



COMPTROLLER'S INVESTIGATIVE REPORT

Town of Big Sandy

October 23, 2019

Justin P. Wilson
Comptroller of the Treasury



DIVISION OF INVESTIGATIONS



JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Deputy Comptroller

October 23, 2019

Board of Mayor and Alderman
Big Sandy City Hall
65 Front Street
Big Sandy, TN 38221

Ladies and Gentlemen:

The Office of the Comptroller of the Treasury conducted an investigation of selected records of the Town of Big Sandy, and the results are presented herein.

Copies of this report are being forwarded to Governor Bill Lee, the State Attorney General, the District Attorney General of the 24th 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, appearing to read "Justin P. Wilson", written over a light gray rectangular background.

Justin P. Wilson
Comptroller of the Treasury

JPW/MLC

INVESTIGATIVE REPORT

Town of Big Sandy

The Office of the Comptroller of the Treasury investigated allegations of malfeasance related to questionable purchases and other transactions by the Recorder of the Town of Big Sandy. The investigation was limited to selected records for the period of July 28, 2018, through March 8, 2019. The results of the investigation were communicated with the Office of the District Attorney General of the 24th Judicial District.

BACKGROUND



Incorporated in 1903, the Town of Big Sandy is in Benton County, Tennessee, on the banks of Kentucky Lake. The town administration is comprised of the Mayor and the Board of Aldermen. The Mayor is elected for four-year terms and serves as the head of the Board. The Board of Aldermen appoint the positions of Recorder, City Clerk, Chief of Police, Fire Chief and city utility workers. The Town of Big Sandy operates a police department, fire department, water department, and various parks and recreation spaces.

RESULTS OF INVESTIGATION

1. TOWN RECORDER MORGAN MARTINEZ MISAPPROPRIATED AT LEAST \$4,114.44 FROM THE TOWN OF BIG SANDY

During the period reviewed, Town Recorder Morgan Martinez misappropriated at least \$4,114.44 from the Town of Big Sandy by 1) unauthorized maternity leave pre-payments, 2) unearned training class reimbursements, and 3) the misuse of a town credit card for personal purchases.

- A. Martinez prepared and received an unauthorized check dated October 31, 2018, totaling \$3,600 purportedly for maternity leave; however, she had not yet taken maternity leave.

The former mayor stated this payment was not authorized, and someone other than himself signed his name on the check. An alderman was the second signature on the check; however, the alderman did not know the check was not authorized by the mayor and did not know the purpose of the check. (Refer to Exhibit 1).

Exhibit 1

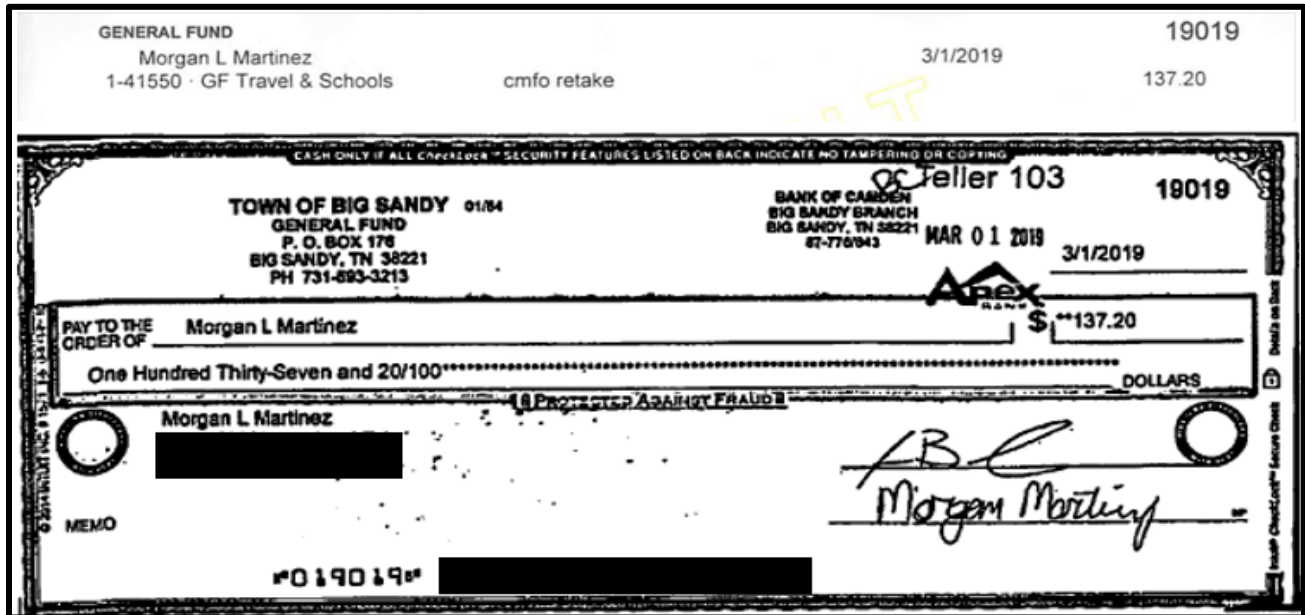
Water Works Payroll Record

Employee	Status (Fed/State)	Allowances/Extra		
Morgan L. Martinez	Married	Fed-10		
Pay Period: 11/03/2018 - 01/11/2019		Pay Date: 10/31/2018		
Earnings and Hours	Hours	Rate	Current	YTD Amount
Water & Sewer Salary			3,600.00	9,528.01
Overtime (x1.5) hourly			0.00	1,782.00
			3,600.00	11,310.01
Deductions From Gross	Current	YTD Amount		
Retirement - Water & Sewer	-180.00	-585.50		
Taxes	Current	YTD Amount		
Medicare Employee Addl Tax	0.00			
Federal Withholding	-530.00	-886.00		
Social Security Employee	-223.20	-701.22		
Medicare Employee	-52.20	-164.00		
	-805.40	-1,751.22		
Net Pay	2,614.60	8,093.29		
Paid Time Off	Earned	YTD Used	Available	
Sick	1.85		25.90	
Vacation	1.85		25.90	

Net amount of unauthorized check (\$3,600 gross amount less \$985.40 payroll deductions) written to Martinez for maternity leave

B. Martinez claimed and received reimbursement for a Certified Municipal Finance Officer (CMFO) training class; however, Martinez did not attend this class. Therefore, Martinez was not entitled to the reimbursement of \$137.50. (Refer to Exhibit 2).

Exhibit 2



Reimbursement check for CMFO class that was not attended

- C. Martinez improperly used the town’s credit card on February 6, 2019, for a personal purchase of an iPad and keyboard totaling \$377.24. As of August 2, 2019, Martinez had not returned the iPad and keyboard to the Town of Big Sandy. (Refer to Exhibit 3).

Exhibit 3

TOWN OF BIG SANDY		AUTHORIZED BUYER #: 06000			
ACCOUNT #: 1759		P.O. #:			
INVOICE#: 000836	DATE OF SALE #: 020619	STORE #: 00000335			
TRANSACTION #: 836	AUTHORIZATION #: 006532	REGISTER #: 66			
S.K.U	DESCRIPTION	QUANTITY	UNIT	PRICE	EXT. PRICE
120019602	LOGIC UNI KEYBRD	1.000	EA	48.2400	48.24
146788434	IPAD 6 GEN 32GB GLD	1.000	EA	329.0000	329.00
SUB \$377.24		TAX \$0.00		TOTAL INVOICE	\$377.24
				CREDITS TOTAL	\$0.00
				BALANCE DUE	\$377.24

Personal purchase using town’s credit card made by Martinez

Summary of Misappropriated Funds	
Unauthorized Maternity Leave Pre-Payment	\$ 3,600.00
Unearned CMFO Class Reimbursement	137.20
iPad and Keyboard Personal Purchase	377.24
Total Misappropriations	\$ 4,114.44

The Mayor terminated Recorder Morgan Martinez’s employment March 8, 2019.

2. TOWN RECORDER MARTINEZ RECEIVED \$4,848.40 IN QUESTIONABLE PAYROLL PAYMENTS

- A. Martinez received \$646.40 in questionable pay. Martinez claimed to have worked 56 hours during the week ended February 22, 2019. According to a police report received from the town’s police chief, surveillance camera video from February 18, 2019 through February 22, 2019 reflected that Martinez was only at work 29 hours and 36 minutes resulting in a \$412.80 overpayment. Martinez also claimed to have worked 46 hours during the week ended March 8, 2019. The police chief also reported surveillance camera video from that week showed Martinez was only at work for 29 hours and 32 minutes resulting in a \$233.60 overpayment. Included in the above numbers, Martinez reported that she attended a Certified Municipal Finance Officers (CMFO) class on March 6, 2019, and she was paid for that day. However, meeting transcript records indicated Martinez did not attend the class. Martinez registered to attend the CMFO-Internal Control and Auditing class in Jackson, Tennessee, but was a “No-Show” on transcript records obtained by investigators. By her own admission to investigators, Martinez was not working all of the hours she claimed and was paid. However, the town’s police chief did not maintain the surveillance camera video documenting time not worked, and City time sheets were not required to be filled out; therefore, investigators could not verify the validity of reported hours.
- B. Martinez received 164 hours in questionable overtime payments from July 28, 2018, through March 8, 2019, totaling \$2,952. In addition, Martinez was on maternity leave from November 11, 2018, to January 2019, during which she claimed and received 104.17 hours of questionable regular pay totaling \$1,250. The town did not require employees to fill out timesheets; therefore, investigators could not verify Martinez worked all the hours for which she was paid.

The questionable payroll payments are summarized in the table below:

Questionable Payroll Payments	Amount
A. Paid for time not worked	\$ 646.40
B. Questionable overtime	2,952.00
B. Questionable regular pay	<u>1,250.00</u>
Total Questionable Payments	<u>\$ 4,848.40</u>

On October 21, 2019, the Benton County Grand Jury indicted Morgan Leann Martinez on one count of Forgery, one count of Theft Over \$2,500, four counts of Theft Under \$1,000, and one count of Theft Over \$1,000.

[Town of Big Sandy Investigation Exhibit](#)

INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES

Our investigation revealed internal control and compliance deficiencies, some of which contributed to Martinez’s ability to perpetrate her misappropriation and questionable transactions without prompt detection. These deficiencies included:

Deficiency 1: The Town of Big Sandy failed to report a ransomware attack

The Town of Big Sandy suffered a ransomware attack in September 2018 and did not file a Fraud Reporting Form with the state Comptroller’s Office as required by state statute. Section 8-4-503, *Tennessee Code Annotated*, require a person elected or appointed to any office of a public entity to notify the Comptroller of the Treasury, within a reasonable amount of time under the particular circumstances, but shall not under any circumstances exceed five working days, of any unlawful conduct including theft, forgery, credit card fraud, or any other act of unlawful taking, waste, or abuse of, or official misconduct, involving public money, property, or services.

Deficiency 2: The Town of Big Sandy did not employ a Certified Municipal Finance Officer

During the period of the investigation, the Town of Big Sandy did not employ either a Certified Municipal Finance Officer (CMFO), or a CMFO exempt individual with adequate training and

qualifications, to oversee the financial operations of the town as required by Sections 6-56-401 through 6-56-407, *Tennessee Code Annotated*.

Deficiency 3: The Recorder's duties were not segregated adequately

Town management did not adequately segregate duties in the Office of Recorder. The Recorder was responsible for collecting and receipting collections, maintaining the accounting records, and preparing and making deposits. The Recorder was also responsible for purchasing and issuing all checks as well as co-signing the checks with the Mayor. Sound business practices dictate that management is responsible for designing internal controls to give reasonable assurance of the reliability of financial reporting and of the effectiveness and efficiency of operations. This deficiency in internal controls increases the risks of unauthorized transactions.

Deficiency 4: The Town of Big Sandy had deficiencies in receipting and dispersing funds

The Town of Big Sandy had the following deficiencies in receipting and dispersing funds:

- Bank statements were not reconciled with the general ledger. The failure to reconcile the general ledger with bank statements allows for errors to remain undiscovered and uncorrected.
- The Recorder did not issue official receipts for collections as required by Section 9-2-103, *Tennessee Code Annotated*.
- The Recorder did not prepare daily collection reports. Officials should ensure that each day cashiers summarize all cash collections by source on a daily collection report, clearly indicating the amount to be deposited, the amount retained for change, and the amount of any cash over or short. Each report should be dated, and the date should be recorded on the corresponding deposit slip. The total on the corresponding deposit slip as well as the total of all applicable pre-numbered receipts should agree with the total collections recorded on the daily collection report.
- Employees were signing blank checks and signing checks without reviewing supporting documentation. Checks should be supported by proper documentation, and that documentation should be reviewed prior to signing checks. Employees should never sign checks that are blank.
- Section 9-18-102(a), *Tennessee Code Annotated*, requires governments to establish and maintain internal controls to provide reasonable assurance for compliance with applicable laws, the safeguarding of assets, and proper accountability for the preparation of accurate and reliable financial records and reports. These provisions became effective for the fiscal year ended June 30, 2016. The Town of Big Sandy had not formally documented internal controls for office operations to verify compliance with the above-noted statute. Formal documentation could be in the form of printed or digital policies and procedures for the maintenance of controls, including the segregation of employee duties. Failure to

implement and maintain internal controls could put public assets at risk of loss, misuse, or abuse.

Deficiency 5: The Town of Big Sandy did not require employees to fill out time sheets or get time approved

The Town of Big Sandy did not require employees to fill out time sheets or get time approved. Time sheets provide supporting documentation for hours worked so payroll can be calculated accurately. Time sheets should also be approved by a supervisor to provide reasonable assurance of the reliability of the hours reported on the time sheets.

Officials indicated that they have corrected or intend to correct these deficiencies.