



SULLIVAN COUNTY EMERGENCY COMMUNICATIONS DISTRICT

Comptroller's Investigative Report
November 19, 2018

Justin P. Wilson, Comptroller





JUSTIN P. WILSON
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November 19, 2018

Members of the Board of Directors
Sullivan County Emergency Communications District
P. O. Box 485
Blountville, TN 37817

Ladies and Gentlemen:

The Office of the Comptroller of the Treasury conducted an investigation of selected records of the Sullivan County Emergency Communications District, and the results are presented herein.

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 <http://www.comptroller.tn.gov/ia/>.

Sincerely,

A handwritten signature in black ink, appearing to read "Justin P. Wilson", is written over a light gray rectangular background.

Justin P. Wilson
Comptroller of the Treasury

JPW/RAD

INVESTIGATIVE REPORT

SULLIVAN COUNTY EMERGENCY COMMUNICATIONS DISTRICT

The Office of the Comptroller of the Treasury investigated possible malfeasance related to the Sullivan County Emergency Communications District. The Sullivan County Emergency Communications District (district) provides enhanced 911 emergency telephone service for the area. The district operates through directives from a nine-member board and has a director who oversees the daily operations. The Comptroller's Office initiated the investigation at the request of the district board of directors.

INVESTIGATIVE RESULTS

- **Former director Isaac Lowry misappropriated at least \$16,856 from a life insurance policy paid with district funds**

Without the authority or consent of the board of directors, former director Isaac Lowry misappropriated district funds totaling at least \$16,856, by redeeming a whole life insurance policy which had been paid using district funds and retaining the funds for his personal benefit. In 2005, the former director sought out a whole life insurance policy for himself. The district provided all district employees a life insurance policy, per district rules. All other employees received term life insurance policies, which cost the district 90-95 percent less than Mr. Lowry's whole life policy. There was no documentation that the board of directors had ever approved the special policy for Mr. Lowry. Over the following 12 years, the district paid the life insurance policy premium.

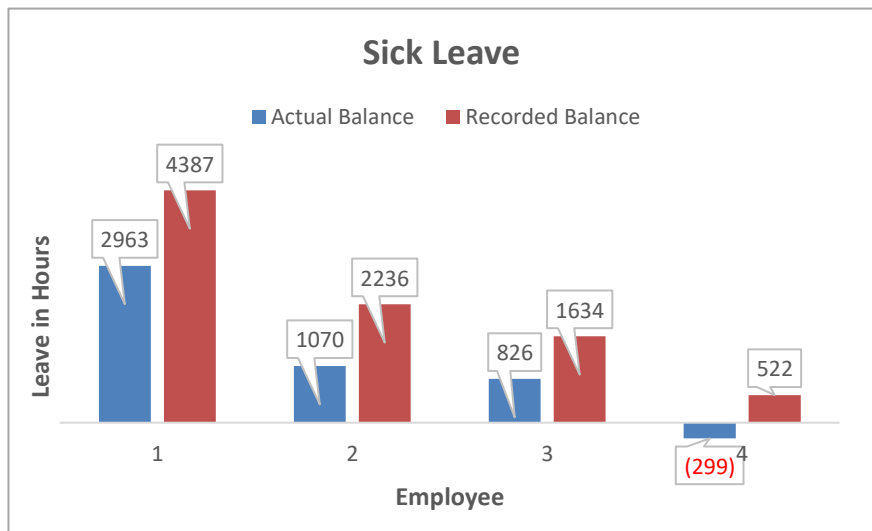
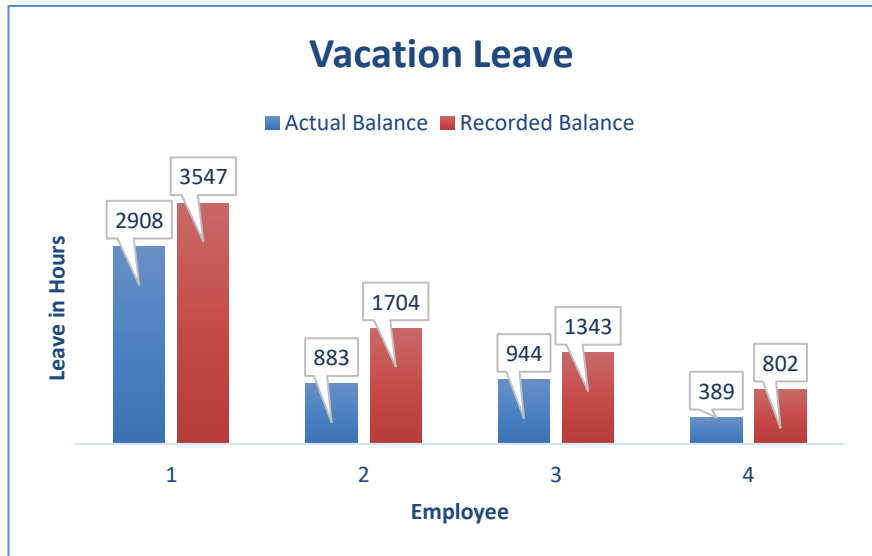
Mr. Lowry retired from the district on June 23, 2017. During the June 26, 2017, board meeting, the former director requested that the board transfer the policy to him with the understanding that he would assume responsibility for paying the premium after he retired. The board initially agreed to this request. Board members reconsidered their authority to give away district property during the August 14, 2017, board of directors meeting. The board of directors concluded that, because they were prohibited from giving gifts, they could not give the former director the whole life insurance policy which had a cash value of \$16,856. The board of directors passed a motion to have Mr. Lowry either surrender the policy, so the district could redeem the cash value for district use or compensate the district for the value of the policy. The board presented the former director, who attended the meeting, with those two options. Mr. Lowry, however, neither surrendered the policy nor paid the cash value to the district. Mr. Lowry told investigators he redeemed the insurance policy for its cash value and placed the proceeds in an investment for himself.

This matter was referred to the local district attorney general. On November 14, 2018, the Sullivan County Grand Jury indicted Isaac Lowry on one count of Theft over \$10,000.

- **Employee leave records improperly inflated**

The district payroll clerk failed to properly monitor employee vacation and sick leave balances. Investigators discovered that the clerk frequently failed to deduct from an employee’s leave balance hours for which an employee was absent from work on vacation or sick leave. In addition, the payroll clerk sometimes failed to record the correct amount of earned vacation and sick leave in accordance with board policy. Finally, the payroll clerk advised investigators that occasionally, at an employee’s request, she adjusted the employee’s leave balance, increasing the balance without documenting the reason for the adjustment. The clerk could not provide a reasonable explanation for these misstatements.

As of October 2017, leave balances for three current employees and the former director were inflated by a total of 2,272 hours, or 284 days, of vacation leave and 4,219 hours, or 527 days, of sick leave. The former director, represented as “Employee 1” in the adjacent tables, had inflated leave balances of 639 hours of vacation leave and 1,424 hours of sick leave. The board should make necessary adjustments to current employees’ leave records to properly



reflect the correct leave balances. In addition, the board should determine the correct leave balances for the former director at the time of his retirement and provide corrected amounts to the Tennessee Consolidated Retirement System (TCRS).

ADDITIONAL ISSUES

Expenditures of district funds are governed by state statutes and a comprehensive accounting manual. Any use of district revenue must comply with Section 7-86-102(d), *Tennessee Code Annotated*, which states that the funds received by districts “from all sources shall be used exclusively in the operation of the emergency communications district.” Furthermore, the district is required to follow the *Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts* (E-911 Manual) prescribed by the Tennessee Comptroller of the Treasury.

Minutes of meetings of the district board of directors revealed that beginning in May 2015 and continuing through December 2015, the board began to implement policies and practices that increased their oversight over district operations. The board continued that process of asserting fiscal control and operational supervision throughout the subsequent months. In October 2017, the district hired a new director who further enhanced accountability over district funds. Prior to December 2015, however, there were instances in which district funds were not used prudently or were not used exclusively in the operation of the emergency communication district. Examples of these questionable uses include:

- The district spent at least \$104,001 for public education items from January 2011 through December 2015. This included 911 branded pens, rulers, cell phone pockets, hand sanitizer, and assorted other items. Investigators observed a storeroom full of these items accumulated over the years which were never distributed. Public education on the implementation and use of 911 service is a permissible use; however, the quantity and frequency of these expenditures did not appear to be necessary or beneficial for the operation of the district. The board of directors suspended the purchase of any additional public education items at the end of 2015.



- The former director purchased a dishwasher and refrigerator for \$2,450 from a district employee in 2011. At the time of the investigation, more than seven years after the purchase, the dishwasher had never been installed or used. This created the appearance that the purchase was not necessary for the operation of the district, but rather was an accommodation to the employee.



- The former director used district funds to provide gifts to employees, board members, dispatchers, and others, including holiday turkeys and hams (totaling \$1,122 for 2014 and 2015). The district also provided Christmas gifts to at least one contract employee. The E-911 manual prohibits using district funds for gifts. The board terminated the practice of giving turkeys, hams, and other gifts at the end of 2015.
- The district provided meals at board meetings for board members and employees costing between \$200 to \$400 per meeting. Documentation often indicated that the cost included meals for more than 20 individuals, although the board had only nine members. The district also provided special holiday meals during the November or December board meeting. The attendees for these meals included not only the board members and employees, but spouses and other invited guests, and exceeded \$500 in some cases. The E-911 manual prohibits using district funds for entertainment. The board ended the practice of providing meals at board meetings at the end of 2015.
- The former director charged meals at Tri-City area restaurants once or twice a month and failed to retain adequate documentation denoting the benefit to the district. The former director indicated that he would occasionally have meals with board members, vendors, and others. During the 22 months ended March 2015, the former director spent \$2,151 for meals in the Tri-Cities area. There was no documentation explaining who accompanied the former director for many of these meals or why the disbursement was necessary for the operation of the emergency communications district, as required by state statutes. The board ended this practice in 2015.
- The district did not adopt and adhere to the county travel policy as required. District personnel were not required to file travel reimbursement claims. Employees received per diem amounts for meals and incidentals and were also permitted to use a district credit card to pay for meals while on travel status. This allowed employees to potentially request and receive per diem payments for meals that had been paid by the district. Section 7-86-125, *Tennessee Code Annotated*, requires the board of directors to adopt the same comprehensive travel regulations as the appropriate county or municipality or to adopt its own if the county or municipality has none.

- Over the years, district funds were used to purchase china table settings, silverware, glassware, tablecloths, Christmas decorations, including multiple Christmas trees, and at least six vacuum cleaners. Public officials should ensure that all disbursements are necessary for the operation of the emergency communications district, as required by state statutes.

District officials have corrected these deficiencies.