$24,267 in receipted utility collections into a city bank account. During this time, the recorder was responsible for collecting, receipting, recording, depositing, and reconciling all town collections. The investigation also reported that the former recorder used municipal funds to provide herself with unauthorized health insurance benefits of \$1,583.

Disposition: These matters were referred to the local district attorney. In September 2013, the grand jury indicted the former recorder on charges of theft, forgery and official misconduct. As of the last day of the independent auditor’s fieldwork, March 21, 2014, the case was still ongoing.

City Internal Investigation

The Town of Gibson conducted an internal examination for the period January 1, 2011, through December 31, 2011. The examination determined that approximately \$61,252 in cash was misappropriated. The city has turned the internal examination over to its insurance company.

Disposition: As of the last day of the independent auditor’s fieldwork, March 21, 2014, no determination had been made regarding the insurance reimbursement.

Grand Junction

8. *Police Department* – The audit for the City of Grand Junction for the fiscal year ended June 30, 2013, reported misappropriated municipal collections of at least \$1,523 in connection with an investigative report released by the Tennessee Comptroller of the Treasury on April 10, 2013. The Division of Investigations, at the request of and cooperation with the Tennessee Bureau of Investigation, conducted an investigation in response to a reported burglary that occurred on March 10, 2012. The report focused on the period December 1, 2010, through March 31, 2012, and revealed the following:

Exhibit B

- Some seized property, including certain drugs and guns, was not in police custody and could not be located.
- City personnel failed to adequately review fuel purchases for reasonableness. Records of purchases made with a fuel card assigned to the police department indicated that on at least 20 separate occasions, the gallons of fuel purchased for police vehicles exceeded the fuel tank capacity of the vehicles. The total cost of these 20 fuel purchases was \$1,523.
- The police department did not properly and promptly dispose of some seized drugs and guns.

Disposition: Because the responsible individual(s) could not be determined, no restitution was sought by city officials.

Harriman

9. *Recreation Department* – The audit for the City of Harriman for the fiscal year ended June 30, 2013, reported misappropriated municipal collections of at least \$25,000. As a result of weaknesses in the city’s internal control policies and procedures surrounding concession sales, combined with collusion of related employees, approximately \$20,000 during fiscal year 2013 and approximately \$5,000 during fiscal year 2012 in athletic youth concession sales were misappropriated. Financial staff of the city detected the shortages while conducting an analytical review of concession receipts from the prior year.

Disposition: At June 30, 2013, no restitution payments had been made. City officials have taken steps to strengthen internal controls over concession sales. The city also reported the matter to proper authorities and took appropriate personnel action.

Henning

10. The audit for the Town of Henning for the fiscal year ended June 30, 2013, reported that a town employee submitted two requests for reimbursement that were actually duplicate reimbursement requests for amounts already received by the employee. The duplicate reimbursements totaled \$424.

Disposition: The employee who requested and received duplicate reimbursements, as well as the Mayor who approved the requests, are no longer employed by the town. The duplicate invoice payments totaling \$424 were recorded as expenditures in the financial statements for the fiscal year ended June 30, 2013. At June 30, 2013, city officials plan to look at different options to recover the loss. If they are not able to obtain insurance recovery or restitution from the former employee, the city will have to absorb the loss.

Jellico

11. An investigative report dated June 5, 2014, issued by the Tennessee Comptroller of the Treasury, Division of Investigations, reported misappropriated municipal

Exhibit B

collections of at least \$96,450. The Comptroller’s Office, in conjunction with the Tennessee Bureau of Investigation, conducted an investigative audit that detailed the thefts during the period January 1, 2011, through December 31, 2012. The thefts resulted from the following:

Summary of Amounts Misappropriated by Former City Recorder	
Cash collections diverted for personal use	\$ 71,525
Unauthorized payroll checks	2,313
Unauthorized travel and expense reimbursements	3,835
Unauthorized fuel purchases	5,987
Undocumented checks for petty cash	4,228
Unauthorized Lowe’s gift cards	80
Unauthorized groceries and fuel	128
Customer checks not deposited	8,354
	<hr/>
	\$ 96,450

The Comptroller’s investigative audit questioned additional disbursements of \$16,617. Due to the poor condition of the city’s accounting records and the lack of adequate documentation on file, investigators could not determine whether these disbursements were related to municipal purposes, and as a result, questioned their legitimacy.

Disposition: On May 16, 2014, the former city recorder was indicted by the Campbell County Grand Jury on charges of theft over \$60,000 and official misconduct.

Memphis

12. *Memphis Light, Gas and Water (MLGW) Division* – The audit for the Memphis Light, Gas and Water Division for the fiscal year ended December 31, 2013, reported misappropriated municipal funds of at least \$18,717. According to a finding in the separately issued management letter, MLGW discovered that an employee had altered various utility customer accounts, including her own, to prevent disconnection of utility services due to non-payment. The internal investigation by MLGW revealed alterations of 24 customer accounts totaling \$18,717. Upon discovery, the employee immediately resigned her position and the matter was referred to the Memphis Police Department.

Disposition: A warrant was issued for the former employee’s arrest. The former employee was apprehended, an indictment was rendered, and the former employee pled guilty to fraud. The former employee was sentenced to three years probation and ordered to make restitution of \$3,026.

Exhibit B

Each of the customer accounts that were altered was subsequently adjusted to reflect the correct balances, the customers were contacted, and MLGW is pursuing collection of the amounts owed. As of December 31, 2013, the outstanding customer balances related to these altercations totaled \$2,247. The total loss to MLGW, including the write-off of uncollectible utility customer accounts and late penalty fees, approximated \$348 during the year ended December 31, 2013. In 2014, one of the affected customers filed for Chapter 13 bankruptcy and the additional loss in 2014 was \$1,087.

Morristown

13. *General Government* – The audit for the City of Morristown for the fiscal year ended June 30, 2013, reported misappropriated municipal funds of at least \$797. The city's payroll clerk used unearned vacation and compensatory time. On three documented occasions, vacation and compensatory times used were deleted from the payroll system, resulting in falsely inflated balances. As a result, time that had not been earned was used by the clerk.

Disposition: The employee was re-assigned to another department and the fraudulent leave was offset with subsequently earned amounts. Management also plans to develop verification procedures to address the weakness in internal controls over vacation and compensatory leave, and to change their software to require an audit trail of all changes and who made changes to leave.

New Market

14. An investigative report issued on January 16, 2014, by the Tennessee Comptroller of the Treasury, Division of Investigations, for the Town of New Market reported misappropriated municipal collections of at least \$40,087. The Comptroller's Office, in conjunction with the Tennessee Bureau of Investigation, conducted an investigative audit that revealed thefts during the period September 1, 2009, through April 30, 2013. The thefts resulted from the following:

General Government – The former recorder misappropriated \$38,802 in municipal funds. The recorder withdrew \$25,009 from a town certificate of deposit and converted it for her personal use. The recorder concealed the misappropriation by fabricating invoices and altering minutes of meetings of the mayor and board of aldermen. The recorder misappropriated an additional \$13,793 by issuing unauthorized payroll checks to herself and retaining the proceeds for her personal benefit. The recorder deleted most of the unauthorized payroll checks from the town's computerized accounting records, effectively concealing her issuance of these checks.

Disposition: These matters were referred to the local district attorney general. In August 2013, the Jefferson County Grand Jury indicted the former recorder on two counts of theft over \$10,000 and four counts of official misconduct.

Public Works Department – A public works employee used a city fuel card to make personal gasoline purchases totaling at least \$1,285.

Disposition: The city received complete restitution of \$1,285. In January 2014, the Jefferson County Grand Jury indicted the public works employee on one count of theft over \$1,000, two counts of official misconduct, and one count of fraudulent use of a credit card.

Pikeville

15. *General Government* – The audit for the City of Pikeville for the fiscal year ended June 30, 2012, reported findings related to an investigation conducted by the Tennessee Comptroller of the Treasury, Division of Investigations, pursuant to a request from the local district attorney general. The investigative report was issued on August 9, 2012, and focused primarily on the period July 1, 2010, through December 31, 2011; however, when warranted, this scope was expanded. The investigation revealed the following:

Summary of Questioned Purchases Made with City Funds by Former Mayor	
Purchase of a 2008 Honda Element for the mayor’s personal use	\$ 15,900
Unauthorized reimbursements for family health insurance expenses when the mayor’s family received health insurance coverage through the wife’s employer	35,599
Unauthorized payments for a vehicle allowance received by the mayor while he also had a city fuel card and drove a city-owned vehicle	16,200
Purchase of ten (10) used vehicles without obtaining board approval when the vehicles served no apparent municipal purpose and were never titled to the city	109,900
	\$ 177,599

Additional purchases of \$1,942 and \$522 were questioned by the Comptroller’s Division of Investigations. The \$1,942 related to purchases made with the city’s credit card for travel expenses in Florida. The \$522 related to travel expenses while in Gatlinburg. The mayor reimbursed the city for the \$1,942, and although he told investigators that the charges in Gatlinburg may have been associated with a town-related conference, he provided no evidence to support that claim.

Disposition: As of June 30, 2013, the mayor had been relieved of his official position as mayor of Pikeville. He was arrested in July 2012 and in June 2013 plead guilty to one count of official misconduct and one count of theft of property over \$10,000. As of June 30, 2013, he had not been sentenced to pay any restitution to the City of Pikeville.

Philadelphia

16. *General Government* – The audit for the City of Philadelphia for the fiscal year ended June 30, 2013, reported misappropriated funds in connection with an investigative report released by the Tennessee Comptroller of the Treasury on May 14, 2014. The report issued by the Division of Investigations focused on the period January 1, 2013, through November 30, 2013. It was revealed that the former city recorder cashed two unauthorized checks totaling \$638 made payable to herself. The investigation also revealed that city officials did not ensure that complete inventory records of high-risk, moveable property such as sound equipment and computers were maintained, or that all property purchased was available for municipal use. Investigators were unable to locate sound equipment costing over \$600 purchased by the former mayor with city funds for use at a benefit concert.

The investigation also noted a matter that was investigated by local law enforcement officials. Municipal checks were stolen and without the knowledge of the mayor and board of aldermen, 11 of those checks were completed in amounts totaling \$5,476 and cashed by either the individual who had taken the checks or by his acquaintances.

Summary of Missing Municipal Funds and Equipment	
Two unauthorized checks cashed by former city recorder	\$ 638
Stolen checks cashed by non-municipal employees	5,476
Missing sound equipment	600
	\$ 6,714

Disposition: The unauthorized checks that were cashed by the former city recorder were referred to the local district attorney general. In April 2014, the Loudon County Grand Jury indicted the former city recorder on three counts of official misconduct and two counts of forgery. The stolen checks that were cashed totaling \$5,476 resulted in several indictments. The city has indicated that internal controls will be strengthened for the high-risk moveable municipal-owned equipment.

Ripley

17. *Fire Department* – The annual audit for the City of Ripley for the fiscal year ended June 30, 2013, reported a cash shortage of \$971 in the city’s fire department in connection with an investigation conducted by the Tennessee Comptroller of the Treasury. The report, released by the Division of Investigations on October 16, 2013, disclosed that the theft was the result of donations given to the fire department that were stolen by the former fire chief. The fire chief was allowed to retire; however, the city is seeking restitution of the funds.

Disposition: As of June 30, 2013, the city had not received restitution from the former fire chief; however, a judge that reviewed the case noted that a portion of the funds (\$450) had passed the statute of limitations and thus was not recoverable by

the city. As of the date of the audit, the local district attorney was pursuing a suit against the former fire chief and the case was awaiting trial.

Rockwood

18. *General Government* – The audit for the City of Rockwood for the fiscal year ended June 30, 2012, reported that credit card statements were not maintained and receipts were not submitted and retained for most credit purchases. The audit further addressed that many of the credit card purchases did not appear to be for municipal purposes, but were instead personal in nature. An investigative report released by the Tennessee Comptroller of the Treasury, Division of Investigations, on February 27, 2013, for the period January 1, 2009, through January 31, 2012, revealed that the former city coordinator used a city credit card and city store charge to purchase at least \$32,725 in property and services for his personal benefit. The investigation further revealed that the former city accountant used the city’s credit card for unauthorized purchases of \$985.

Summary of Personal Benefit Purchases:

Former City Coordinator	
Guns, ammunition, and related items	\$ 11,900
Clothing	7,263
Cameras, lenses, and photographic supplies	5,697
Online college courses	4,190
Other miscellaneous personal items	3,675
	\$ 32,725
Former City Accountant	
Online college courses	\$ 985
	\$ 985

Disposition: In February 2013, the Roane County Grand Jury indicted the former city coordinator on seven counts, including theft, credit card fraud, and official misconduct. At June 30, 2013, no restitution had been made by either former employee.

Unicoi

19. *General Government* – The audit for the Town of Unicoi for the fiscal year ended June 30, 2013, reported misappropriated municipal funds of \$657. Municipal funds were used to pay for meals of spouses of board members and employees at a municipal function. The auditor recommended that town officials adopt per diem amounts for municipal business trips and retreats that will only apply to town employees and board members.

Disposition: As of June 30, 2013, the town had not received restitution for municipal funds that were used to pay for spouse meals.

Watertown – (June 30, 2013)

20. *Water and Sewer Department* – An investigative report on the City of Watertown was issued on September 29, 2014, by the Tennessee Comptroller of the Treasury, Division of Investigations. The investigation focused on the period January 1, 2011, through June 30, 2013, and reported misappropriations as summarized below. The audit for the fiscal year ended June 30, 2013, reported misappropriated collections in connection with the investigation. Amounts related to prior years were recognized in prior audits.

Investigative Audit Summary of Misappropriated City Collections January 1, 2011 – June 30, 2013	
Water and sewer payments recorded on customer accounts, but not deposited into a city bank account	\$ 19,023
Misappropriated collections for meter deposits and collection fees	2,750
	\$ 21,773

The above shortages were referred to the local district attorney general.

Disposition: During the fiscal year ended June 30, 2013, the city wrote off all amounts from current and prior years. The city did not seek insurance recovery. Additionally, restitution was not required from the city employees. As noted in the Comptroller’s investigation, due to inadequacies in the city’s internal controls, it could not be determined conclusively who was responsible for the misappropriation of city collections.

Watertown – (June 30, 2012)

21. *Water and Sewer Department* – The audit for the City of Watertown for the fiscal year ended June 30, 2012, reported an increase in its receivable balance related to unaccounted for water and sewer collections of \$14,402, addressed as a cash shortage in the separately issued management letter. During the year, two different city employees were responsible for collections and the city did not have an adequate segregation of duties to provide for accountability or responsibility of utility collections. The 2012 shortage includes amounts determined by the city’s accountant and amounts investigated by the Tennessee Comptroller of the Treasury, Division of Investigations, as detailed in the investigative report issued on September 29, 2014.

Disposition: During the fiscal year ended June 30, 2013, the city wrote off the entire \$14,402. The city did not seek insurance recovery. Additionally, restitution was not required from the city employees. As noted in the Comptroller’s investigation, due

to inadequacies in the city's internal controls, it could not be determined conclusively who was responsible for the misappropriation of city collections.

Watertown – (June 30, 2011)

22. *Water and Sewer Department* – The audit for the City of Watertown for the fiscal year ended June 30, 2011, reported an increase in its receivable related to unaccounted for water and sewer collections of \$10,858. During the year, two different city employees were responsible for utility collections and the city did not have an adequate segregation of duties to provide for accountability or responsibility. The 2012 shortage includes amounts determined by the city's accountant and amounts investigated by the Tennessee Comptroller of the Treasury, Division of Investigations, as detailed in the investigative report issued on September 29, 2014.

Disposition: During the fiscal year ended June 30, 2013, the city wrote off the entire \$10,858. The city did not seek insurance recovery. Additionally, restitution was not required from the city employees. As noted in the Comptroller's investigation, due to inadequacies in the city's internal controls, it could not be determined conclusively who was responsible for the misappropriation of city collections.

Watertown – (June 30, 2010)

23. *Water and Sewer Department* – The audit for the City of Watertown for the fiscal year ended June 30, 2010, reported a receivable of \$3,580 related to a cash shortage in the city's water and sewer department. During the year, two different city employees were responsible for utility collections and the city did not have an adequate segregation of duties to provide for accountability or responsibility. The 2010 shortage was not investigated by the Comptroller's Office.

Disposition: During the fiscal year ended June 30, 2013, the city wrote off the entire \$3,580. The city did not seek insurance recovery. Additionally, restitution was not required from the city employees. Because of inadequacies in the city's internal controls, it could not be determined conclusively who was responsible for the shortage in utility collections.

Whiteville

24. *Police Department* – The audit for the Town of Whiteville for the fiscal year ended June 30, 2013, reported misappropriated funds related to overpaid payroll and related expenditures. An employee received workman's compensation as well as compensation from the town for the same period. This employee also received sick leave and/or vacation pay in excess of the amount the employee was due. Overpayments due from the employee are summarized below.

Exhibit B

Fiscal Year	Description	Amount
6/30/2013	Excess Payroll Compensation	\$ 1,808
	Payroll Taxes and Retirement	972
	Unearned Vacation and Sick Leave	4,824
6/30/2012	Excess Payroll Compensation	1,958
	Payroll Taxes and Retirement	259
	Insurances and Other Payroll Deductions	784
		\$ 10,605

Disposition: At June 30, 2013, the employee owed a total of \$10,605.

Internal School Funds**Cannon County Schools**

25. *West Side School* – An investigative report issued on February 13, 2014, by the Tennessee Comptroller of the Treasury, Division of Investigations, disclosed misappropriated and missing internal school funds at West Side School of the Cannon County School System. The investigation focused on the period July 1, 2010, through April 30, 2012. The investigative report details the circumstances surrounding the misappropriated and missing funds, summarized below.

Summary of Misappropriated and Missing Internal School Funds

The girls' basketball coach misappropriated money by depositing school funds into an unauthorized bank account and using these funds for her personal benefit.	\$ 1,990
The school's accounting records did not reflect that school funds collected for basketball games held on November 18, 2010, were receipted or deposited into school accounts.	936
	\$ 2,926

Disposition: At June 30, 2013, the school had not received restitution or insurance recovery for the above. The Division of Investigations referred the above matters to the local district attorney general. On January 24, 2014, the Cannon County Grand Jury indicted the girls' basketball coach on one count of theft over \$1,000.

Cleveland City Schools

26. *Cleveland Middle School* – The audit for Cleveland City Schools – Internal School Funds for the fiscal year ended June 30, 2013, reported cash shortages totaling \$265 at the Cleveland Middle School. In one instance, the bookkeeper used \$110 in internal school funds to purchase an item for personal use. The remaining \$155 represents a cash shortage where faculty collection logs differed from the deposit total submitted by the bookkeeper. From the records available at the time, it did not appear the bookkeeper attempted to reconcile the difference in amounts.

Disposition: The bookkeeper, upon termination, was not required to reimburse the school for the amounts described above. The school retained possession of the asset that was purchased for personal use.

Dyersburg City Schools

27. *Dyersburg High School* – The audit for Dyersburg City Schools – Internal School Funds for the fiscal year ended June 30, 2013, reported a cash shortage of \$500 at Dyersburg High School. The shortage resulted when cash from an athletic event was accounted for by the gatekeepers and placed into an unlocked money bag. After the money was placed into the bag, it was turned over to the athletic/administrative staff member to secure inside the school's vault overnight for processing by the bookkeeper the following morning. When the bookkeeper opened the bag the following morning it was determined from the cash count sheet, completed by the gatekeepers, that there were five, one-hundred dollar bills missing from the bag.

Disposition: Management could not determine the point at which the cash went missing and considered the amount a loss to be written off. Tamper-resistant money bags have been implemented since this incident.

Lawrence County Schools

28. *EO Coffman Middle School* – The annual audit for Lawrence County Schools – Internal School Funds for the fiscal year ended June 30, 2013, reported a cash shortage of \$6,000 at EO Coffman Middle School. During the course of the audit, it was discovered that start-up change was not being re-deposited upon completion of a school event. Amounts disbursed from the school's Cash on Hand account exceeded amounts deposited by \$5,400. Additionally, the Athletic Start-Up account reported disbursements in excess of deposits of \$600.

Disposition: As of the date of the audit, the \$6,000 in change/start-up funds remained unaccounted for.

Marion County Schools

29. *Whitwell High School* – The audit for Marion County Schools – Internal School Funds for the fiscal year ended June 30, 2010, reported a misappropriation in connection with an investigative report released by the Tennessee Comptroller of the Treasury for the period July 1, 2009, through October 31, 2010. The Division of Investigations released a report on June 10, 2014, detailing misappropriated cash collections totaling at least \$35,332 by the former bookkeeper at Whitwell High

School. The bookkeeper did not record these collections in the school’s accounting records or deposit them into the school’s bank account. The misappropriation was concealed by the bookkeeper by depositing un-receipted checks to replace some of the misappropriated cash collections and by providing false account information to teachers, administrators, and auditors.

Disposition: At June 30, 2013, the school had not received restitution from the former bookkeeper. On April 7, 2014, the Marion County Grand Jury indicted the bookkeeper on one count of theft over \$10,000 and one count of vandalism.

Utility Districts

Chuckey Utility District and Cross Anchor Utility District

30. The Chuckey Utility District and the Cross Anchor Utility District are separately chartered utility districts. Both districts are located in the Town of Greeneville, Greene County, Tennessee, and provide water utility services. The Chuckey Utility District reported 4,310 customers and the Cross Anchor Utility District reported 3,131 customers in their 2013 audit reports.

The June 30, 2013, audits for the Chuckey Utility District and the Cross Anchor Utility District, reported findings related to matters that were investigated by the Tennessee Comptroller of the Treasury. An investigative report was issued on August 18, 2014, by the Division of Investigations and focused primarily on the period July 1, 2011, through September 30, 2013; however, when warranted, this scope was expanded. The investigation focused on questionable transactions made by the retired general manager and her daughter who replaced her as general manager. The investigation questioned the following amounts:

Summary of Questioned Transactions by the Retired General Manager and Former General Manager	
The retired general manager received bonuses in December 2012 that had not been approved by the board of commissioners.	\$ 25,056
The former general manager used district funds to purchase a computer for her personal benefit.	2,064
Inconsistencies were noted regarding the interpretation, authorization, and initiation date of an employment contract with the retired general manager.	182,334
	\$ 209,454

The above issues were referred to the local district attorney. An additional \$7,671 and \$3,600 were questioned in the Comptroller’s investigative report. District funds

totaling \$7,671 were used for the retired general manager's retirement party and the former general manager paid annual phone allowances up to \$3,600 per individual to herself and certain other employees of the two districts.

Disposition: As of June 30, 2013, amounts related to the above issues had not been reported on by the Division of Investigations. Accordingly, no amounts of restitution had been made at June 30, 2013. In November 2014, both the retired and former managers were indicted on several counts of official misconduct as well as multiple counts of theft.

First Utility District of Tipton County

31. The First Utility District of Tipton County is located in the City of Covington, Tipton County, Tennessee, and provides water and natural gas utility services. Their 2013 audit reported 3,152 water customers and 2,677 gas customers.

The audit of the First Utility District of Tipton County for the fiscal year ended December 31, 2013, reported misappropriated municipal cash of \$400. An investigative report released by the Tennessee Comptroller of the Treasury in October 2013 revealed that during September 2012, a clerk misappropriated cash from bank bags containing the change fund and meter deposit collections.

Disposition: The clerk admitted to taking the funds. The clerk was terminated on October 2, 2012, and repaid the funds.

Oak Ridge Utility District

32. The Oak Ridge Utility District is located in the City of Oak Ridge, Anderson and Roane Counties, Tennessee, and provides natural gas utility services. Their 2013 audit reported 12,764 customers.

The audit of the Oak Ridge Utility District reported a cash shortage of \$746 for the fiscal year ended September 30, 2013. The theft resulted from the misappropriation of funds by a customer service employee involved with the collection of customer payments. The employee conducted a scheme in which monies received from district customers were taken from his cash drawer and then covered by offsetting entries against other customers' accounts. The employee would reverse these entries when he returned the cash to the cash drawer. The employee took a total of \$746 from his cash drawer and returned \$440. The district's internal controls (a surprise cash drawer audit and subsequent review of his transactions) detected an additional \$306 had been taken before he returned the money. This additional \$306 was recovered from the employee and his employment was terminated.

Disposition: Upon discovery of the theft, as a result of the District's internal controls, the employee admitted to taking customer payments. The employee was required to repay the amount stolen and was subsequently terminated by the District.

Sneedville Utility District

33. The Sneedville Utility District is located in the Town of Sneedville, Hancock County, Tennessee, and provides water utility services. The 2013 audit reported 764 customers.

The audit for the Sneedville Utility District for fiscal year ended March 31, 2013, reported misappropriated funds in connection with an investigation conducted by the Tennessee Comptroller of the Treasury. A report released by the Division of Investigations on March 13, 2013, revealed that from July 1, 2010, through September 30, 2011, the former manager misappropriated \$27,008 in district funds.

Summary of Amounts Misappropriated by Former Manager

Cash collections removed by the former manager in exchange for IOUs and personal checks she never transacted	\$ 1,980
Receipted water meter deposits and service fees that were never deposited into a district bank account and that could not be accounted for otherwise	3,750
Cash shortage in the district's cash drawer in connection with a surprise cash count performed by Comptroller investigators	1,715
Unauthorized health insurance coverage for the former manager and her family members	19,563
	<hr/> <u>\$ 27,008</u> <hr/>

Disposition: Of the above amounts, \$24,908 had been either paid by the former manager or written off as uncollectible as of March 31, 2012. The remaining \$2,100 was collected or written off during the fiscal year ended March 31, 2013.

Housing Authorities

Ripley Housing Authority

34. The Ripley Housing Authority is located in the City of Ripley, Lauderdale County, Tennessee, and administers funds received from the United States Department of Housing and Urban Development (HUD). Their 2013 audit reported that the authority had 265 low income housing units.

The audit of the Ripley Housing Authority for the fiscal year ended December 31, 2010, reported that the prior executive director was terminated during 2010 and convicted of misappropriating assets of the authority and imprisoned for such acts. The misappropriation was first identified by new management and the prior-year auditors in connection with their audit for the fiscal year ended December 31, 2009, as well as a HUD onsite review conducted during 2010. HUD reported

that the former executive director improperly disbursed approximately \$249,479 in operating funds to make personal purchases and unauthorized debit card charges.

Disposition: During October 2013, the Ripley Housing Authority received an insurance reimbursement of \$192,520. The remaining amount of \$56,959 was written-off by the authority as uncollectible.

Other Related Housing Authority Thefts

35. On a routine basis, housing authorities report thefts that are not the result of cash missing from the authorities, but the result of the housing authorities making a determination that a tenant receiving Section 8 housing assistance had misrepresented their household income, thus originally receiving more federal assistance than legally allowed. The housing authorities are allowed to keep one-half of the recovery amounts and the Department of Housing and Urban Development receives the other half.

Disposition: Ending balances represent amounts that have not been recovered or resolved as of the respective housing authorities' fiscal year end.

Other Governmental Entities

Municipal Energy Acquisition Corporation – (December 31, 2013 and 2012)

The Municipal Energy Acquisition Corporation (MEAC) is located in the City of Franklin, Williamson County, Tennessee. MEAC was created under Title 7, Chapter 39, *Tennessee Code Annotated*, as amended. MEAC was incorporated for the purpose of acquiring, financing and managing supplies of natural gas for sale to its associated municipalities and is a public instrumentality of the State of Tennessee and the associated municipalities. Active associated municipalities presently consist of the Cities of Cookeville, Etowah, Lebanon, Loudon, and Sweetwater, Tennessee, the Middle Tennessee Utility District, and the Unicoi County Gas Utility District.

36. *2013 - Investment Accounts* – The audit of the Municipal Energy Acquisition Corporation (MEAC) for the fiscal year ended December 31, 2013, reported \$3,482,000 in fraud perpetrated by an investment trustee. According to the finding in the audit report, the independent auditors noted that MEAC had not obtained monthly investment statements for one of its investment accounts and the general ledger balance had not been reconciled until December 31, 2013. Instead, they were relying on information provided by the trustee. The trustee had transferred funds of \$3,482,000 out of MEAC's investment account, which was outside the scope of their agreement with MEAC. MEAC contacted the trustee representative who confirmed the unauthorized nature of the missing funds and reimbursed MEAC for the entire amount. The trustee internally investigated the missing funds that were found to be fraudulent, and the findings were forwarded to local authorities for further investigation.

Exhibit B

Disposition: The \$3,482,000 was recovered from the trustee in December 2013. MEAC subsequently strengthened its internal controls over investment funds by implementing monthly reconciliations for each of the investment funds. Additionally, MEAC has had discussions with the trustee to better understand the trustee's restructured control environment, established in 2014, to improve segregation of duties.

37. *2012 - Investment Accounts* – The audit of the Municipal Energy Acquisition Corporation (MEAC) for the fiscal year ended December 31, 2012, reported \$949,000 in investment funds that were transferred out of the investment account for MEAC by the investment trustee. This was later discovered to be fraudulent activity during the 2013 audit of MEAC as described above. According to the finding in the audit report, the independent auditors noted that MEAC had not obtained monthly investment statements for one of its investment accounts and the general ledger account balance had not been reconciled. Instead, they were relying on information provided by the trustee.

Disposition: The \$949,000 was recovered from the trustee in October 2013, prior to the release of the December 31, 2012, audit.

Upper Cumberland Human Resource Agency

38. The Upper Cumberland Human Resource Agency is located in the City of Cookeville, Putnam County, Tennessee. The agency was established in 1973 and administers human resource programs in accordance with Title 13, Chapter 26, of *Tennessee Code Annotated*. Their main source of funding comes from pass-through federal grants.

The audit of the Upper Cumberland Human Resource Agency for the fiscal year ended June 30, 2013, reported a cash theft of \$957. Employees at the Indian Mound Residential Home noticed that petty cash, which included residents' allowances, was missing. Employees attempted to identify a perpetrator though an internal investigation. After an unsuccessful attempt, the local Sheriff's Office was notified; however, no suspect was identified.

Disposition: The agency subsequently replenished the missing funds from local funds of the residential programs. The agency strengthened internal controls surrounding the petty cash held at the Indian Mound Residential Home with the purchase of a new safe that requires two employees to open. Additionally, a form was developed that requires employees to log all activity associated with petty cash.

Venale Corporation

39. The Venale Corporation is located in the City of Jackson, Madison County, Tennessee. The agency was organized in 2002 under the name Tennergy Partners, Inc., under *Tennessee Code Annotated (TCA) 7-39-101, et seq.*, the Energy Acquisition Corporations Act, along with *TCA 12-9-101 et seq.*, the Interlocal Cooperation Act, by several municipal entities. As of January 1, 2008 it was reorganized as the Utilicor Corporation. As authorized under the Interlocal

Cooperation Act, public agencies that are members of the Corporation cooperate among themselves and other public agencies on the basis of mutual advantage for the joint and cooperative purchasing of utility materials, tools, supplies, accessories, related equipment, services for construction, operation, and maintenance, etc. to conduct business. In July 2013, the Utilicor Corporation's name and major assets were sold to Boarder States Electric Supply of Tennessee, Inc. As part of the sales agreement, the Utilicor Corporation's name was changed to the Venale Corporation for ongoing operations.

Accounting Department – The audit of The Venale Corporation reported a cash shortage of \$23,318 for the fiscal year ended December 31, 2013. The theft was the result of credit cards, presumed to be closed, that were being improperly used to make personal purchases by an employee at the time. The Corporation sought restitution from the former employee once they became aware of the issue.

Disposition: The Corporation had not received restitution at December 31, 2013; however, prior to the issuance of the audit report, the entire amount had been repaid to the Corporation. The Corporation does not plan to pursue any legal action at this time due to the fact that all monies have been repaid by the former employee.

Westate Corrections Network, Inc.

- 40. Westate Corrections Network, Inc., is located in the City of Union City, Obion County, Tennessee. The Westate Corrections Network, Inc., receives funding and provides community correction services in accordance with Title 40, Chapter 36, of *Tennessee Code Annotated*. Their main source of funding comes from the Tennessee Board of Probation and Parole.

General Government – The audit of the Westate Corrections Network, Inc., for the fiscal year ended June 30, 2013, reported misappropriated municipal collections of at least \$63,972 in connection with an investigative report released by the Tennessee Comptroller of the Treasury, Division of Investigations, on August 22, 2013. From April 1, 2005, through March 31, 2013, a former probation officer diverted cash and money orders from drug court clients totaling at least \$63,972 for her personal benefit. Because the Westate Corrections Network, Inc., failed to adequately monitor certain collections, the probation officer continued the misappropriation undetected for an extended period of time.

Summary of Amounts Misappropriated by Former Probation Officer	
Court fines not remitted to county courts	\$ 56,206
Drug court and supervision fees collected from clients that were not remitted to the Westate Corrections Network, Inc.	7,166
Fines and fees paid by clients not supervised by the probation officer; deposited into the probation officer's personal bank account	600
	\$ 63,972

Disposition: The above matters were referred to the local district attorney general. In August 2013, the Obion County Grand Jury indicted Sue Moore on one count of theft over \$60,000, and one count of money laundering. At June 30, 2013, no restitution had been made; however, collections from the former employee and insurance company were in process.

Unaudited Entities

School Support Organizations

**41. Carter High School Band Booster Club
(Knox County Schools)**

The Office of the Comptroller of the Treasury, Division of Investigations, investigated allegations of malfeasance related to the Carter High School Band Booster Club for the period January 2012 through September 2013. The investigation revealed that the former club treasurer misappropriated booster club funds totaling at least \$33,700. The former band booster club treasurer issued unauthorized club checks to herself and retained the proceeds for her personal benefit. She concealed the misappropriated funds by recording false entries in booster club records. The former treasurer admitted to Comptroller investigators that she misappropriated band booster club funds and that she used the funds for personal family expenses.

Disposition: The above matters were referred to the local district attorney general. In September 2014, the Knox County Grand Jury indicted the former treasurer on one count of theft over \$10,000.

Volunteer Fire Departments

Spencer Volunteer Fire Department

42. The Spencer Volunteer Fire Department (SVFD) is located in the Town of Spencer, Van Buren County, Tennessee. The SVFD receives funds from annual contributions from Van Buren County, donations from citizens, and various local fund-raising events.

The Tennessee Comptroller of the Treasury, Division of Investigations, investigated allegations of mishandling of funds in the Spencer Volunteer Fire Department (SVFD). The limited scope investigation was for the period July 1, 2010, through August 31, 2013. The investigation revealed that eight checks totaling \$4,325 were issued by one of the three acting fire chiefs either to themselves or various department members as personal loans. These personal loans ranged from \$100 to \$1,500. In all but one instance, management could not provide documentation to support the repayment of the personal loans because the repayments were purportedly made in cash. Therefore, investigators could not determine if the loans had been repaid to the SVFD.