



COMPTROLLER'S INVESTIGATIVE REPORT

John R. Hay House, Inc.

February 4, 2020

Justin P. Wilson
Comptroller of the Treasury



DIVISION OF INVESTIGATIONS



JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Deputy Comptroller

February 4, 2020

Tennessee Department of Correction
Commissioner Tony Parker
320 Sixth Avenue North
Nashville, TN 37243

Commissioner Parker:

The Office of the Comptroller of the Treasury conducted an investigation of selected records of the John R. Hay House, Inc., 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 2nd 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 "Justin P. Wilson".

Justin P. Wilson
Comptroller of the Treasury

JPW/MLC

INVESTIGATIVE REPORT

John R. Hay House, Inc.

The Office of the Comptroller of the Treasury, in conjunction with the Tennessee Department of Correction (TDOC) and the Tennessee Bureau of Investigation (TBI), investigated allegations of malfeasance related to John R. Hay House, Inc. The investigation was initiated after TDOC officials identified and reported fiscal and contractual issues. This investigation was limited to selected records for the period July 1, 2017 through January 25, 2019. The results of the investigation were communicated with the Office of the District Attorney General of the 2nd Judicial District.

BACKGROUND



The John R. Hay House, Inc. (JRHH), located in Sullivan County, was founded on August 14, 1981, for the purpose of providing aid and assistance to persons with criminal records who reside in the upper east Tennessee area. JRHH ceased operations on June 30, 2019, after the joint investigation provided community support through the following services: substance abuse treatment, housing, food, clothing, transportation, recreation, legal services, educational and employment services, financial and personal counseling, assistance in obtaining mental and physical health treatment

services, and community placement assistance. JRHH was a 501(c)(3) nonprofit public benefit corporation funded primarily through an annual TDOC Community Correction and Substance Abuse Treatment Services grant (TDOC grant), awarded over a two-year period. JRHH also received funding from residents for room and board, as well as financial support from the United Way and other public donations. JRHH was governed by a nine-member board, which appointed a director and other officers who were responsible for conducting JRHH's day to day operations. The TDOC grant contract for the period provided that evaluation and monitoring of all grant funded programs and financial expenditures, including on-site visits by TDOC staff and/or their designees, should be carried out in keeping with monitoring instruments created by the TDOC.

RESULTS OF INVESTIGATION

- **JRHH EMPLOYED THE DIRECTOR'S SON-IN-LAW, A CONVICTED FELON**

JRHH and TDOC records indicate that the JRHH director's son-in-law began working for JRHH in December 1997. The son-in-law worked at JRHH as a transportation officer until March 1, 2000, when he was hired by TDOC as a corrections officer. On July 27, 2000, TDOC terminated the director's son-in-law due to his admission of smuggling a knife to an inmate and either paying or promising to pay the inmate to harm another inmate. These actions led to his termination and criminal charges. The director's son-in-law subsequently pled guilty to attempted second degree murder (solicitation), a Class C felony. On February 17, 2014, JRHH again employed the son-in-law, this time as a case officer, and he eventually rose to become the JRHH facilities manager. In each of these positions, the director's son-in-law had supervisory responsibilities over inmates, and was paid with TDOC grant funds during the period of our investigation.

According to the signed TDOC grant contract for fiscal years 2018-2019, "The Grantee (JRHH) will have background checks performed by the vendor designated by the Tennessee Bureau of Investigation, to perform background checks on all staff involved in offender supervision." In addition, JRHH policy states that all potential employees will have a background check by an approved vendor prior to employment, and all employees are required to have a yearly background check. Although the TDOC grant contract and JRHH policies do not specifically state employees must pass the ordered background checks, it should reasonably be expected that the purpose of background checks is to ensure employees involved with supervising and rehabilitating persons with criminal records do not have criminal records themselves. The director's son-in-law's JRHH personnel files included background check documentation; however, investigators could not determine the completeness of the background checks. The background check documents were questionable because they did not document the director's son-in-law's prior criminal history. The most recent background check documentation included registration and a bill for services performed by a TBI approved background check vendor on November 13, 2017, but the results of the background check were not included.

Because the JRHH facilities manager is the director's son-in-law, it is likely the director was aware of his son-in-law's criminal history, and that he knew a background check would reflect a criminal charge. JRHH employing the director's son-in-law may have put the safety of JRHH offenders and other employees at risk.

- **THE JRHH DIRECTOR'S SON-IN-LAW WAS INDICTED FOR THEFT WHILE WORKING FOR JRHH AND RECEIVED QUESTIONABLE COMPENSATION**

On January 23, 2019, the JRHH director's son-in-law was indicted on five counts of theft of \$1,000 or less. The indictment arose from several incidents in February and March 2018, when the director's son-in-law and an offender housed at JRHH allegedly took items from a Kingsport, Tennessee store without purchase or permission. These acts occurred while the director's son-in-law was purchasing supplies for JRHH. The director's son-in-law was

arrested for the alleged thefts on April 19, 2018 and was released later that day. Police reports document the JRHH director was present when his son-in-law surrendered to police.

JRHH continued to pay the director’s son-in-law after his initial arrest until he was terminated on June 29, 2018 for a “lack of work” due to “budget positions/cuts”. Since the director’s son-in-law was officially terminated for a lack of work, he was able to file for unemployment compensation on July 1, 2018. According to the TDOC grant contract, “The Grantee (JRHH) will notify the State in writing within no more than forty--eight (48) hours when either a Grantee staff member involved in the Grantee's financial operations or a non-Grantee staff member with fiduciary responsibility leaves Grantee employment either voluntarily or involuntarily. If there are allegations of financial impropriety on the part of the departing employee, the reason must be included in the written notice.” JRHH did not notify the TDOC of the arrest or eventual termination of the director’s son-in-law. According to board minutes and communications, the JRHH board authorized the continued employment of the director’s son-in-law until his related court appearance; however, it is unclear why the JRHH director did not communicate the arrest and eventual termination to the TDOC. It is also unclear if time sheets for the director’s son-in-law between the date of his arrest and the date of his termination reflect actual hours worked. Several of the director’s son-in-law’s time sheets during this period included vacation and excused leave. JRHH policy states, “Annual leave is not paid or accrued by Hay House, Inc.” JRHH policy does not authorize any other types of leave, and board minutes do not reflect that the son-in-law’s leave was authorized by the board. It also appears that individuals other than the director’s son-in-law signed his name on time sheets during this period. The JRHH director signed and approved all but one of his son-in-law’s time sheets. The following table summarizes questionable compensation received by the son-in-law between the date of his arrest and the date of his termination:

Summary of Questionable Compensation			
Pay Period	Payroll Check Date	Questionable Gross Compensation	
April 9, 2018 - April 22, 2018	April 25, 2018	235.20	*
April 23, 2018 - May 6, 2018	May 9, 2018	1,176.00	**
May 7, 2018 - May 20, 2018	May 23, 2018	1,176.00	***
May 21, 2018 - June 3, 2018	June 6, 2018	1,176.00	
Bonus	June 6, 2018	1,000.00	
June 4, 2018 - June 17, 2018	June 20, 2018	1,176.00	
June 18, 2018 - June 28, 2018	July 3, 2018	1,176.00	
Total Questionable Gross Compensation		<u>7,115.20</u>	

- * Per time sheets, the director's son-in-law worked April 19th and April 20th, which totaled \$235.20 in gross compensation. The son-in-law was arrested on April 19th and released later that day.
- ** Per time sheets, the director's son-in-law used 56 hours vacation leave and 24 hours excused leave. Vacation leave and excused leave are not authorized per JRHH policy. The son-in-law's gross compensation for leave taken was \$1,176.
- *** Per time sheets, the director's son-in-law took 40 hours vacation leave. Vacation leave is not authorized per JRHH policy. The son-in-law's gross compensation for leave taken was \$588.

- **JRHH EMPLOYED A REGISTERED SEX OFFENDER**

JRHH employed a registered sex offender as a cook for the period August 9, 2018 through October 3, 2018. According to the signed TDOC grant contract for fiscal years 2018-2019, "The Grantee (JRHH) will have background checks performed by the vendor designated by the Tennessee Bureau of Investigation, to perform background checks on all staff involved in offender supervision." In addition, JRHH policy states that all potential employees will have a background check by an approved vendor prior to employment, and all employees are required to have a yearly background check. Although the TDOC grant contract and JRHH policies do not specifically state employees must pass the ordered background checks, it should reasonably be expected that the purpose of background checks is to ensure employees involved with supervising and rehabilitating persons with criminal records do not have criminal records themselves. JRHH management could not provide the sex offender's/employee's personnel file; therefore, investigators could not determine his employment responsibilities or if JRHH performed a background check. However, investigators did determine JRHH paid the sex offender/employee as a part-time cook from sources other than the TDOC grant totaling \$2,425.50 in gross compensation. Although JRHH did not pay the sex offender/employee from the TDOC grant, as a JRHH employee, he likely had regular interactions with and supervisory roles over TDOC offenders. The hiring of this employee by JRHH may have put the safety of JRHH offenders and other employees at risk.

INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES

The investigation revealed deficiencies in internal control and compliance, which contributed to the investigative findings of this report. The noted deficiencies include:

Deficiency 1: The TDOC Did Not Detect That JRHH Employed Convicted Felons

The TDOC did not detect through its grant evaluation and monitoring procedures that JRHH employed two convicted felons until after the employees were terminated. The JRHH director's son-in-law, a former TDOC employee convicted of attempted second-degree murder (solicitation) of an inmate while working for TDOC, was employed by JRHH from February 17, 2014 through June 29, 2018. In addition, a registered sex offender was employed by JRHH from August 9, 2018 through October 3, 2018. This deficiency directly resulted in the investigative findings of this report and may have put the safety of JRHH offenders and other employees at risk.

Deficiency 2: The TDOC Did Not Detect That JRHH Management Employees Accrued and Used Leave in Violation of JRHH Policy

The TDOC did not detect through its grant evaluation and monitoring procedures that JRHH management employees accrued and used leave in violation of JRHH policy. JRHH policy states, "Annual leave is not paid or accrued by Hay House, Inc." Certain management employees, including but not limited to the administrative secretary (director's wife) and the facilities manager (director's son-in-law), received vacation, sick, and excused leave, although no leave was authorized in JRHH personnel policies. Investigators could not determine the total questionable leave taken by employees during the period due to inconsistencies between time sheets and leave balance records. This deficiency directly resulted in certain questionable compensation paid to the director's son-in-law, as noted in the investigative findings of this report, in other questionable leave paid to employees that could not be accurately calculated, and increases the risk of fraud and misappropriation.
