

INVESTIGATIVE AUDIT REPORT

CUMBERLAND COUNTY VETERAN'S SERVICE OFFICE

JULY 1, 2009, THROUGH SEPTEMBER 30, 2012



State of Tennessee

**Comptroller of the Treasury
Department of Audit
Division of Investigations
Financial & Compliance Unit**



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DIVISION OF INVESTIGATIONS
FINANCIAL AND COMPLIANCE UNIT**

Justin P. Wilson
Comptroller of the Treasury

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August 26, 2013

Mr. Kenneth Carey, Jr.
Cumberland County Mayor
2 North Main Street, Suite 203
Crossville, Tennessee 38555

Dear Mr. Carey:

Our office initiated an investigation of the Cumberland County Veteran's Service Office (VSO) after being informed of suspected irregularities on April 17, 2012. Our investigation, which covered the period July 1, 2009, through September 30, 2012, identified a cash shortage of \$134,244.58. Mr. Mark A. Daniels, the former veteran service officer, advised us that he had borrowed funds from the VSO for personal use. On September 10, 2012, Mr. Daniels was indicted by the Cumberland County Grand Jury on theft charges.

Presented in this report are the findings resulting from our investigative audit. Copies of this report are being forwarded to Governor Bill Haslam, the State Attorney General, the District Attorney General for the 13th Judicial District, certain state legislators, and various other interested parties. A copy is 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 "Kevin B. Huffman".

Kevin B. Huffman, CPA, CFE, CGFM
Investigative Audit Manager
Division of Investigations
Financial and Compliance Unit

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**INVESTIGATIVE AUDIT OF SELECTED RECORDS OF THE
CUMBERLAND COUNTY VETERAN'S SERVICE OFFICE
FOR THE PERIOD JULY 1, 2009, THROUGH SEPTEMBER 30, 2012**

BACKGROUND

The Cumberland County Veteran's Service Office (VSO), an organization to assist veterans and needy veteran families to obtain government benefits, is supported by contributions from the City of Crossville, local organizations, and citizens.

On July 1, 2009, the VSO became a department of Cumberland County government. The former veteran service officer, Mark A. Daniels, who formerly operated the VSO outside of county control, became a full-time employee of Cumberland County government. Any accounts previously maintained by the VSO were required to be turned over to the county. In addition, all contributions and donations were to be turned over to the Cumberland County Finance Department and all expenses paid by the county finance department.

County officials were unaware that Mr. Daniels continued to maintain a separate bank account under his exclusive control through the scope of our investigation under the name "Cumberland County Veterans Services Office" until on or about August 2012. Mr. Daniels opened that account on March 4, 2008, under his exclusive signature and using the tax ID number of Cumberland County government. Mr. Daniels continued to deposit contributions and donations into this account outside of county control. Mr. Daniels failed to maintain written records of donations received. However, we were able to obtain independent records of some donations.

On April 17, 2012, our office was informed of suspected irregularities in the Cumberland County Veteran's Service Office, a department of Cumberland County. We then conducted an investigation of the VSO in coordination with the district attorney general's office for the period July 1, 2009, through September 30, 2012. A finding and recommendation as a result of our investigation is presented below. This finding and recommendation has been reviewed with management to provide an opportunity for their response. Also, this finding and recommendation has been reviewed with the district attorney general.

INVESTIGATIVE FINDING

1. **FINDING:** A cash shortage of at least \$134,244.58 was identified in the Cumberland County Veteran's Service Office

A cash shortage of at least \$134,244.58 was identified in the Cumberland County Veteran's Service Office. This amount could be greater due to the fact that no records of donations made to the VSO were maintained by the former veteran service officer. Therefore, we could not determine if all funds donated by individuals or organizations were properly remitted to the VSO.

On August 30, 2012, during an interview, Mr. Daniels advised us that he had “borrowed” funds from the VSO for personal use. He stated that he kept some records, but did not know the exact amount of money he had taken. On September 10, 2012, Mark A. Daniels was indicted by the Cumberland County Grand Jury on theft charges.

Based on our interviews, our analysis of bank records, receipts, and other accounting records, we determined there was a cash shortage of \$134,244.58 as identified in the following Items A through F.

- A. Mr. Daniels issued 162 checks from the VSO bank account to himself and his wife totaling \$28,579.33. Mr. Daniels advised that these checks were for reimbursement of personal funds he had used to assist veterans. However, there was no evidence these funds were used for the assistance of veterans.

| Payee | Number of Checks | Total |
|----------------------|-------------------------|--------------------|
| Mark & Wilma Daniels | 3 | \$ 748.03 |
| Mark Daniels | 121 | 20,397.51 |
| Wilma Daniels | <u>38</u> | <u>7,433.79</u> |
| Totals | <u>162</u> | <u>\$28,579.33</u> |

- B. Mr. Daniels issued numerous checks to vendors and citizens from the VSO bank account that did not appear to have been for veteran assistance, but rather a method to obtain cash.

| Number of Checks | Vendor/ Citizen | Total Amount |
|-------------------------|------------------------|---------------------|
| 75 | Corner Market | \$ 4,700.39 |
| 15 | Kroger | 962.00 |
| 42 | T. H. | 6,711.71 |
| 23 | T. P. | <u>2,256.26</u> |
| | | <u>\$14,630.36</u> |

- C. Mr. Daniels made numerous withdrawals of cash from the VSO bank account totaling \$79,151.75. These withdrawals consisted of counter and window withdrawals (\$41,100.64) and ATM withdrawals (\$38,051.11), and were made at different locations within the county as well as out of the county. In addition, some withdrawals were made while out of the state.

- D. In at least four instances, Mr. Daniels did not deposit cash totaling \$1,379.83 from various donations into the VSO bank account.

| Date | Check Total | Cash Withheld | Total Deposited |
|---------------|-------------------|---------------------|-----------------|
| 05/10/2010 | \$ 170.00 | \$ (55.00) | \$115.00 |
| 07/29/2010 | 500.00 | (225.74) | 274.26 |
| 07/29/2011 | 750.59 | (590.59) | 160.00 |
| 03/09/2012 | <u>668.50</u> | <u>(508.50)</u> | <u>160.00</u> |
| Totals | <u>\$2,089.09</u> | <u>\$(1,379.83)</u> | <u>\$709.26</u> |

- E. Mr. Daniels deposited 26 checks totaling \$7,450 from private citizens and other veteran organizations intended for the VSO into his personal bank account.
- F. Mr. Daniels used the debit card associated with the VSO bank account to make purchases totaling \$3,053.31 from the VSO account. These purchases do not appear to be for veteran-related assistance. Furthermore, a review of VSO bank records reflect that the VSO debit card was used out of state on at least one occasion.

For the period examined, our review of VSO deposits revealed that Mr. Daniels deposited cash in the amount of \$13,618.05 and personal checks in the amount of \$7,438.74 into the VSO bank account. Also, three unidentified deposits were noted totaling \$750. We could not determine whether these were cash or check deposits based on available bank records. As a result of these deposits totaling \$21,806.79, the VOS has an unpaid cash shortage of \$112,437.79 (\$134,244.58 – \$21,806.79) at September 30, 2012. In addition to the items identified in the cash shortage amount, Mr. Daniels incurred ATM card usage fees totaling \$114 and bank overdraft fees totaling \$574 on the VSO account.

During our examination, the former veteran's service officer provided various questionable receipts to us as documentation of veteran assistance. These receipts did not reference a specific veteran's name, nor in some instances appear to be (related to) veteran assistance. These receipts included personal items purchased at Wal-Mart, gas, haircuts, and fast food purchases totaling \$25,414.94. A few names were written on the receipts, but we were unable to find any information, other than statements of Mr. Mark A. Daniels, the former veteran service officer, that receipts submitted were for the benefit of veterans in need. Since the purpose of the VSO is to assist veterans and their families obtain government benefits, we could not determine the propriety of these receipts and have therefore questioned their validity.

The following table details the total cash shortage identified and the remaining unpaid cash shortage at September 30, 2012:

| Description | Amount |
|--|----------------------------|
| A. 121 checks written to Mark Daniels from the VSO account | \$ 20,397.51 |
| 38 checks written to Wilma Daniels from the VSO account | 7,433.79 |
| 3 checks written to Mark and Wilma Daniels from the VSO account | <u>748.03</u> |
| Total of 162 checks issued to Mark and Wilma Daniels | \$ 28,579.33 |
| B. Checks written to vendors and others from the VSO account to obtain cash | 14,630.36 |
| C. Cash withdrawals (window and counter) of \$41,100.64 and ATM card withdrawals of \$38,051.11 from the VSO account | 79,151.75 |
| D. Cash collected on behalf of the VSO and withheld from VSO deposits | 1,379.83 |
| E. Donations to the VSO that were deposited to the personal accounts of Mark Daniels | 7,450.00 |
| F. Unsupported VSO bank debit card transactions | <u>3,053.31</u> |
| Total Cash Shortage | <u>\$134,244.58</u> |
| Personal checks from Mark Daniels deposited into the VSO account | (7,438.74) |
| Cash deposited into VSO account | (13,618.05) |
| Unidentified deposits to VSO account | <u>(750.00)</u> |
| Total Unpaid Cash Shortage at September 30, 2012 | <u>\$112,437.79</u> |

RECOMMENDATION:

County officials should take immediate steps to collect the unpaid cash shortage of \$112,437.79.

MANAGEMENT'S RESPONSE:

County Mayor:

Cumberland County officials were unaware that a separate bank account existed and records for that account were apparently not maintained. This account was discovered by the Division of Local Government Audit and shortly thereafter, during the investigation process, the former veteran service officer admitted to having the account and also admitted taking money from the account for personal use. The former veteran service officer was placed on administrative leave pending investigation and was later terminated from employment.

Since that time, Cumberland County has implemented several changes to ensure that funding for veteran's assistance is being utilized solely for veteran's services and those include the following:

- 1) Relocation of the veteran's service office into the courthouse, which added handicap accessibility to the office and restrooms.
- 2) Hired a veteran's service officer.
- 3) Provided additional funding to hire a secretary for the veteran's service office.
- 4) Implemented standard hours of operations Monday thru Friday from 8:00 a.m. – 4:00 p.m.
- 5) Building is more secure and has a security system.
- 6) All funds and funding now goes through the county finance department.
- 7) Daily log maintained to verify use of the veteran service office's services.
- 8) Veteran service officer does not handle any outside funds.
- 9) Added computer system for processing claims for veterans, which has made the process much faster and more efficient.
- 10) Funding has been approved in the current year's budget to add a computer system for use by veterans who can come into the office and access their files as needed.
- 11) Added funding in the 2013-14 budget to add additional part-time staff in the veteran's service office.
- 12) County mayor receives frequent updates from the veteran's service office pertaining to the office operations.

- 13) County commission receives quarterly updates from the veteran's service office with data and reports.
- 14) Developed a referral system to ensure that veterans that need support and assistance outside the services provided by the county's veteran service office are put in touch with agencies and organizations that can further assist them.

All of this has been done to enhance accountability of the veteran's service office and ensure that our veteran's needs are met in order to help them obtain and receive the assistance and benefits that they are entitled to and deserve. The county carries crime coverage as part of our total insurance coverage and the county's insurance provider was notified immediately upon the county being made aware of potential funds missing and the insurance provider will be furnished with a copy of this audit report and Cumberland County is pursuing full restitution in this matter.