
STATE OF TENNESSEE

**SPECIAL REPORT
CANNON COUNTY REACH AFTER-SCHOOL
PROGRAM
FOR THE PERIOD JULY 1, 2008
THROUGH MARCH 31, 2011**



Division of County Audit



**CANNON COUNTY REACH
AFTER-SCHOOL PROGRAM
TABLE OF CONTENTS**

Transmittal Letter	3
Investigative Highlights	4 – 5
Special Report on Cannon County REACH After-School Program:	
Findings and Recommendations	6 – 15



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF COUNTY AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7841

February 27, 2012

To the Cannon County Executive,
and Board of County Commissioners
Cannon County, Tennessee

Based on prior years' reported audit deficiencies and additional allegations we received related to the misuse of county funds, the state Comptroller's Division of County Audit, in coordination with the Tennessee Bureau of Investigation (TBI), conducted an investigation of the Cannon County REACH After-School Program (REACH) for the period July 1, 2008 through March 31, 2011. As a result of this investigation, we are presenting our findings and recommendations in this special report.

We reviewed the findings and recommendations resulting from this special investigation with the county executive and the district attorney general. The findings, recommendations, and management's responses are presented in this report.

Sincerely,

Jim Arnette, Director
Division of County Audit

cc: Honorable William Whitesell, District Attorney General

Investigative Highlights

Special Report
Cannon County, Tennessee
Cannon County REACH After-School Program
For the Period July 1, 2008 through March 31, 2011

Origin

Based on prior years' reported audit deficiencies and additional allegations we received related to the misuse of county funds, the state Comptroller's Division of County Audit, in coordination with the Tennessee Bureau of Investigation (TBI), conducted an investigation on the Cannon County REACH After-School Program (REACH) for the period July 1, 2008 through March 31, 2011.

Operations of REACH

REACH is an after-school care program that operates sites in several of the county's schools. The program's primary source of revenue is through various state and federal grants. Additional revenue sources include weekly fees collected at the after-school sites, donations, and fundraisers. Annual fundraisers include events such as "Good Ole Days," a community event held in conjunction with the Cannon County Senior Citizens Center, and the REACH sponsored horseshow.

The program's executive director served as the primary grant writer and administrator of REACH in addition to overseeing the daily operations of the program. Program revenues should be deposited with the county trustee and disbursed through the county's General Fund. The program operated up to six sites during the period examined. The executive director of REACH maintained two separate checking accounts: one for REACH related transactions and the other for the "Good Ole Days" fundraiser.

Scope

Our investigation included an examination of internal controls, payroll records, bank statements, accounting records, and numerous interviews with current and former county employees of REACH.

Results

Our investigation identified a cash shortage of at least \$37,259.22 at March 31, 2011, in the REACH program plus an additional \$26,474.05 of questionable and/or unsupported disbursements from July 1, 2008 through March 31, 2011. This cash shortage resulted from the executive director transferring funds to her personal bank account from the REACH checking account, writing checks out of the REACH checking account for “Cash” without supporting documentation, and withholding REACH funds from a deposit and taking the cash. In addition, the executive director requested and received various reimbursements from the Cannon County Executive’s Office related to the following: reimbursements based on fabricated invoices, miscellaneous reimbursements for non-REACH related disbursements, requesting payments to vendors for items not related to the REACH program, requesting duplicate reimbursements for items previously paid through the REACH checking account and/or the “Good Ole Days” checking account, reimbursements for inmate meals/gifts without documentation or authority, cash advances from the county without documentation, questionable purchases of gift cards, questionable travel reimbursements, and payroll irregularities. Various deficiencies of the REACH program have been reported in Cannon County audit reports since 2007.

Our investigation resulted in seven findings and recommendations. These findings and recommendations have been communicated to management to provide an opportunity for their response. The county executive provided written responses to the findings and recommendations, which are paraphrased in this report. These findings and recommendations have also been reviewed with the district attorney general.

The following are summaries of the findings from our investigation:

- A cash shortage of at least \$37,259.22 existed at March 31, 2011.
- There were questionable disbursements totaling \$26,474.05 in the REACH program for the period July 1, 2008 through March 31, 2011.
- The Cannon County Executive’s Office failed to provide oversight of the REACH after-school program.
- Benefits were provided to a REACH employee by the executive director that were not authorized by the county’s personnel policy.
- Timesheets of a REACH employee were falsified.
- Receipts of the REACH program were either not reconciled with attendance records or were missing.
- Deficiencies were noted related to REACH fundraising events.

Cannon County, Tennessee
REACH After-School Program Findings and Recommendations
July 1, 2008 through March 31, 2011

Based on prior years' reported audit deficiencies and additional allegations we received related to the misuse of county funds, the state Comptroller's Division of County Audit, in coordination with the Tennessee Bureau of Investigation (TBI), conducted an investigation on the Cannon County REACH After-School Program (REACH) for the period July 1, 2008 through March 31, 2011. As a result of this investigation, we are presenting our findings and recommendations in this special report. We reviewed the findings and recommendations resulting from this special investigation with the county executive and the district attorney general. These findings, recommendations, and management's responses are presented in this report. These matters will also be communicated to the Recovery Accountability and Transparency Board for the reporting of American Recovery and Reinvestment Act (ARRA) related grant issues.

FINDING 11.01 **A CASH SHORTAGE OF AT LEAST \$37,259.22 EXISTED AT MARCH 31, 2011**

A cash shortage of at least \$37,259.22 existed at March 31, 2011, and resulted from the following:

- A. In 12 instances from June 2009 to February 2010, amounts ranging from \$100 to \$1,300 were transferred from the REACH checking account into the executive director's personal checking account totaling \$6,230. These amounts included cash advances from the County Executive's Office as well as checks from citizens for horseshow entry fees.
- B. During the period examined, the executive director requested that funds from the county's General Fund be deposited into the REACH checking account for the annual horseshow fundraiser. Rather than depositing these funds intact into the REACH account, we noted that on July 10, 2009, the executive director received cash back from the deposit totaling \$1,450, which is unaccounted.
- C. Disbursements from the REACH and "Good Ole Days" checking accounts required the signatures of the executive director and her assistant. On July 10, 2009, we noted a check made payable to "Cash" for \$3,000 from the REACH account that included the required two signatures. However, during our investigation, the assistant advised us that she had never seen the check, and her signature on the check had been forged.
- D. In July 2009, the executive director disbursed funds totaling \$622 from the REACH checking account to a friend for \$250 and to her friend's mother for \$372. Both disbursements had the required two signatures; however, no supporting documentation for these disbursements could be located. During our investigation, the assistant advised us that she had never seen these checks, and her signature on these checks had been forged.

- E. Six instances were noted from April 2009 to July 2010, where reimbursements were requested from the County Executive's Office and received by the executive director totaling \$5,115.63. In the course of our investigation, we discovered that in all six instances the documentation provided to the County Executive's Office for these reimbursements had been fabricated by the executive director.
- F. From September 2008 to January 2010, purchases totaling \$7,970.50 were made from Walmart, Sam's Club, Dollar General, and HSBC Business Solutions. The executive director would make the purchases on account or by credit card, keep the receipts, and send the receipts to the County Executive's Office to be paid by the county's General Fund. These purchases were purportedly for the REACH program and Christmas gifts for the students; however, we could not account for these disbursements through interviews or observations at the REACH sites. Purchased items included HDTVs, laptop computers, vacuum cleaners, printers, video cameras, digital cameras, network routers, radios, calculators, clothing, knife sets, pet carriers, gold fish, a fish tank and gravel, and Sam's Club memberships for friends and their relatives. We were advised by the REACH site coordinators that the executive director did provide some children small inexpensive gifts for Christmas.
- G. From June 2008 to July 2010, gift cards totaling \$3,929.50 were purchased from Walmart and Dollar General by REACH directly through the county's General Fund or through requests for reimbursements by the executive director. These gift cards were for purchases from Applebee's, Logan's, Verizon, Burger King, Wendy's, Amazon, Sonic, Cracker Barrel, and Crown Gold Card and were purportedly for the children in the REACH program. Our interviews with REACH site coordinators noted that two \$50 gift cards were given to each REACH site for miscellaneous purchases for the school year. The \$50 gift cards given to each REACH site have not been included in the \$3,929.50 portion of the cash shortage.
- H. Six payments from July 2010 to September 2010, totaling \$1,999.25 were paid to the minor son of the executive director from the REACH checking account. These payments were purportedly for work performed for the REACH program. During our investigation, the individual responsible for approving the timesheets advised us that her signature of approval had been forged on the timesheets. In addition, the timesheets included time worked on the weekends when the REACH facilities were closed. These funds were deposited into the personal account of the executive director.
- I. The executive director requested duplicate reimbursements from the county's General Fund on ten occasions from June 2008 to August 2009, totaling \$560.76. Each of these reimbursements had been previously paid through the REACH checking account, the "Good Ole Days" fundraiser account, or previously reimbursed by the county's General Fund.

- J. The executive director maintained a REACH petty cash fund of approximately \$325. During the period under investigation, we noted the following disbursements totaling \$904.42 that should not have been paid from the petty cash fund:
1. The executive director requested and received reimbursement from the county's General Fund for a purchase previously paid from the petty cash fund totaling \$20.68.
 2. The executive director requested and received reimbursement from the county's General Fund for the purported purchase of Christmas gifts, inmate meals, and miscellaneous purchases totaling \$883.74. It should be noted that inmates working at the REACH sites as litter or maintenance crews were provided three meals a day at the Cannon County jail.
 3. The purported purchase of the Christmas gifts were purchases made at Shoe Carnival, Off the Hanger, TSC, and Hibbets. These purchases had no supporting documentation. We were advised by the site coordinators that the executive director did provide some children small, inexpensive gifts for Christmas.
- K. The executive director requested and received reimbursements from the county's General Fund for the purported purchase of inmate meals and gifts from her personal funds totaling \$1,013.80. As previously noted, inmates working at the REACH sites as litter or maintenance crews were provided three meals a day at the Cannon County jail. The following schedule presents these reimbursements from the county's General Fund to the executive director for the reimbursements of inmate meals.

Date	Amount	Payee
11-28-08	\$ 8.79	Hardees
12-30-08	23.96	Sonic
12-16-08	33.67	DJ's Pizza & Steaks
3-23-09	45.79	Cracker Barrel
3-25-09	15.43	Cracker Barrel
(1)	7.06	Sonic
4-13-09	2.38	McDonalds
5-13-09	57.59	Shoe Carnival
5-7-09	27.54	Dollar General Market
5-17-09	16.57	Dollar General Market
5-13-09	53.84	Kwik Mart
5-13-09	6.49	Hardees
5-8-09	8.45	McDonalds
5-16-09	13.72	Hardees
5-17-09	32.45	McDonalds
(1)	121.85	Kitchen Check
5-29-09	10.85	McDonalds
5-28-09	15.54	Captain D's # 205917
5-26-09	73.51	Kwik Mart
5-28-09	30.45	Subway
6-3-09	10.78	Hardees
6-1-09	32.82	Quick Shop Market
6-9-09	8.41	Bi-rite
6-6-09	32.71	West End Tobacco Shop
6-4-09	26.49	West End Tobacco Outlet
6-4-09	10.83	McDonalds
6-2-09	18.69	No business name available
6-11-09	27.24	West End Tobacco Outlet
6-5-09	3.26	McDonalds
6-12-09	33.36	Quick Shop Market
6-26-09	77.00	Captain D's
5-12-10	60.00	Lions Den
5-12-10	12.00	Lions Den
5-12-10	<u>54.28</u>	McDonalds
Total	<u>\$ 1,013.80</u>	

(1) No date available.

- L. The executive director submitted reimbursement requests from the county's General Fund for a monthly utility bill paid on behalf of a friend totaling \$100 to Middle Tennessee Electric Company and for purchases at Dollar General Market totaling \$156.57 for bath rugs and shower hooks. Both of these disbursements totaling \$256.57 were made in June 2009.
- M. Travel reimbursements were requested and paid by the county's General Fund to the executive director for REACH related travel. Our investigation of these reimbursements noted a \$70 travel claim paid on April 20, 2009, for travel on March 23, 2009. The executive director then submitted another claim for the same date and was again reimbursed \$70. In addition, we noted a travel claim paid to the executive director totaling \$59.80 in March 2010, the same day the executive director was on sick leave. These two overpayments totaled \$129.80.
- N. The executive director administered an American Recovery and Reinvestment Act (ARRA) grant entitled the Emergency Food and Shelter Program. This grant totaled \$3,600 and was for the emergency payment of rent and other necessities for low income residents of Cannon County. The executive director diverted \$1,600 of these grant proceeds to her personal account. In addition, the executive director had \$575 paid from the county's General Fund directly to her landlord; however, the documentation sent to the county to support this rent payment was from another individual who had no knowledge of the grant program and received no rent assistance. The executive director diverted additional grant proceeds for a friend's utilities (same individual as in D. and L.) totaling \$175 and his rent totaling \$850. The executive director disbursed the remainder of the grant for the rent of another REACH employee totaling \$400. Therefore, the entire \$3,600 grant was not properly expended.
- O. In July 2009, the executive director requested and received reimbursement from the county's General Fund purportedly for the purchase of fundraiser supplies totaling \$476.99. The executive director had previously requested and received a cash advance for \$4,820 for the purchase of these supplies to be used for the horseshow fundraiser.

The following table summarizes the above-noted cash shortage:

<u>Item</u>	<u>Amount</u>
A.	\$ 6,230.00
B.	1,450.00
C.	3,000.00
D.	622.00
E.	5,115.63
F.	7,970.50
G.	3,929.50
H.	1,999.25
I.	560.76
J.	904.42
K.	1,013.80
L.	256.57
M.	129.80
N.	3,600.00
O.	<u>476.99</u>
 Total Cash Shortage	 <u><u>\$ 37,259.22</u></u>

The following internal control weaknesses contributed to the opportunity for the cash shortage to occur: 1) the Cannon County Office of County Executive did not adequately review documentation submitted for reimbursement or payment and did not correct deficiencies noted in prior years' audit reports, 2) records of invoices to support expenditures were either nonexistent or incomplete, and 3) REACH management did not correct the deficiencies reported in prior-year audit reports.

RECOMMENDATION

Officials should take steps to liquidate the cash shortage. The Cannon County Executive and REACH management should provide sufficient oversight, require adequate documentation for disbursements, and should correct reported audit deficiencies. The county should contact the grantor noted in section N to determine whether the grant proceeds should be returned to the grantor for noncompliance.

**FINDING 11.02 THERE WERE QUESTIONABLE DISBURSEMENTS
TOTALING \$26,474.05 IN THE REACH PROGRAM FOR THE
PERIOD JULY 1, 2008 THROUGH MARCH 31, 2011**

Questionable disbursements totaling \$26,474.05 existed in the REACH program at March 31, 2011. No documentation was presented to support the validity of these disbursements, and we could not ascertain whether these disbursements were related to the REACH program. Disbursements totaling \$16,647.90 were for additional pay to the executive director from July 2008 to July 2009. The explanation provided to the county for these payments was identified as “back pay,” “bonus,” or was listed as payment for the administration of grants. The county provided the executive director a vendor check for these payments; therefore, these payments were not processed through the county’s payroll system so the applicable payroll taxes and county matching contributions were not reported.

Other questionable disbursements from the county’s General Fund to the executive director totaling \$9,826.15 were noted during the period under investigation. These disbursements were identified for Sam’s Club, travel, miscellaneous meals, Christmas, fundraiser cash advance, and payments for painting performed at the REACH sites by a friend of the executive director. Failure to require adequate documentation for purchases increases the risk of fraud and abuse from unauthorized purchases.

RECOMMENDATION

The county should determine if these questionable disbursements are proper. If these questionable disbursements are determined to be improper, steps should be taken to recover these funds. Adequate documentation should be maintained for all expenditures. All payroll for a county employee and should be paid through the county’s payroll system and reported to the federal government on a Form W-2. This would result in the county deducting and paying the appropriate payroll taxes.

**FINDING 11.03 THE CANNON COUNTY EXECUTIVE’S OFFICE FAILED TO
PROVIDE OVERSIGHT OF THE REACH AFTER-SCHOOL
PROGRAM**

The Cannon County Executive’s Office routinely issued cash advances and reimbursements to the REACH executive director without adequate documentation to support the cash advance or reimbursement. In many instances, the executive director provided handwritten notes for cash advances or reimbursements. Many times these requests were without an attached invoice or receipt and contained little or no explanation. In most instances when receipts were submitted, these receipts were not itemized or did not contain any detail of the items purchased. These receipts were not questioned by the County Executive’s Office as to their adequacy or purpose. Many of these purchases were made to Walmart even though the REACH program had a credit card for purchases at Walmart. Failure to provide oversight and require adequate documentation for purchases increases the risk of fraud and abuse from unauthorized purchases.

RECOMMENDATION

Adequate documentation should be maintained for all expenditures. With rare exception, cash advances should not be provided to employees.

FINDING 11.04 **BENEFITS WERE PROVIDED TO A REACH EMPLOYEE BY THE EXECUTIVE DIRECTOR THAT WERE NOT AUTHORIZED BY THE COUNTY'S PERSONNEL POLICY**

The Cannon County Executive's Office paid \$1,100 in maternity leave to a REACH employee in violation of the county's approved personnel policy. The REACH employee was hired as a full-time employee at the REACH office on August 16, 2010, and she was paid four weeks of maternity leave beginning approximately four weeks later, September 20, 2010 through October 15, 2010. The employee did not have sufficient sick leave or annual leave balances to cover her maternity leave. The assistant director of REACH approved these timesheets, and the payments were approved by the County Executive's Office.

The county's personnel policy provides that full-time employees earn sick leave of 1/2 day for each month employed, and sick leave can be cumulative for all days not used. Annual leave is earned at 1/2 day for each month employed, and employees may accumulate up to 20 days. Furthermore, the county personnel policy states that "accumulated annual leave or sick leave shall be used for maternity leave, otherwise, the leave will be an unpaid leave."

This employee is no longer employed by the county.

RECOMMENDATION

The county should only pay benefits in accordance with their approved personnel policy. The county should determine what steps should be taken regarding these improper payments to this employee.

FINDING 11.05 **TIMESHEETS OF A REACH EMPLOYEE WERE FALSIFIED**

The timesheets for a REACH employee who worked as a tutor in the General Education Development (GED) program reflected hours that were not worked. From February 27, 2010 through June 12, 2010, the timesheets of this employee reflected work performed on Saturday. During our interview with this employee, she advised that she did not work and never had worked on a weekend. We noted ten instances where her timesheets reflected work on Saturday totaling \$635. These timesheets were approved by the executive director. This employee is the same employee noted in Finding 11.04 and is no longer employed by the county.

RECOMMENDATION

Timesheets should only reflect time worked in the program. The county should determine what steps should be taken regarding these improper payments to this employee.

FINDING 11.06 **RECEIPTS OF THE REACH PROGRAM WERE EITHER NOT RECONCILED WITH ATTENDANCE RECORDS OR WERE MISSING**

Receipts were issued for the collection of after-school care fees; however, as reported in prior-year audit reports, these receipts were not reconciled with attendance records from each remote site. Furthermore, receipt books beginning approximately August 2008 through March 2010, could not be found. We were unable to determine if all collections had been remitted to the county.

RECOMMENDATION

Receipts should be issued for all collections as required by state statute. Receipts should be reconciled with attendance records from each of the program's remote sites.

FINDING 11.07 **DEFICIENCIES WERE NOTED RELATED TO REACH FUNDRAISING EVENTS**

In July 2008 and July 2009, REACH sponsored two horseshows to raise money for REACH related programs. The executive director requested and received two cash advances from the county's General Fund totaling \$4,000 and \$4,820 before each show for purported start-up expenses. We were unable to determine how these advances were spent since no receipts were maintained by the executive director or submitted to the county for a reconciliation. For the July 2008 horseshow, the executive director remitted \$4,959.70 as collections from the event. No collections from the July 2009 show were ever remitted to the county.

We were unable to determine how much should have been collected from these events related to community sponsorships, horseshow entry fees, gate admissions, silent auctions, concessions, or other items sold at the events that were made to sell by the children in the REACH program. There was also no accounting related to any horseshow related expenses that were incurred. As noted in 11.01 (A) and (B), the executive director diverted a portion of the cash advances and entry fees to her personal account.

RECOMMENDATION

An accounting for all operating expense advances for fundraising events as well as event collections should be required.

MANAGEMENT'S RESPONSE – CANNON COUNTY EXECUTIVE MIKE GANNON

Please consider these comments as the response of Cannon County to the findings provided by the Division of County Audit concerning the REACH program. Addressing the findings in general, the county has replaced the executive director of the REACH program under whose administration these findings were generated. She was removed from the county health insurance program on May 31, 2011. Efforts will be made to recover any public funds wrongfully paid to any party. Improved oversight measures have been instituted to detect fraud and improper use of public funds. Specific responses to the findings are provided as follows:

Finding: 11.01 - The county executive does not dispute or attempt to refute the allegations described in the finding. The executive director of REACH was required to abide by the county purchasing and reimbursement guidelines and these procedures have been successful in ordinary circumstances. The petty cash fund has been eliminated, inmate work has been eliminated from the REACH program, and gift card distribution has been eliminated. Overall supervision has increased, but a determined and persistent effort at fraud takes time to detect. The county will take legal action to recover the cash shortage described in this finding.

Finding: 11.02 - The recommendation in this finding has been incorporated as a county procedure.

Finding: 11.03 - Documentation is required for cash advances as well as for the final reconciliation following the event or cause of the cash advance. REACH program cash advance requests have been eliminated following the replacement of the prior executive director.

Finding: 11.04 - County personnel policies are now being followed by the current REACH director.

Finding: 11.05 - The county will institute legal proceedings to recover the funds described in this finding if a demand for payment is unsuccessful.

Finding: 11.06 - Receipts are now being issued in the REACH program, and receipts are now being reconciled with all attendance records.

Finding: 11.07 - Future fundraising events conducted by REACH will be required to report receipts and revenues. Cash advances for these purposes will be eliminated. These events must be approved by the county executive before being held.