



## COMPTROLLER'S INVESTIGATIVE REPORT

**STARS, Inc.**

*February 26, 2026*

**Jason E. Mumpower**  
*Comptroller of the Treasury*



**DIVISION OF INVESTIGATIONS**



JASON E. MUMPOWER  
*Comptroller*

February 26, 2026

STARS, Inc. Board of Directors  
439 Allen P. Denkins Road  
Pikeville, TN 37367

STARS, Inc. Management:

The Office of the Comptroller of the Treasury conducted an investigation of selected records of the Stars, 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 12<sup>th</sup> Judicial District, certain state legislators, and various other interested parties. A copy of the report is available for public inspection in our Office and may be viewed at <http://www.comptroller.tn.gov/ia/>.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jason E. Mumpower", is written over a faint, larger version of the signature.

Jason E. Mumpower  
Comptroller of the Treasury

JEM/MLC

# INVESTIGATIVE REPORT

## STARS, Inc.

The Office of the Comptroller of the Treasury investigated allegations of malfeasance related to Skills Training and Rehabilitation Services Incorporated (STARS, Inc.) The investigation was limited to selected records for the period July 1, 2017, through October 31, 2025. The results of the investigation were communicated with the Office of the District Attorney General of the 12<sup>th</sup> Judicial District.

### BACKGROUND



STARS, Inc., is a nonprofit corporation located in Pikeville, Tennessee, incorporated on December 13, 1999. STARS, Inc.'s mission is to provide mentally and physically handicapped individuals the opportunity for education, vocational training, housing, and other related services. STARS, Inc. employs direct support professionals (DSPs) to care for its clients. DSPs report to home managers, who in turn report to the executive director and the nonprofit's three administrative staff. STARS, Inc. is governed by a

board of directors (board), which is responsible for overseeing its finances as well as the overall direction of the nonprofit.

STARS, Inc. is largely funded through reimbursements for the care of its clients from programs administered by the Tennessee Department of Finance and Administration Division of TennCare (TennCare) and the Tennessee Department of Disability and Aging (DDA). According to STARS, Inc. records, the nonprofit received \$5,796,840 in TennCare, DDA, and other state reimbursements for client services for the period July 1, 2017, through June 30, 2025.

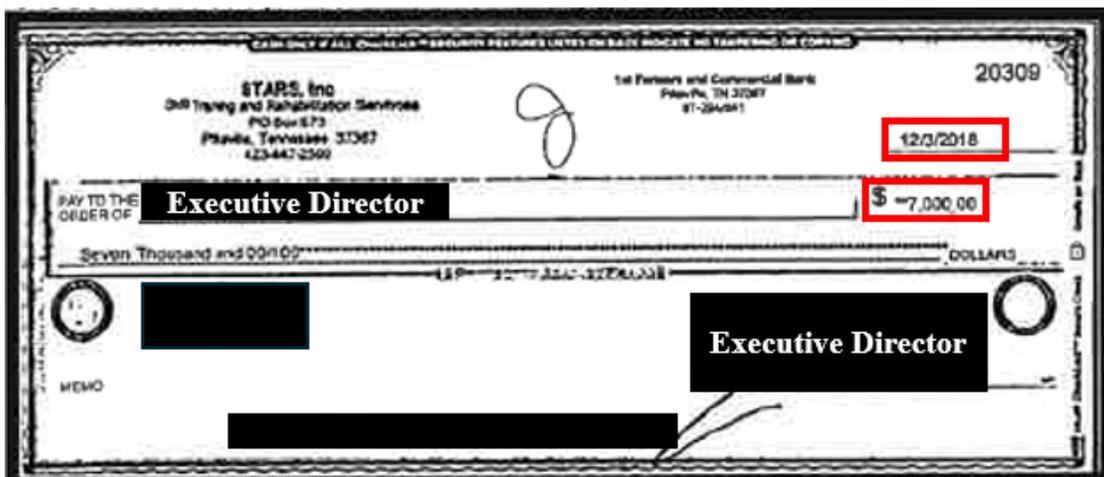
### RESULTS OF INVESTIGATION

#### 1. THE STARS, INC. EXECUTIVE DIRECTOR SUBMITTED FABRICATED INVOICES RESULTING IN AT LEAST \$14,500 IN PAYMENTS TO HERSELF

Investigators reviewed payments to the executive director totaling \$14,500 that were represented to the board as reimbursements owed to the executive director's former spouse's business for renovation work performed on STARS, Inc.'s main offices in 2014. Board records reflect that the executive director advised the board that STARS, Inc. owed the business more than \$10,000 for cost overruns related to that work. The payments were reportedly approved during the board's first-quarter 2018 meeting and disbursed during the fourth quarter of 2018.

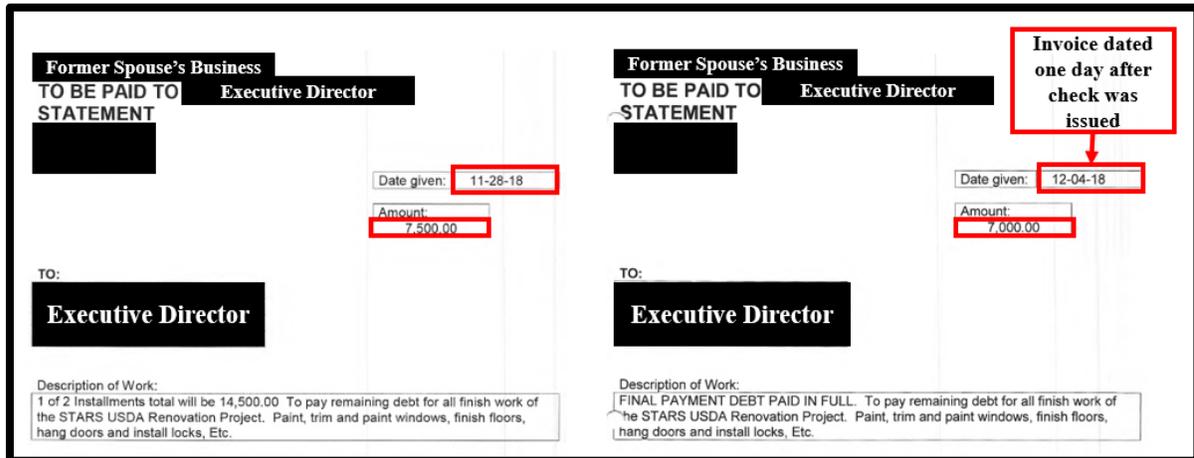
Investigators determined that the invoices supporting the payments to the executive director were dated November 28, 2018, and December 4, 2018 (**Refer to Exhibit 1**), and therefore could not have been approved during the first quarter of 2018. Additionally, one payment was issued to the executive director prior to the date of its supporting invoice. Specifically, a \$7,000 check was dated December 3, 2018, while the corresponding invoice was dated December 4, 2018 (**Refer to Exhibit 2**).

**Exhibit 1**



*November 29, 2018 payment (top), December 3, 2018 payment (bottom)*

**Exhibit 2**



The image shows two invoice forms. The left form is dated 11-28-18 and for an amount of 7,500.00. The right form is dated 12-04-18 and for an amount of 7,000.00. A red box on the right form contains the text 'Invoice dated one day after check was issued' with an arrow pointing to the date field. Both forms are addressed to the Executive Director and describe work for the STARS USDA Renovation Project.

*Invoice for \$7,500 dated 11/28/2018 (left), invoice for \$7,000 dated 12/4/2018, check issued 12/3/2018 (right)*

Investigators found no evidence that invoices for the alleged renovation overages were submitted at the time the work was performed or within a reasonable period thereafter. The executive director submitted the invoices approximately three years after the work was completed, and they lacked supporting documentation.

Investigators determined that a court settlement required the executive director to pay \$10,000 to her former spouse within 30 days, establishing a payment deadline of December 4, 2018. The timing of the STARS, Inc. payments coincided with this deadline, and the last work was finished in 2014.

The executive director admitted to investigators that she requested the payments from STARS, Inc. to satisfy a court settlement obligation to her former spouse and to pay creditors. Although she asserted that STARS, Inc. owed her former spouse's business for renovation work, she was unable to explain the delay in invoicing and could not provide documentation supporting the charges.

The STARS, Inc. business manager stated that she received the invoices directly from the executive director, not from the former spouse who operated the business that did the renovation work, and that the invoices were not received until the period in which they were dated. The executive director's former spouse told investigators that he did not submit the invoices used to support the payments and that, during the marriage, the executive director handled invoicing for his business.

**2. THE STARS, INC. EXECUTIVE DIRECTOR DIRECTED PAYMENTS TOTALING AT LEAST \$33,206.85 FOR CELLULAR DEVICES AND SERVICE WITHOUT DOCUMENTED BOARD APPROVAL**

Between January 1, 2018, through October 31, 2025, STARS, Inc. paid at least \$33,206.85 for cellular devices and service without documented board approval. The \$33,206.85 in cellular devices and service costs included the following:

- A. \$12,328.18 was paid for additional devices and service for the executive director, including a second cell phone in addition to her primary work-assigned cell phone, two smartwatches, one tablet, and one internet jetpack.
- B. \$10,926.65 was paid for cellular devices and service provided to the executive director's former spouse and parents, including three cell phones and two smartwatches.
- C. \$5,056.48 was paid for a cellular device and service for an employee who retired in January 2018 and was no longer employed with STARS, Inc.
- D. \$4,895.54 was paid for five smartwatches, three of which were issued to administrative staff. The executive director and business manager were unable to identify the recipients of the remaining two smartwatches.

The executive director told investigators that the board approved her issuance of cellular devices to her family members; however, board members stated that they were unaware that cellular devices had been issued to the executive director's family members. Additionally, board records showed no previous discussion or votes regarding device purchases and assignment. The executive director justified the purchases by stating that her family members volunteered with the organization; however, the STARS, Inc. business manager was unable to provide documentation of volunteer activities performed by the executive director's family members. STARS, Inc. staff and board members stated that STARS, Inc. has not had volunteers since its thrift store closed in 2020.

In addition, STARS, Inc. paid for a cell phone for each of the four administrative staff for business use. However, the administrative staff told investigators that they used the devices for both personal and business purposes.

### **3. THE STARS, INC. EXECUTIVE DIRECTOR ISSUED QUESTIONABLE BONUSES TOTALING AT LEAST \$312,225 WITHOUT DOCUMENTED BOARD APPROVAL**

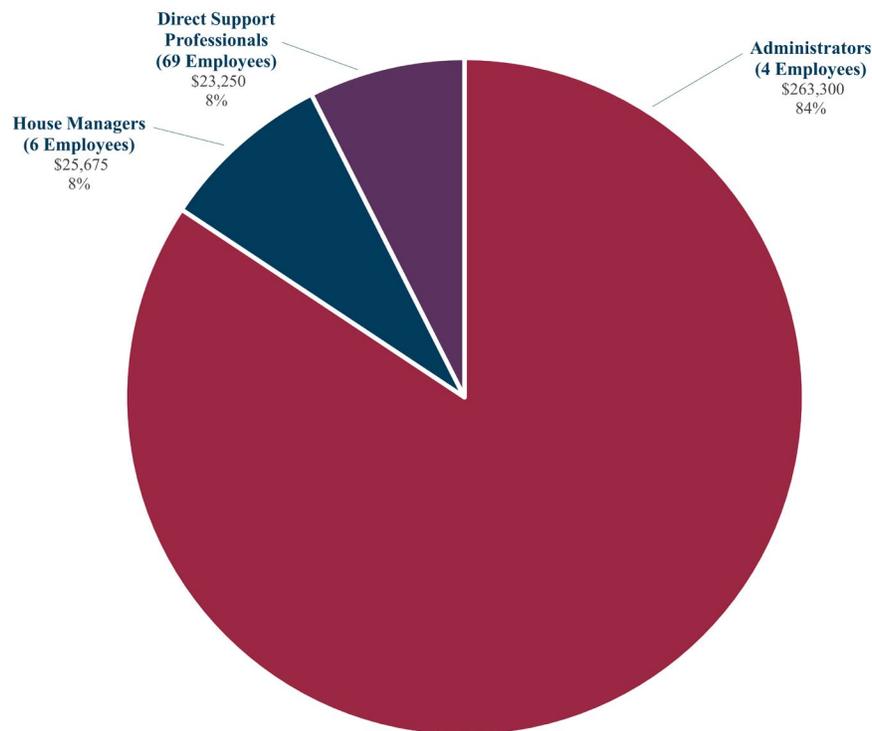
Between April 1, 2018, and September 30, 2025, the executive director issued at least \$312,225 in bonus payments to herself and other employees without documented board approval. Article VIII Section 2 of the *STARS, Inc. Constitution and Bylaws* states,

*Authority of the Board of Directors prior to the issuance of salary and / or compensation shall fix the salaries and other compensation of the agents and employees of the Corporation. The Board of Directors shall review salaries and / or compensation prior to issuance.*

Although STARS, Inc. employees stated that sign-on bonuses were frequently advertised for new DSPs, a common practice for provider entities, the majority of the bonuses issued during the investigative period were paid to the executive director and other administrative staff.

**Total Bonuses Issued Between April 1, 2018, through September 30, 2025**

<b>Job Title</b>	<b>Total Bonuses</b>
Director (administrator)	\$72,000
Business Manager (administrator)	\$72,000
Human Resource Manager (administrator)	\$80,300
Quality Assurance Manager (administrator)	\$39,000
Home Managers (6 employees)	\$25,675
Direct Support Professionals (69 employees)	<u>\$23,250</u>
<b>Total Bonuses Issued Without Documented Board Approval</b>	<b>\$312,225</b>



**Total S.T.A.R.S., Inc. Bonuses -- \$312,225**

The executive director told investigators that she did not maintain a documented performance review process for determining bonus amounts or recipients. Additionally, a review of board meetings and agendas for the period January 1, 2017, through September 30, 2025, revealed that bonuses were planned for discussion on only two occasions. In both instances, the discussions occurred after the executive director had already issued the bonuses for the periods under review by the board. There was no documented vote approving specific bonus amounts, timeframes, or recipients.

The executive director told investigators that the board granted her discretion to award bonuses. However, the board minutes contained no documentation of such discussion.

#### 4. STARS, INC. MANAGEMENT FAILED TO FILE ITS ANNUAL FORM 990 WITH THE INTERNAL REVENUE SERVICE FOR SEVEN YEARS, THEN INCURRED AN \$11,000 PENALTY FOR LATE FILING

STARS, Inc. management failed to file its annual Form 990 with the Internal Revenue Service (IRS) for fiscal years 2016 through 2022. The IRS requires tax exempt organizations to report finances and basic operations to determine continued eligibility for tax exempt status under 26 U.S.C.A. § 501(c)(3). Failure to file Form 990 for three consecutive tax years resulted in STARS, Inc. losing its tax-exempt status.

STARS, Inc. management subsequently filed the entity's Form 990 for the fiscal year ending June 30, 2023; however, the organization incurred an \$11,000 fine, the maximum penalty assessed by the IRS, due to failure to file the form until 2025.

After learning of the IRS penalty, the executive director contacted investigators and requested a letter of support to submit with an appeal of the penalty. The executive director did not provide an explanation for why the Form 990 had not been filed by the IRS's statutory deadline.

---

### INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES

Our investigation revealed deficiencies in internal control and compliance with both the board and management. These deficiencies included:

**Deficiency 1: The board did not provide adequate oversight of STARS Inc.'s financial operations and did not establish sufficient internal controls**

The board failed to provide adequate oversight of STARS Inc.'s financial operations and did not establish sufficient internal controls to ensure accountability of funds. Investigators identified multiple instances of inadequate board oversight:

*A. The board did not meet regularly or keep meeting minutes as required by its bylaws*

Investigators found that the board did not meet quarterly as required by its own bylaws and established policies and procedures. Article VII Section 5 of the *STARS, Inc. Constitution and Bylaws* states,

*It shall be the duty of the Secretary to record (or arrange for the recording of) the proceeding of all Board Meetings. Following each Board Meeting the Secretary shall be responsible for seeing that transcripts of the proceedings are typed and that a copy is furnished to each Board Member prior to the next Regular Meeting.*

Furthermore, the board did not meet on a regular basis and only met only once during calendar years 2020 and 2022. Additionally, the board delayed its 2025 second-quarter meeting until August 2025.

Agendas were used in place of meeting minutes to document board meetings for the entire investigative period, through the meeting held on August 28, 2025. These agendas included planned discussion topics rather than items actually discussed and did not document votes on key board business. Failure to conduct and document board business in a timely and complete manner increases the risk that STARS, Inc. management operates without effective board oversight.

*B. The board did not review STARS Inc.'s finances until after management issued payments*

Board members and STARS, Inc. management told investigators that board meetings were used to discuss STARS, Inc.'s activities and finances from the previous quarter. Therefore, the board did not vote on key organizational decisions until management had already taken action. Failure to review and approve expenditures in advance of payment increases the risk that improper payments may occur. Board members should review and vote on key decisions prior to management action.

*C. The board did not keep its minimum number of directors or appoint officers as required by its bylaws*

The board operated with only three voting members during the investigative period and had only two active members in 2025. Article II Section 1 of the *STARS, Inc. Constitution and Bylaws* states, "The Board of Directors of the Corporation shall consist of no more than fifteen and no less than five people."

Additionally, the board assigned STARS, Inc. employees to perform the duties of board secretary and treasurer rather than appointing officers as required by the bylaws. Article VII Section 1 of the *STARS, Inc. Constitution and Bylaws* states, "The officers of the Board of Directors, shall be Chairperson, Co-Chairperson, Secretary, Treasurer." Article VII Section 2 states in part, "An individual may not serve in the same officer capacity for more than five consecutive terms."

Failing to maintain a sufficient number of board members to conduct business and appoint officers in accordance with the bylaws undermines the board's ability to provide effective oversight and increases the risk of mismanagement.

*D. The board did not engage independent audits as required by federal law*

The board did not engage an independent audit for the fiscal year ending June 30, 2017, or for any subsequent fiscal year until the fiscal year ending June 30, 2023. STARS, Inc.'s agreement with DDA requires STARS, Inc. to undergo an annual independent audit. Additionally, prior to 2024, under federal law and regulations, the Single Audit Act and Uniform Guidance required organizations expending more than \$750,000 in federal funds

passed through state agencies, such as TennCare and DDA, to obtain an independent audit. Investigators determined that STARS, Inc. exceeded this expenditure threshold in fiscal year 2017.

Failure to engage an independent audit increases the risk that material misstatements in STARS, Inc.'s financial statements will go unreported and uncorrected, which increases the risk that management lacks reliable financial information to make informed decisions and may increase the risk of cash flow shortages, grant recoupments, sanctions, loan defaults, penalties, or other legal action.

As noted above, in 2023, STARS, Inc. initiated independent audits of its financial statements to bring the organization into compliance with its provider agreement and federal law. The independent audit for the fiscal year ending June 30, 2020, STARS, Inc. included the following findings:

**Summary of Audit Findings and STARS, Inc. Responses**

No.	Finding Description	Fiscal Year*						STARS, Inc. Response
		2013-2014	2014-2015	2016-2017	2017-2018	2018-2019	2019-2020	
1	Insufficient segregation of duties	New	Repeated	Repeated	Repeated	Repeated	Repeated	Partially rebutted
2	Misclassified general ledger entries	New	Repeated	Repeated	Repeated	Repeated	Repeated	Pledged to correct
3	Insufficient control over disbursements	New	Repeated	Repeated	Repeated	Repeated	Repeated	Partially rebutted
4	Agendas used as board minutes	N/A	N/A	N/A	New	Repeated	Repeated	Rebutted
5	Payments not made to vendors	N/A	N/A	N/A	New	Repeated	Repeated	Pledged to correct
6	Personal cell phones and service plans paid for with STARS funds	N/A	N/A	N/A	N/A	New	Repeated	Partially rebutted
7	Documentation was not retained	N/A	N/A	N/A	N/A	New	Repeated	Pledged to correct
8	Bonuses paid without board approval	N/A	N/A	N/A	N/A	New	Repeated	Partially rebutted

\*STARS, Inc. did not undergo an annual audit in the 2015-2016 fiscal year.

The lack of oversight by the board, as noted in Findings 1, 3, 4, and 8 of STARS, Inc.'s fiscal year 2019 independent audit report, contributed to the findings and deficiencies identified in this investigative report. Board members told investigators that the executive director responded to findings without first consulting the board. As noted above, the executive director rebutted portions of the audit findings that were key to improving financial oversight.

Failure to fully address and correct findings identified by the independent auditors demonstrates a lack of commitment by STARS, Inc.'s executive director and board to curb wasteful spending, maintain good standing with its grantor agencies, and uphold a sufficient internal control environment.

**Deficiency 2: STARS, Inc. management did not maintain a sufficient internal control environment**

*A. The STARS, Inc. business manager failed to maintain backup records of its general ledger*

Investigators requested financial records from STARS, Inc. on October 15, 2024. The business manager told investigators that STARS, Inc.'s QuickBooks records were lost in the 2018-2019 fiscal year, and the organization did not maintain backup records. The business manager told investigators that she was still working to update STARS Inc.'s QuickBooks system.

STARS, Inc.'s Provider Agreement states, "An adequate record keeping system shall be maintained and all records maintained for five (5) years from the close of this Provider Agreement." Failure to comply with the Provider Agreement and to restore STARS, Inc.'s accounting records within a reasonable timeframe increases the risk that management will not have sufficient information to make informed decisions and may increase the risk of cash flow shortages, recoupment of grant awards, sanctions, loan default, penalties, or other legal action.

*B. The business manager signed checks on behalf of the executive director*

As noted in Finding 1, the executive director signed at least two checks to herself. Additionally, both the executive director and the business manager told investigators that the business manager sometimes signed checks in the name of the executive director. Article X Section 1 of the *STARS, Inc. Constitution and Bylaws* states, in part:

The Board of Directors may delegate any officer or employee the power to endorse, sign and deliver checks, drafts, and other orders for the payment of money to and for STARS, Inc. All checks or demands of the Corporation must be signed by this delegated individual.

Allowing checks to be signed by unauthorized individuals is a violation of the *STARS, Inc. Constitution and Bylaws* and weakens internal controls over disbursements.

*C. The STARS, Inc. business manager did not report the value of cellular devices and services used for personal benefit on federal tax forms*

The STARS, Inc. business manager did not report the value of cellular devices and services used for personal benefit on employees' federal tax forms. As a result, STARS, Inc. did not report to the IRS fringe benefits (monetary value of cellular devices and services) provided to employees. IRS regulations require an employer to report fringe benefits as income on IRS Forms W-2 or 1099-MISC. Failure to report fringe benefits to the federal government increases the risk that these benefits will not be subject to income tax, Social Security, and Medicare calculations.

**Deficiency 3: STARS, Inc.'s policies and procedures do not address cellular devices or bonuses**

STARS, Inc.'s policies and procedures do not address cellular devices or bonuses. Regarding cellular devices, the board should establish a policy outlining allowable cellular devices for purchase, business purposes that justify the issuance of devices, procedures for device assignment, and controls to ensure that organization funds are not used for personal use of work-assigned devices or for devices issued to non-employees. Regarding bonuses, the board should establish and document a formal process for determining bonus amounts and recipients and should vote to approve bonuses prior to their issuance. Motions and votes related to bonus approvals should be clearly documented, including approved amounts, timeframes, and recipients.

---