

# **INVESTIGATIVE AUDIT REPORT**

## **Upper Cumberland Human Resource Agency**

**January 1, 2010, through December 31, 2011**



# **State of Tennessee**

**Comptroller of the Treasury  
Department of Audit  
Division of Investigations**



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DIVISION OF INVESTIGATIONS**

**Justin P. Wilson**  
Comptroller of the Treasury

**JAMES K. POLK STATE OFFICE BUILDING, SUITE 1600  
505 DEADERICK STREET  
NASHVILLE, TENNESSEE 37243-1402  
PHONE (615) 401-7907  
FAX (615) 532-4499**

September 25, 2012

Board of Directors  
Upper Cumberland Human Resource Agency  
580 South Jefferson Street, Suite B  
Cookeville, TN 38501

Ladies and Gentlemen:

The Comptroller of the Treasury, Division of Investigations, has conducted an investigative audit of the Upper Cumberland Human Resource Agency which focused on the period January 1, 2010, through December 31, 2011. However, when warranted, this scope was expanded.

Presented in this report are the findings resulting from this investigative audit. Copies of this report are being forwarded to Governor Bill Haslam, 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 and may be viewed at [www.comptroller1.state.tn.us](http://www.comptroller1.state.tn.us).

Sincerely,

*L. Rene Brison*

L. Rene Brison, CPA, CFE, Assistant Director  
Division of Investigations

LRB/RAD

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**INVESTIGATIVE AUDIT OF SELECTED RECORDS OF THE  
UPPER CUMBERLAND HUMAN RESOURCE AGENCY  
FOR THE PERIOD JANUARY 1, 2010, THROUGH DECEMBER 31, 2011**

**CASE SUMMARY**

The Comptroller's Division of Investigations performed an investigative audit of selected records of the Upper Cumberland Human Resource Agency. The audit focused primarily on the period January 1, 2010, through December 31, 2011; however, when warranted, the scope was expanded. The investigation revealed the following:

- Agency funds were used for expensive meals, entertainment, and alcoholic beverages for employees, board members, and guests.
- Agency files did not have adequate documentation for credit card disbursements.
- The agency did not have comprehensive written policies related to travel and credit card use.
- The agency engaged in several questionable financial transactions involving its Lakeside Resort and Educational Training Complex.
- The agency unnecessarily paid for multiple cell phones for some employees as well as OnStar subscriptions for staff members.
- The agency paid two contract employees to work for a county government as an accommodation that was neither a part of any agency-wide program nor part of a written agreement.
- All agency vehicles were not plainly and clearly marked as publicly funded vehicles.

## INVESTIGATIVE FINDING

The agency derived the vast majority of its funding from the state and federal governments. Since human resource agencies are governmental entities specifically created as a matter of public necessity for public and governmental purposes, all funds should be spent in furtherance of their public objective. Therefore, the fiduciary responsibilities of the board require strict adherence to sound business and accounting practices. However, investigators identified transactions that did not appear to meet a public or governmental purpose. When agency management chooses to spend agency funds for nonpublic purposes, those resources are no longer available to fund public and governmental purposes.

Questioned transactions are noted below:

1. **FINDING: Disbursements not for public purposes**

The investigative audit identified agency funds used for costly meals, alcoholic beverages, and entertainment that did not appear to further the public and governmental purpose of the agency.

- Agency officials, staff, and guests made an annual trip to Washington, DC. The primary purpose of this trip was reportedly to meet with legislators. Agency records indicated that in March 2011, 30 officials, employees, and guests participated in a trip at a cost of at least \$59,624 in public funds<sup>1</sup>. Included in that total was a group meal at the Capital Grille on March 28, 2011, costing the agency \$3,370, and a group meal at 1789 Restaurant on March 30, 2011, costing the agency \$3,384. [Exhibit 1] During that same Washington trip, the agency spent a total of \$1,255 for officials, employees, and guests to attend a performance at Ford's Theatre, \$289 for a visit to Madame Tussauds Wax Museum, and \$284 for a visit to Mount Vernon. The total cost of the trip also included transportation to the restaurants and entertainment listed above.

**Exhibit 1**

1789 RESTAURANT			
Check: 67	Table: 50	#Party: 30	
Server: 7	STATION	20:23	
MIDDLEBURG			
17 PP SOUP OF THE DAY			153.00
13 OYSTER GRATIN			195.00
30 PP SALAD			330.00
7 S32 FISH			224.00
2 S40 LAMB			80.00
21 PP Beef			735.00
30 S8 DESSERT			240.00
11 GREY GOOSE			99.00
4 JACK DANIELS			32.00
CRANBERRY JUICE			2.25
8 MILLER LITE			36.00
4 amstell			19.80
24 PP COFFEE/TEA			54.00
2 DIET COKE			4.00
COKE			2.00
DEWARS			8.00
MISCELLANEOUS WINE			50.00
3 33 Cambria			135.00
3 106 BV RUTHERFORD			165.00
gratuity			512.82
	Sub Total:		3076.87
	Tax:		307.69
20:56	Total:		3384.56
Payments:	Amt-Tend	Tip/Chg	Tally
MC/VISA	1592.28	50.00	1542.28
MC/VISA	1592.28	50.00	1542.28
P.P.DEP	300.00	0.00	300.00
03/30/2011 21:15			-----
			3384.56
Memo: 096785,XXXXXXXXXXXX6847, XX/XX,			1542.28
012019,XXXXXXXXXXXX1977, XX/XX,			1542.28
Terminal: 1-MIDDLEBURG-Backup			
Cashier: 7 STATION			

<sup>1</sup> One attendee reimbursed the district for the cost of his guests.

- A review of agency credit card statements on file identified substantial restaurant bills charged to agency credit cards, as noted above. However, agency files did not contain complete and adequate documentation for many of these charges. Comptroller investigators obtained detailed information from vendors and found that these meals frequently included alcoholic beverages and that per person costs often exceeded the agency's allowable travel rates. For example, on March 29, 2011, the agency spent \$4,293 at the Oceanaire in Washington, DC, for 34 guests, more than \$125 per person<sup>2</sup>. [Exhibit 2] Investigators also noted that the charges for these costly meals were usually split between two or more agency credit cards, presumably to conceal the actual cost of the meal.

**Exhibit 2**

```

                                OCEANAIRE
                                1201 F Street NW
                                Washington, DC 20004
                                (202) 347-2277

                                IBER.PRT

Server: Lindy                      03/29/2011
Table 62/1                          9:09 PM
Guests: 34                          20017
Reprint #: 3

Steamed Asparagus (9 @9.95)        89.55
Green Beans (6 @8.95)              53.70
Mashed Potatoes (7 @7.95)          55.65
Water (4 @0.00)                    0.00
Orange Cloud (2 @13.00)             26.00
Bye Bye Mai Tai (7 @10.00)         70.00
Bt Michelob Ultra (10 @5.50)       55.00
Iced Tea (12 @3.25)                39.00
Dft 14oz Bud Light (5 @4.50)       22.50
Grand Shellfish Platter (22 @28.  616.00
Grey Goose (7 @10.00)              70.00
Clam Chowder Cup (11 @4.95)        54.45
Crab Cake Entree (12 @33.95)       407.40
Iceberg Wedge Salad (13 @7.95)    103.35
Gl CH Mer Soleil (3 @20.00)        60.00
Caesar Salad (10 @5.95)            59.50
Cheesecake (12 @9.95)              119.40
Key Lime Pie (21 @8.95)            187.95
Admin Charge                        124.02
Filet Mignon 10oz (9 @34.95)       314.55
Jim Beam                            8.00
Simple Scallops (7 @37.95)         265.65
  Add A La Tor (7 @2.00)            14.00
Yellowfin Tuna (5 @38.95)          194.75
Scotch (2 @8.00)                   16.00
Crab Cake App (3 @15.95)           47.85
Diet Coke                           2.75
Gl WZ Canyon Road (2 @5.00)        10.00
Coffee                               3.25
Gl CH Sonoma Cutrer (2 @14.00)     28.00
Gl CH Chat St Mich Indian (2 @9.0  18.00
Gl RS 14 Hands                       7.00
Grey Goose Martini                  13.00
Simple scallops                      37.95
Arnold Palmer                        2.75
Virgin Drinks                        1.00
  Virgin Bloody Mary                 4.25
  Bloody Mary - mod
Grey Goose                           11.00
  Bloody Mary - mod
Stoli Martini                        11.50

Subtotal                             3224.72
Tax                                  368.12

Total                                4231.34
Gratuity 18.00%                      580.45
Total                                4811.79
    
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                                IBER.PRT

Equal Payment

Guest 1                             2086.64
  Visa #XXXXXXXXXXXX1977           $ 2086.64
  Additional Tip                     60.00
Total                                 2146.64
  Auth:000754

-----X-----

Balance Due                          $ 0.00
Guest 2                              2086.65
  Visa #XXXXXXXXXXXX6847           $ 2086.65
  Additional Tip                     60.00
Total                                 2146.65
  Auth:007633

-----X-----

Balance Due                          $ 0.00

Banquet Rooms
Available for all occasions.
GM Donna Seal
Executive Chef Sean Sanders

--- Check Closed ---
    
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<sup>2</sup> The U.S. General Services Administration CONUS (Continental United States) per diem rate for Washington DC was \$71 per day.

**Investigative Finding**

- Agency staff made frequent trips to Nashville to meet with state legislators and other state officials during which they charged expensive meals and alcoholic beverages on agency credit cards. For instance, in February 2010, the agency spent \$2,361 for 25 guests at Morton's Steakhouse. In August 2010, agency officials charged \$85 for drinks in the bar at Morton's Steakhouse before spending \$807 for dinner for 7 guests in the dining room. According to agency staff, the purpose of several of the agency charges for meals and alcoholic beverages at the Nashville Morton's Steakhouse were to entertain agency board members or state legislators. [Exhibits 3 and 4]

**Exhibit 3**

Morton's The Steakhouse		IBER.PRT
618 Church St. Nashville, TN 37219 (615) 259-4558		
Server: Sheldon	02/01/2010	
Table 3000/1	9:28 PM	
Guests: 25	30002	
Reprint #: 7		
Area: Boardroom		
No Beverage (18 @0.00)	0.00	
Chopped Salad (4 @11.00)	44.00	
Caesar Salad (2 @10.00)	20.00	
Morton's Salad (3 @10.00)	30.00	
Shrimp Cocktail	20.00	
Iceberg Wedge (3 @11.00)	33.00	
Onion Soup, Dinner	10.00	
Lobster Bisque (2 @14.00)	28.00	
Sea Scallops, Broiled	16.00	
Shrimp Alex App	18.00	
Crab Cake App (2 @14.00)	28.00	
Lobster Tail	42.00	
Filet Mignon, Single Cut (10 @38	380.00	
Ribeye, Cajun (3 @42.00)	126.00	
Salmon, Broiled (4 @31.00)	124.00	
Shrimp Alexander	37.00	
Baked Potato (11 @8.50)	93.50	
French Fries	8.00	
Grilled Asp (5 @10.50)	52.50	
Creamed Spinach (2 @10.50)	21.00	
Crab Cakes (2 @40.00)	80.00	
Broccoli	9.00	
Spinach & Mushrooms	8.00	
Morton's Hot Choc Cake (3 @12.50)	37.50	
New York Strip	49.00	
Sm1 NY Strip (2 @43.00)	86.00	
Green Beans	7.50	
Ribeye	40.00	
Asparagus	10.50	
Sauteed Mushrooms	9.00	
Macaroni and Cheese	10.50	
Bacardi Light	10.25	
Mojito (Mod)		
Patron Silver (2 @9.00)	18.00	
Bud Light (3 @5.50)	16.50	
Grants	8.00	
Palm Beacher	12.50	
Crown Royal	8.50	
Iced Tea (6 @3.95)	23.70	
Soda (4 @3.99)	15.96	
Smirnoff (2 @12.00)	24.00	
Lemon Drop		
Grey Goose (2 @10.50)	21.00	
BV Cellar Select Cabernet (3 @8.9	26.85	
Smirnoff	8.75	
Sea Breeze		
Coffee (8 @3.95)	31.60	
Cuervo Gold (4 @12.50)	50.00	
Margarita		
canyon Rd Char (2 @8.95)	17.90	

Jack Daniel's (2 @8.50)		IBER.PRT
Jack Daniel's	17.00	
**Rocks	10.25	
Aqua Panna 1\2 Liter	6.75	
Chocolate Mousse (2 @9.50)	19.00	
Creme Brulee	9.50	
New York Cheesecake	9.50	
1 PER	18.43	
Subtotal	1861.94	
Tax	148.98	
Total	2010.92	
SrvrGrat(15)+AdmnChrg(5)= 19.00%	350.27	
Total	2361.19	
Party Dep	\$ 150.00	
Visa #XXXXXXXXXXXX1977	\$ 737.06	
Auth:007750		
Visa #XXXXXXXXXXXX1586	\$ 737.06	
Auth:010801		
Visa #XXXXXXXXXXXX6847	\$ 737.07	
Auth:013342		
Morton's Private Boardroom Perfect for Business or Pleasure! Accommodating Small and Large Groups. Ask server for more details.		
--- Check Closed ---		



**Investigative Finding**

- The agency used public funds to occasionally purchase alcoholic beverages from local liquor stores. [Exhibit 5]

**Exhibit 5**

Crossroads Wine & Spirits  
6099A Nashville Hwy.  
Baxter, TN 38544  
(931) 858-1116

**Sales Receipt**

Transaction #: 159168  
Date: 8/7/2010 Time: 6:27:23 PM  
Cashier: CHRISTAL Register #: 2

Item	Description	Amount
088474018400S&S	BLUE BTLE SPA 4 @ \$16.99	\$67.96
Sub Total		\$67.96
Sales Tax		\$6.63
Total		\$74.59
Visa Tendered		\$74.59
Card: XXXXXXXXXXXX2017		
Auth: 081845		
Change Due		\$0.00

Thank you for shopping  
Crossroads Wine & Spirits  
We hope you'll come back soon!

Crossroads Wine & Spirits  
6099A Nashville Hwy.  
Baxter, TN 38544  
(931) 858-1116

**Sales Receipt**

Transaction #: 167099  
Date: 9/1/2010 Time: 1:47:22 PM  
Cashier: LORETTA Register #: 2

Item	Description	Amount
084756101303KREUSCH	PIES MICH Discount code: Ca	\$10.79
084756101303KREUSCH	PIES MICH Discount code: Ca	\$10.79
084279974040CONQUISTA	MALBEC Discount code: Ca	\$8.99
084279974040CONQUISTA	MALBEC Discount code: Ca	\$8.99
182442000036MAD	HOUSEWIFE CAB Discount code: Ca	\$6.29
084279974040CONQUISTA	MALBEC Discount code: Ca	\$8.99
182442000036MAD	HOUSEWIFE CAB Discount code: Ca	\$6.29
182442000036MAD	HOUSEWIFE CAB Discount code: Ca	\$6.29
Sub Total		\$67.42
Sales Tax		\$6.57
Total		\$73.99
Visa Tendered		\$73.99
Card: XXXXXXXXXXXX2017		
Auth: 085187		
Change Due		\$0.00

Thank you for shopping  
Crossroads Wine & Spirits  
We hope you'll come back soon!

*TPTA Meeting #40*

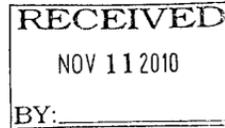
**You saved \$7.50!**

- The agency spent \$9,734 for its annual meeting in October 2010, and \$8,524 for a staff holiday party in December 2010. [Exhibits 6 and 7]

**Exhibit 6**

Spankies Catering

203 east 9th  
Cookeville Tn 38501  
jj@spankies.net



Annual Meeting  
Friday Oct 22, 2010  
314 people

Mandarin orange Salad  
Château Briand  
Ajus & horseradish sauce  
Jack Daniels Chicken  
Cheesy Bacon potatoes  
Italian Green Beans  
Cheese bread  
Pumpkin Cheese cake  
Unsweetened tea  
Sweetened tea  
Coffee  
Bottled water  
Place settings  
17 wait staff

*OK  
B Bunch*

Total = 9734.00

Please make check payable to Jon Josephson DBA Spankies. Please include a current tax exemption form.

If you have any questions please call my cell. 931- 260-6880

Thanks JJ

**P A I D**

Exhibit 7



P.O. Box 2803  
1570 Brown Ave. Suite B  
Cookeville, TN 38502  
931-372-8540  
www.gradeacatering.com

### Invoice

DATE	INVOICE #
12/10/2010	103675

**Bill to**

U.C.H.R.A.  
3313 Williams Enterprise Drive  
Cookeville, TN 38506-4283  
Atten: Jana Hill

**Deliver to**

Town Center  
9:00am

P.O. Number	TERMS	DUE DATE	Order #
		12/10/2010	3238

MENU	QTY	RATE	AMOUNT
Catered Delivery on Friday, December 10 at 8:00 to the Leslie Town Center/Downstairs *Provide Christmas & Holiday Decor *500 Guests *Nice *Buffet Open at 11:30 *73 six foot (2 in lobby), 4 round & 4 serpentine tables --PROGRAM BEGINS AT 10:00AM--MUST HAVE TABLES SET  2 staff at 8:00-10:00 (per hour)--set up room  **9:00am delivery -Social Hour/in lobby--prior to lunch--ready to eat 9:30 Fruit Tea (per gallon) Hot Spiced Apple Cider (per gallon) Coffee/Accouterments (per serving)			
	4	15.00	60.00
	15	6.99	104.85
	10	8.99	89.90
	415	0.45	186.75
<b>Subtotal</b>			
Sales Tax (0.00)			<b>PAID</b>
<b>Total</b>			
<b>Balance Due</b>			

Please include the invoice no. on your check.

*01  
B Remitt*

Page 1

For brevity, pages 2 and 3 of this invoice are omitted.

	<b>Subtotal</b> <b>PAID</b> \$8,524.51
Please include the invoice no. on your check.	Sales Tax (0.00) <del>\$0.00</del>
	<b>Total</b> \$8,524.51
	<b>Balance Due</b> \$8,524.51

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Section 13-26-105, *Tennessee Code Annotated*, states:

(a) It is hereby declared that the agencies created pursuant to this chapter shall be a body, politic and corporate, and shall be public and governmental bodies acting as agencies and instrumentalities of the creating and participating counties and cities, and such agencies are declared to be for a public and governmental purpose and a matter of public necessity.

*Accounting and Financial Reporting for Not-For-Profit Recipients of Grant Funds in Tennessee*, Section 6-1, states:

The objectives of internal control systems used in administering financial assistance programs are to provide management with reasonable, but not absolute, assurance that, in your organization's program: (1) resource use is consistent with laws, regulations, and policies; (2) resources are safeguarded against waste, loss, and misuse; and (3) reliable data are obtained, maintained, and fairly disclosed in reports.

**INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES**  
**FINDINGS AND RECOMMENDATIONS**

Below are the findings and recommendations related to internal control and compliance deficiencies noted during the investigative audit that we believe warrant the attention of the Upper Cumberland Human Resource Agency Board of Directors. These findings were presented to the executive director, and other officials.

1. **FINDING: Lack of adequate documentation**

As noted above, many charges to the agency credit card did not have adequate supporting documentation. In many instances, the receipt showing itemized restaurant charges was not included in agency records. Instead, only the nonitemized, signed charge slip was included in the files.

*Accounting and Financial Reporting for Not-For-Profit Recipients of Grant Funds in Tennessee*, Section 5-1, states:

You will need to maintain four types of records: (1) written policies and procedures such as personnel policies, travel policies, and purchasing policies; (2) supporting documentation such as prenumbered receipts, canceled checks, time sheets, invoices, and contracts, which support the books of account;...

**RECOMMENDATION:**

To document that each disbursement was for a valid agency purpose, the board should require that adequate supporting documentation is obtained and maintained for every expenditure.

2. **FINDING: Failure to comply with travel policy**

During a trip to Washington, DC, in March 2011, officials violated the agency travel policy when they paid \$5,213 for two group meals on the same day, almost \$175 per person. The agency travel policy allowed officials and employees to be reimbursed at the U.S. General Services Administration CONUS (Continental United States) per diem rates for meals<sup>3</sup>. These two meals cost the agency 2½ times the maximum daily authorized rate per traveler. As noted in Investigative Finding 1, agency officials also charged other meals to agency credit cards that far exceeded the maximum authorized per diem rate.

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<sup>3</sup> The U.S. General Services Administration CONUS (Continental United States) meals and incidental expense rate for Washington, DC, was \$71 per day.

**RECOMMENDATION:**

To help ensure that all agency funds are used only for purposes for which the agency exists, the board should strictly enforce the agency travel policy.

3. **FINDING: Lack of comprehensive credit card policy**

The agency had not adopted a comprehensive, written credit card policy setting forth guidelines on permissible transactions, authorized users, etc. As noted in Investigative Finding 1, costly meals, as well as alcoholic beverages and entertainment, were charged to agency accounts and paid with public funds.

**RECOMMENDATION:**

To ensure all funds are used for allowable governmental or public purposes, and that only authorized, permissible charges are made on agency credit cards, the board should formulate clear, comprehensive credit card policies and procedures.

4. **FINDING: Questionable financial transactions related to Lakeside Resort and Educational Training Complex**

During the 15 years ended June 30, 2010, the agency subsidized its training and resort property, Lakeside Resort and Educational Training Complex [Lakeside], at least \$1,696,928. Even though there appeared to be no effort to recover this financial support, the agency recorded this receivable as an asset on the financial records. In 2010, the agency wrote off the entire debt as uncollectable.

During the 2006, 2007, 2009, and 2010 fiscal years, Upper Cumberland Human Resource Agency purchased gift certificates from Lakeside, totaling \$123,200 for training events to be held in the subsequent year. The advance purchase did not appear to provide any benefit to the agency, other than Lakeside immediately recognized the revenue in the year the advance purchase was made rather than in the year that the service was provided. By doing so, it overstated the recorded profit for one fiscal year and understated the profit in the subsequent year. Such a practice is not in accordance with generally accepted accounting principles.

**RECOMMENDATION:**

To ensure fair and accurate financial information, the board should require that transactions are recorded in accordance with generally accepted accounting principles.

5. **FINDING: Questionable use of agency funds**

The agency provided and paid for multiple communication devices for certain employees. Some employees had a cell phone, a smart phone, and a blackberry, all paid for with public funds. The agency paid for about 160 mobile devices at a total cost of \$105,613 during the 2011 calendar year<sup>4</sup>. Also, the agency provided subscriptions to OnStar for two agency vehicles, at a cost of \$574 per year.

**RECOMMENDATION:**

To ensure that public funds are used for costs necessary to the governmental and public purposes for which the agency exists, the board should hire competent and capable employees who are conscientious in their management of agency money.

6. **FINDING: Contract employees provided to one county government**

The agency contracted with and paid \$4,194 to two individuals who provided clerical and maintenance services for Cannon County government in 2009 and 2011. However, these contracts were not part of any agency-wide program and there was no written agreement or contract with Cannon County outlining the duties and responsibilities of both organizations. In addition, no other local government was provided this benefit.

**RECOMMENDATION:**

To avoid the appearance of favoritism or special dealing, the executive director should prepare a comprehensive written agreement or contract whenever the agency provides services to selected governments which are outside any agency-wide program. To avoid the appearance of favoritism, these special considerations, written agreements and/or contracts should be approved by the board.

7. **FINDING: All agency vehicles not identified as publicly funded property**

Most of the agency passenger vehicles did not have an agency emblem or other marking plainly and clearly signifying they were publicly funded property.

**RECOMMENDATION:**

To reduce the risk that agency vehicles are used for other than agency purposes, the board should require that all agency vehicles have an agency emblem or other marking clearly identifying them as publicly funded property.

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<sup>4</sup> The agency reduced the number of cell phones provided to employees and had reduced its cell phone bill by almost \$2,500 per month in 2012.