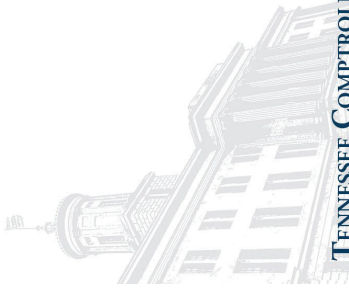


Money to Burn

2023

CCFO/CMFO Training

September 14, 2023



TENNESSEE COMPTROLLER OF THE TREASURY



Our Opinion

- This presentation represents the opinions of the presenters only.
- The contents of this presentation do not necessarily reflect the opinions of the State of Tennessee, the Comptroller of the Treasury, or anyone else.



TENNESSEE COMPTROLLER OF THE TREASURY



Background - Scott Udulutch

- B.S in Criminal Justice - MTSU
- Internal Investigator- Macy's
- Investigator- Comptroller of the Treasury
- Certified Fraud Examiner (CFE)



TENNESSEE COMPTROLLER OF THE TREASURY

Background – Forrest Richardson

- B.S. and Masters in Accounting – Lipscomb University
- Auditor – LBMC (Public Accounting)
- Investigator – Comptroller's Office
- Certified Public Accountant (CPA)



TENNESSEE COMPTROLLER OF THE TREASURY

Objectives

- Follow the investigative process.
- Identify indicators of a common scheme.
- See how small compliance failures can lead to much bigger issues.



TENNESSEE COMPTROLLER OF THE TREASURY

Case Study- South Marshall Volunteer Fire Department



TENNESSEE COMPTROLLER OF THE TREASURY

Background

- Located in Cornersville
- Provides fire protection services for the Southwestern area of Marshall County
- Supported by fundraisers, donations and contributions from the county



Background

- The department was established in 1991
- Shared facilities with the Cornersville FD
- Built their own fire hall around 2000



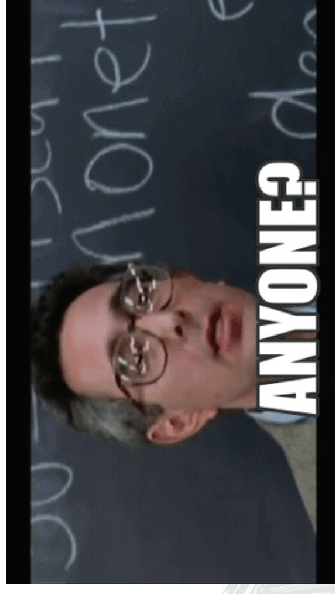
2002 - 2016

- The former VFD Chief and Treasurer Fred Haley served as **THE** Operating Board of Director members
- Fred Haley was the sole manager of the department's finances
- The account was set up using his name and SSN
- He was also the only person to have access the department's online banking



TENNESSEE COMPTROLLER OF THE TREASURY

Any guesses where this is going?



TENNESSEE COMPTROLLER OF THE TREASURY

Background

- A new Fire Chief was named in 2016, and he wanted to kickstart interest in the department.
- In 2018, a new Board of Directors was formed
- The former chief stepped down and became Assistant Chief
- Fred Haley remained Treasurer



TENNESSEE COMPTROLLER OF THE TREASURY

Leading up to Allegation

- In 2022, the department had a 4th of July fundraiser that raised approximately \$4,500.
- New Chief and Board President started inquiring about the department's finances. They had plans for upgrades and new equipment purchases.
- They asked Haley to provide them with online or paper bank statements, but he failed to provide them for *several weeks*.



TENNESSEE COMPTROLLER OF THE TREASURY



Panic Mode!

- After providing records, Haley notified the new fire chief that the department had spent \$12k in the past three months
- In the bank statements, they noticed check images that were unclear and did not make sense
- They called Haley to get an explanation

Later that same day.....

- Haley visited the BOD president and confessed to writing some checks to himself for the last couple of years
- He claimed he did this because he had fallen on hard times
- Haley apologized and said he had already started to pay the department back through PayPal a few weeks earlier



TENNESSEE COMPTROLLER OF THE TREASURY

Allegation

- Comptroller of the Treasury received the allegation from the 17th judicial DAG Rob Carter on July 21, 2022, who initially had been contacted by the fire chief earlier that day.
- Carter relayed to us that the former Treasurer for the SMVFD had admitted to misappropriating around \$5,000 over the last few years to the Board president and the fire chief



TENNESSEE COMPTROLLER OF THE TREASURY

Subject - Fred Haley

- Retired from the State of TN Forestry Division
- Former Marshall County Commissioner
- Owner/Operator of Marshall County Internet Service
- Treasurer for the South Marshall Volunteer Fire Department



TENNESSEE COMPTROLLER OF THE TREASURY

Marshall County Internet Service (MCIS)

- MCIS provides several services
 - Computer Repair
 - Computer Sales
 - Custom Built Computers
 - Internet Service Provider (Partner of United Communications)



TENNESSEE COMPTROLLER OF THE TREASURY

Initial Review

- Preliminary interviews were conducted with the board president, the current fire chief, and former fire chief
- Bank records were requested for both the fire department and Haley's personal accounts
- Financial documents for the department were retrieved from Mr. Haley



TENNESSEE COMPTROLLER OF THE TREASURY

Initial Review

- Investigators first focused on disbursements, as Haley admitted to the new chief and board president that he had written checks to himself



TENNESSEE COMPTROLLER OF THE TREASURY

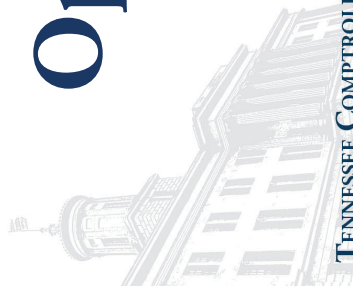
Disbursement Process

- The VFD had a Dual Signature Policy
 - Haley and the former chief both had to sign each check
- How was Haley getting away with it?
- Were both 'acting' board members involved in the scheme?



We learned Haley and the former chief would sign approximately 10- 15 **blank** checks for each other out of **CONVENIENCE**.

Opportunity !!!



TENNESSEE COMPTROLLER OF THE TREASURY

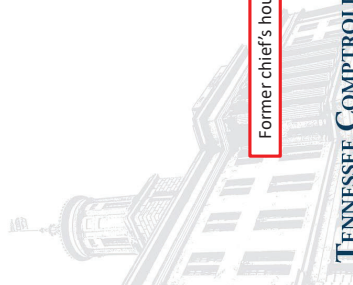


Marshall County



Fred Haley's house

Former chief's house



TENNESSEE COMPTROLLER OF THE TREASURY



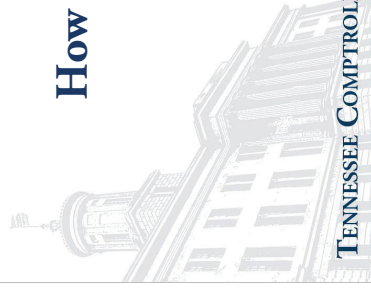
Who is at fault?

- Who is at fault for the breakdown of controls?
- Both Haley and the former chief had a responsibility to perform an internal control
 - Insufficient oversight
 - Board participation had dwindled over the years
 - Additional Board members could have improved oversight



TENNESSEE COMPTROLLER OF THE TREASURY

How were these blank checks used?



TENNESSEE COMPTROLLER OF THE TREASURY



Checks to Former Fire Chief

- The former chief mowed the VFD's property during the summer months for \$50 per cut

Two checks from the South Marshall Fire Department are shown. The top check is dated 2-21-21 for \$50.00, payable to 'Former Fire Chief'. The bottom check is dated 2-21-21 for \$50.00, also payable to 'Former Fire Chief'. Both checks are from CBS Bank and include a routing slip for 'Road Utility'.

TENNESSEE COMPTROLLER OF THE TREASURY

TENNESSEE COMPTROLLER OF THE TREASURY

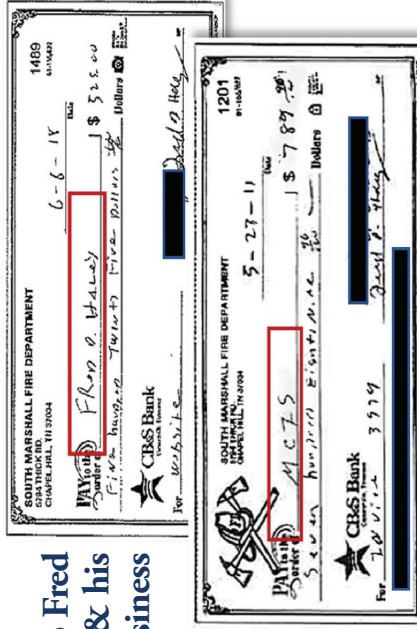
Checks to Fred Haley

- Per the fire chief and board president, Haley should have only written checks for:
 - Vehicle maintenance
 - Utility Bills
 - Fundraising activities
- However...

TENNESSEE COMPTROLLER OF THE TREASURY

TENNESSEE COMPTROLLER OF THE TREASURY

Checks to Fred Haley & his personal business



TENNESSEE COMPTROLLER OF THE TREASURY

Checks to Fred Haley

- Investigators identified 90 checks to Fred Haley or MCIS from November 2006 to June 2022
- Common memo lines on these checks:
 - Reimbursement
 - Invoice #'s
 - Building



TENNESSEE COMPTROLLER OF THE TREASURY

Notice anything strange?

Check Date	Check #	Paid to	Amount	Memo
Tuesday, July 17, 2018	1888	MCIS	\$539.95	Invoice #107889
Wednesday, June 6, 2018	1889	Fred Haley	\$535.00	Website
Tuesday, February 26, 2019	1912	MCIS	\$310.00	Invoice #72
Tuesday, May 28, 2019	1925	Fred Haley	\$310.00	reimbursement
Tuesday, July 20, 2021	1970	MCIS	\$499.95	Invoice #12649
Thursday, September 23, 2021	1977	MCIS	\$247.75	parts
Friday, November 12, 2021	1978	Fred Haley	\$460.00	reimbursement
Sunday, November 21, 2021	1979	MCIS	\$479.95	Invoice #1211
Thursday, December 2, 2021	1980	MCIS	\$279.75	Invoice #12632
Tuesday, December 28, 2021	1982	Fred Haley	\$510.00	reimbursement
Friday, February 25, 2022	1984	MCIS	\$460.00	Invoice #96911
Thursday, May 12, 2022	1986	Fred Haley	\$660.00	reimbursement
Thursday, May 19, 2022	1988	MCIS	\$585.00	Invoice #11792



TENNESSEE COMPTROLLER OF THE TREASURY

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Non-sequential invoice numbers



TENNESSEE COMPTROLLER OF THE TREASURY

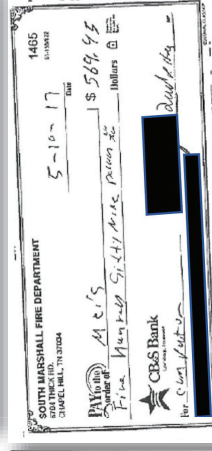
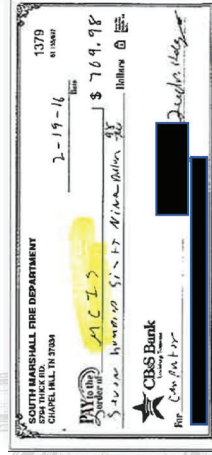
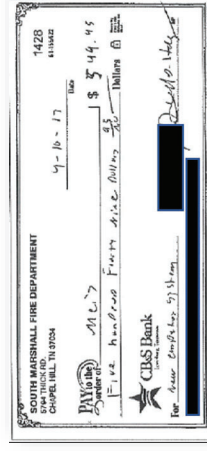
Checks to Fred Haley

- There were no related MCIS invoices or reimbursement requests from Fred Haley
- Investigators also identified three checks to MCIS for “computer” totaling \$1,889.88



TENNESSEE COMPTROLLER OF THE TREASURY

Checks to MCIS for Computers



TENNESSEE COMPTROLLER OF THE TREASURY

SEE
COMPTROLLER
OF THE TREASURY

Dell OptiPlex 980

- Haley “donated” this PC and one other in 2016 & 2017.
- Both were 5 to 6 years old.
- Three checks were made payable to his business for \$1,889.88
- They retail for no more than \$450



Predictions?

- Haley’s initial admission to the new chief and board president was that he had written about \$5,000 worth of checks to himself over the past few years.
- Upon review, we found checks dating back to 2006...

How much do you think he *actually* stole through checks?

Investigation Results #1

- Found that Mr. Haley had written 90 checks totaling **\$45,521.83** to himself or his business Marshall County Internet Service (MCIS) from 2006 to 2022.



TENNESSEE COMPTROLLER OF THE TREASURY

Investigation Results #2

As we looked closer at the checks, we noticed something odd...



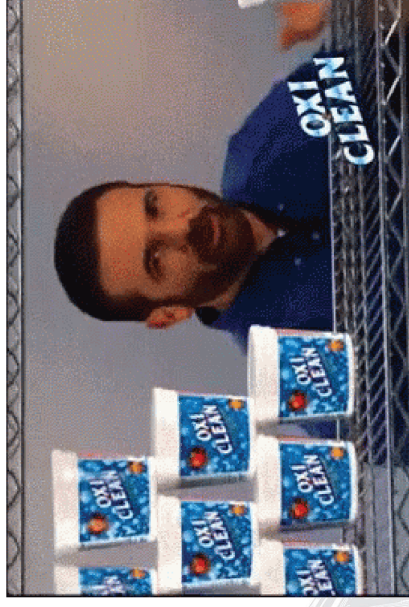
TENNESSEE COMPTROLLER OF THE TREASURY

Forgeries

- The former fire chief's signature appeared to be different on four checks that were written to Haley and MCIS between 2019 and 2022.
- Investigators met with the former fire chief, who verified that he did not sign any of the four checks in question and never gave anyone authorization to sign his name.

Four checks totaling \$1,300

TENNESSEE COMPTROLLER OF THE TREASURY



TENNESSEE COMPTROLLER OF THE TREASURY



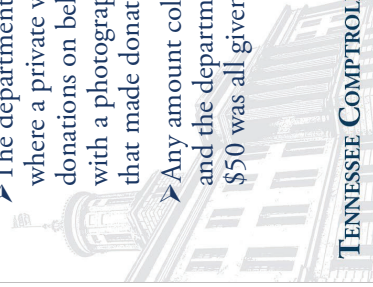
Collections

- **Annual fundraisers**
- Picture Drive- \$5k- \$9k
- County match from fundraising- \$4k-\$5k
- 4th of July Celebration- \$4,500

Donations

Collections

- The departments main source of income was through a picture drive where a private vendor would go out into the community to solicit donations on behalf of the department. They worked in conjunction with a photography company that took family photos of the individuals that made donations.
- Any amount collected \$50 or less was split 50/50 between the vendor and the department. One hundred percent of anything collected over \$50 was all given to the department.



TENNESSEE COMPTROLLER OF THE TREASURY



TENNESSEE COMPTROLLER OF THE TREASURY

Collections

- The vendor would meet with the treasurer and turn over all proceeds that had been collected for a period of time. (Usually weekly)
- The treasurer would then write a check back to the vendor for its share of the proceeds at the same time of receipt of the collections.
- Haley was the only person within the department that collected, counted and deposited the collections for the department.



TENNESSEE COMPTROLLER OF THE TREASURY

Review of Collections

- Several different vendors were used by the department for their picture drive fundraising events over the years
 - Only one was able to provide records of collections to investigators
- Investigators could only find supporting documents for five years of picture drive fundraising.
- **Of the five years found, four of those had a cash shortage.**
- Unfortunately, some vendors could not be reached, and some did not keep records for us to review.



TENNESSEE COMPTROLLER OF THE TREASURY

Weekly Vendor Collection Document

Sanku Morgan 5/10/22

DATE	AMOUNT	DESCRIPTION	DATE	AMOUNT	DESCRIPTION
5/10/22	1230	TOTAL CHECKS	5/10/22	1495	TOTAL COLLECTED
5/10/22	265	TOTAL CASH	5/10/22	1230	TOTAL CHECKS
5/10/22	225	TOTAL CREDIT CARDS	5/10/22	265	TOTAL CASH
5/10/22	1495	TOTAL VENDOR	5/10/22	225	TOTAL CREDIT CARDS
5/10/22	1495	TOTAL COLLECTED	5/10/22	1495	TOTAL VENDOR

Handwritten: 1495, 205, 215, 1230, 265, 1495, 1015, 555.22, 215, 215

Total Collections



TENNESSEE COMPTROLLER OF THE TREASURY

Weekly Vendor Collection Document

DATE	AMOUNT	DESCRIPTION	DATE	AMOUNT	DESCRIPTION
5/10/22	1230	TOTAL CHECKS	5/10/22	1495	TOTAL COLLECTED
5/10/22	265	TOTAL CASH	5/10/22	1230	TOTAL CHECKS
5/10/22	225	TOTAL CREDIT CARDS	5/10/22	265	TOTAL CASH
5/10/22	1495	TOTAL VENDOR	5/10/22	225	TOTAL CREDIT CARDS
5/10/22	1495	TOTAL COLLECTED	5/10/22	1495	TOTAL VENDOR



TENNESSEE COMPTROLLER OF THE TREASURY

Traced to Related Deposit

- Haley only deposited the \$1,230 in checks
- The \$265 in cash was not deposited

VIRTUAL REGULAR DEPOSIT DDA

5/10/2022 3:21:53 PM

CB&S Bank

#0030 048 0648

SOUTH MARSHALL FIRE DEPT

009

DDA Credits \$1,230.00 5/10/2022

\$1,230.00



Weekly Vendor Collection Document

South Marshall 5/10/22

DATE	AMOUNT	DEPT	AGENCY
5/10/22	1,230.00	0648	0030
5/10/22	265.00		
Total cash collected but not deposited \$265.			

Handwritten notes: 1,230.00, 265.00, 1,495.00, 1,230.00, -265.00, 1,015.00

Handwritten signature: Haley 5-10-22

Proof of receipt by Haley



Investigation Results #3

- Investigators traced picture drive fundraising receipts to deposit and determine that Haley failed to deposit collections he received for the 2010, 2012, 2014 and 2022 picture drive fundraising events.

Fundraiser Year	Collections Not Deposited
2010	771.00
2012	101.00
2014	1,175.00
2022	742.00
Total	\$2,789.00

TENNESSEE COMPTROLLER OF THE TREASURY



Self-Imposed Restitution

- When Haley realized they were asking too many questions and knew he was caught he tried to pay back some of the money that he misappropriated.
- He made 20 PayPal payments totaling \$337.35 and by writing a check to the department (from his own account) for \$60.

TENNESSEE COMPTROLLER OF THE TREASURY



Grand Total!

Misappropriation	Amount
Fundraiser Collections	\$2,789.00
Unauthorized Checks written	45,521.83
Less: Amount paid back (Paypal)	(377.35)
Less: Amount paid back (check)	(60.00)
Total	<u>\$47,873.48</u>



TENNESSEE COMPTROLLER OF THE TREASURY



Subject Interview Preparation

- What is the strength of our case as is?
 - Substantial evidence
 - Bank statements/checks
 - Missing collections
 - Forgery
 - Testimony from new fire chief and board president



TENNESSEE COMPTROLLER OF THE TREASURY



Subject Interview Goals

- What do we want to gain from the interview?
 - Admissions of guilt
 - Explanation of why
 - Confirm all parties responsible for the misappropriation



TENNESSEE COMPTROLLER OF THE TREASURY

Subject Interview Strategy

- Build rapport
- Establish potential rationalization
- Question Specific Elements of the Scheme
 - First and last misappropriation?
 - Reason for act?
 - Reason for frequency of act?



TENNESSEE COMPTROLLER OF THE TREASURY

Subject Interview

- Haley did not provide a written statement
- He did offer his estimation of misappropriation when asked by investigators
- He also informed investigators of the amount he had paid back to the VFD



TENNESSEE COMPTROLLER OF THE TREASURY

Results/ Indicted on the Following

- Count 1 through 90 – Theft of property under \$1,000.
- Count 91 through 94 – Forgery under \$1,000.
- Count 95 – Theft of property > \$10,000 but less than \$60,000.



TENNESSEE COMPTROLLER OF THE TREASURY

Internal Control Deficiency #1

Fire department officials failed to separate financial responsibilities adequately.

- Haley received collections, and prepared and delivered deposits to the bank. He also made disbursements, without anyone else reviewing or reconciling the bank statements.



TENNESSEE COMPTROLLER OF THE TREASURY

Internal Control Deficiency #2

Fire department officials failed to provide proper oversight over financial transactions and failed to ensure purchases were adequately documented.



TENNESSEE COMPTROLLER OF THE TREASURY

Internal Control Deficiency #2

- Did not reconcile or review of bank statements
- Did not ensure collections were deposited or deposited in a timely manner
- Did not require and retain supporting documentation for disbursements
- No written policy on use and accountability of funds



TENNESSEE COMPTROLLER OF THE TREASURY

Internal Control Deficiency #3

Fire department officials circumvented internal controls by signing blank checks.

- Even though checks contained two signatures, the former treasurer often requested the second signatory to sign blank checks. Requiring two signatures on completed checks verifies that both check signers agree that the payment is proper and reasonable.



TENNESSEE COMPTROLLER OF THE TREASURY

Top Fraud Indicators

- Inadequate internal controls

- Inadequate internal controls
- Override of those controls



TENNESSEE COMPTROLLER OF THE TREASURY



TENNESSEE COMPTROLLER OF THE TREASURY



Top Fraud Indicators

- Inadequate internal controls
- Override of those controls
- Missing, lost or destroyed records



TENNESSEE COMPTROLLER OF THE TREASURY

Top Fraud Indicators

- Inadequate internal controls
- Override of those controls
- Missing, lost or destroyed records
- Lengthy or unexplained delays in producing requested documents or access to accounts

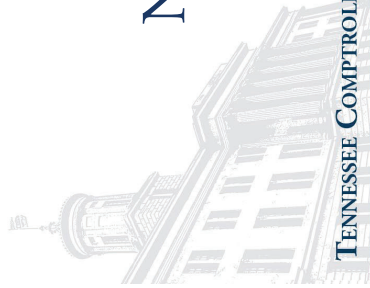


TENNESSEE COMPTROLLER OF THE TREASURY

Top Fraud Indicators

Last but not least

NO OVERSIGHT!



TENNESSEE COMPTROLLER OF THE TREASURY



Takeaways

What safeguards can be put in place to prevent this from happening again?



TENNESSEE COMPTROLLER OF THE TREASURY



Takeaways

Consider your local departments/organizations

- Do they have sufficient oversight?
- Are there proper controls in place?
- Are controls being performed?



TENNESSEE COMPTROLLER OF THE TREASURY

Takeaways

Whose job/reputation/freedom can be preserved by eliminating the opportunity to commit fraud?



TENNESSEE COMPTROLLER OF THE TREASURY

Questions?



TENNESSEE COMPTROLLER OF THE TREASURY

Submit Allegations to Comptroller's Office

- Fraud Hotline: 1-800-232-5454
- Online Fraud Reporting Form:
<https://apps.cot.tn.gov/ants/submission/submit/>



TENNESSEE COMPTROLLER OF THE TREASURY

Thank you!

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- 615-736-6068
- Forrest.Richardson@cot.tn.gov



TENNESSEE COMPTROLLER OF THE TREASURY

