

INVESTIGATIVE REPORT

SELECTED RECORDS OF THE MEIGS COUNTY FINANCE DEPARTMENT AND THE MEIGS COUNTY SCHOOL DEPARTMENT



October 23, 2014



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

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October 23, 2014

Meigs County Mayor and
Board of County Commissioners
Meigs County, Tennessee
P.O. Box 156
Decatur, Tennessee 37322

Director of Schools and Members of
the Board of Education
Meigs County School Department
345 North Main Street
Decatur, Tennessee 37322

Ladies and Gentlemen:

We performed an investigation of selected records of the Meigs County Finance Department for the period July 1, 2008, through November 30, 2013, and the Meigs County School Department for the period July 1, 2013, through May 28, 2014; however, we expanded the scope as necessary in the School Department. The investigation revealed the following deficiencies:

- Finance Department employees received unauthorized compensation totaling \$26,604.17.
- Detailed time records were not on file to support the payment of \$1,201.50 for compensatory leave of the former interim finance director.
- The School Department violated its conflict of interest policy by making purchases from a business owned by a school employee.

The findings and recommendations as a result of our investigation are presented in this report. These findings and recommendations have been reviewed with management of the

Finance Department, former Finance Department employees, and management of the School Department, to provide an opportunity for their responses. Written responses from the former county mayor, former interim finance director, the current finance director, the former chairman of the finance committee, and the director of schools are paraphrased in this report. Also, these findings and recommendations have been reviewed with the district attorney general for the Ninth Judicial District.

INVESTIGATIVE FINDINGS AND RECOMMENDATIONS

FINDING 1 FINANCE DEPARTMENT EMPLOYEES RECEIVED UNAUTHORIZED COMPENSATION TOTALING \$26,604.17

As a result of our review of payroll records, County Commission minutes, and interviews with the county mayor, current and former members of the Meigs County Finance Committee, the former finance director, the former interim finance director, the current finance director, and employees with the Health Department, we determined that the former finance director, former interim finance director, and the current finance director received unauthorized compensation totaling \$26,604.17 for the period July 1, 2008, through November 30, 2013. We discovered the following deficiencies:

- A. Between February 13, 2009, and November 30, 2013, the former interim finance director received a total of \$24,550 in unauthorized pay. This compensation was recorded between four different "Health Department" budget expenditure account codes totaling \$22,550, and the "Other Pay" budget expenditure account code totaling \$2,000. We were advised by the former interim finance director that the "Other Pay" budget account code was used because there were unexpended appropriations remaining in that budget account code at year end. This \$24,550 in compensation was in addition to her regular salary as the interim finance director.

The *Meigs County Financial Management Act of 2007* provides that the county's Finance Committee determines the salary of the finance director. County officials could not locate any Finance Committee minutes for our review prior to the interim finance director's resignation on November 21, 2013. Also, no authorization for payment was found in the County Commission minutes.

- B. On June 26, 2009, the former finance director received additional compensation of \$1,012.50. When we questioned the former finance director, he could not remember why he received this compensation. We found no payroll records or other documentation authorizing this payment. Based on our interviews with current and former Finance Committee members, no one was aware of this payment.



Meigs County Finance Department
and
Meigs County School Department

C. On June 14, 2013, the current finance director received additional compensation of \$1,041.67. We reviewed payroll records and County Commission minutes with this employee, but were unable to find any documentation to support this compensation. Based on conversations with current and former Finance Committee members, no one was aware of this payment.

The following table summarizes the \$26,604.17 in unauthorized compensation received by Finance Department employees:

Budget Account Code	Former Finance Director	Former Interim Finance Director	Current Finance Director	Total
Health Department	\$ 0.00	\$ 22,550.00	\$ 0.00	\$ 22,550.00
Other Pay	0.00	2,000.00	0.00	2,000.00
Regular Salary Codes	1,012.50	0.00	1,041.67	2,054.17
Total Unauthorized Compensation	\$ 1,012.50	\$ 24,550.00	\$ 1,041.67	\$ 26,604.17

RECOMMENDATION

The salary for the finance director should be determined by the Finance Committee, documented in the Finance Committee minutes, and approved by the County Commission. All Finance Committee minutes should be filed with the county clerk. Authorization for compensation of other county employees should be documented in their personnel files. Compensation should not be paid to county employees without prior authorization. County officials should seek to recover the unauthorized compensation.

MANAGEMENT'S RESPONSE – FORMER INTERIM FINANCE DIRECTOR

During the period September 1, 2007, through September 30, 2011, I held the position of bookkeeper, without the authority to make decisions based on payroll, purchasing, or budgeting. During that period, I did not attend or keep records of Finance Committee meetings. To my knowledge, the finance director and the director of the local Health Department used a budgeted payment until funds were exhausted. A worksheet determining the amount and longevity of payments was in my budget notebook. When I was appointed interim finance director, the salary for the position was to start at the former finance director's beginning salary. An informal decision was made by the Finance Committee to include the payments from the Health Department as part of the salary and to cut the beginning salary in the finance director's budget by \$3,000 per year until those funds were exhausted.

Records of Finance Committee meetings, personnel policies and procedures, a disaster recovery handbook, a notebook with records of accounts receivable and payable for all funds, and time sheets for me were kept on file in my office. Approval for percentage pay increases were signed and on file in the personnel folder. These are permanent records, property of the county, and should have been secured. Apparently, these records have been misplaced or lost. These records were in my office on the last day I worked.

The Finance Committee did not meet on a regular basis due to the work schedules of some of its members. On many occasions, there was not a quorum in attendance. It became necessary to discuss Finance Office business on the phone, by email, or by text. Meetings of the Finance Committee were held in the conference room located in the County Mayor's Office. It was not unusual for the county mayor to be absent from these meetings, making it necessary to move the meeting to another location within the building.

Personnel policies and procedures for the Finance Office were adopted in 1998, at which time the county operated under the Private Acts of 1949. The Purchasing and Finance Commission set the salary and hired a finance director. The county mayor did not have authority to sign the time sheets in the Finance Office. To my knowledge, no changes were made to those policies and procedures before November 30, 2013.

From September 1, 2010, through March 31, 2013, payroll disbursements were signed by the county mayor and the former finance director or the county trustee. Direct deposit became available after a majority vote by the county employees. Therefore, the county mayor had knowledge of the salary being paid to me.

INVESTIGATOR'S COMMENTS

The Finance Department was created under the *Meigs County Financial Management Act of 2007*, which provides that the Finance Committee has the authority to hire, terminate, and determine the salary of the finance director and/or interim finance director. The former interim finance director was responsible for processing payroll and the preparation of payroll checks. No personnel file could be located for the former interim finance director. There was no documentation on file to support the former interim finance director's pay or the payments to her from the Health Department budgetary account code. Current and former Finance Committee members, along with county commissioners, had no knowledge of any formal or informal decisions to include Health Department payments as part of the former interim finance director's pay. In addition, the Health Department did not authorize any payments to the former interim finance director, and had no knowledge of any monies paid to her.

MANAGEMENT'S RESPONSE – CURRENT FINANCE DIRECTOR

I would like to respond to Finding 1.C. I am currently the finance director. At the time I was given this compensation, I was the assistant in the office for the former interim director. I was unaware that this compensation was unauthorized. The former interim finance director told me that it was for time worked from the time I had been in here.

MANAGEMENT'S RESPONSE – FORMER COUNTY MAYOR

I was never aware of any of the Health Department funds being diverted to the former interim finance director for her own benefit. If I am called upon, I will be happy to assist in any way possible.

FINDING 2 **DETAILED TIME RECORDS WERE NOT ON FILE TO SUPPORT
THE PAYMENT OF \$1,201.50 FOR COMPENSATORY LEAVE OF
THE FORMER INTERIM FINANCE DIRECTOR**

The *Meigs County Financial Management Act of 2007* provides that the Finance Committee has the authority to hire, terminate, and determine the salary of the finance director and interim finance director. The former interim finance director's position was eliminated on November 21, 2013; however, she was paid an additional gross salary of \$1,201.50 through November 30, 2013. The payment for the period November 22, 2013, through November 30, 2013, was supported by a time sheet dated November 26, 2013, which reflected 40 hours of accumulated compensatory leave. This time sheet was approved and signed by the Finance Committee chairman. However, the time sheet did not provide any detail regarding when the compensatory leave was earned. Officials could not provide a personnel policy specifically for the Finance Department; therefore, the Finance Department should follow the personnel policies adopted by the County Mayor's Office. County mayor's personnel policies permit employees to accumulate earned but unused compensatory leave up to a maximum of 40 hours. The policy states each employee should maintain a time record showing the hours worked, leave taken, and leave accrued, and the time record should be signed by the county mayor and filed in his office. There were no time records on file in the County Mayor's Office or the Finance Department for the former interim finance director prior to the November 26, 2013, time sheet. Therefore, the beginning compensatory leave balance on the November 26, 2013, time sheet that was used to pay the former interim finance director between November 22, 2013, and November 30, 2013, could not be validated.

RECOMMENDATION

The Finance Office should comply with the personnel policies adopted by the Office of County Mayor. Time records for compensatory time should include the time worked, leave taken, leave accrued, and accumulated leave balances. Leave should not be approved or

taken unless the leave can be supported with adequate time records. Officials should determine the validity of the compensatory time claimed by the former interim finance director.

MANAGEMENT'S RESPONSE – BRAD MCKENZIE, FORMER CHAIRMAN OF THE FINANCE COMMITTEE, MEIGS COUNTY COMMISSION

At the time the final time sheet was submitted by the former interim finance director to the chairman of the Finance Committee, it was believed that the personnel policy of the Finance Department did allow for a maximum of 40 hours to be paid under compensatory time at the time of retirement or separation by an employee if that employee had accumulated that amount of time. After consulting with County Technical Assistance Services, the Finance Committee chairman was under the belief that the former interim finance director was never classified as an exempt employee and was eligible to accrue the compensatory time and be paid this time according to the personnel policy for the office. The chairman subsequently signed the time sheet and submitted it to the Finance Office with the understanding that the matter would be discussed with the Finance Committee and County Commission as part of a broader discussion, since other vacation and sick days were being claimed as well. Upon researching the personnel policies of the County Mayor's Office and the Finance Office itself, which were created but never filed back in 2007, it was revealed that 40 hours was the maximum and that the former interim finance director had used that time for the period November 22, 2013, through November 30, 2013. The Finance Committee chairman was unaware that there were no time sheets maintained in the office for the former interim finance director that supported the accumulation of the compensatory time. As with most functions of the legislative branch of county government, the issue was dealt with on a broader scope than the details of reviewing an entire year's time sheets for an employee who was actually responsible for those time sheets as well as all other county employees' time sheets.

MANAGEMENT'S RESPONSE – FORMER INTERIM FINANCE DIRECTOR

In regard to payment made for the period November 21, 2013, through November 30, 2013, detailed time sheets were presented to the Finance Office by the chairman of the Finance Committee but have been misplaced or lost. Copies of such documentation are available upon request to me. I was not present at the County Commission meeting determining wages to be paid, nor present in the Finance Office when the payroll warrant was issued.

INVESTIGATOR'S COMMENTS

No documentation to support the beginning leave balances, time earned, time taken, or ending leave balances was presented or supported by time sheets from the former interim finance director. One time sheet was on file for the compensatory time payment to the former interim finance director. During multiple meetings we had with the former interim finance director, we requested, but were never provided, with any detailed time sheets. At

our last meeting with the former interim finance director to go over these findings, she advised us that she forgot to bring the detailed time sheets with her to the meeting.

FINDING 3 THE SCHOOL DEPARTMENT VIOLATED ITS CONFLICT OF INTEREST POLICY BY MAKING PURCHASES FROM A BUSINESS OWNED BY A SCHOOL EMPLOYEE

During the period October 1, 2010, through May 28, 2014, the School Department expended \$96,564.44 for supplies from Decatur Plumbing and Electrical Supply, a business owned by a school maintenance employee. These expenditures violate the Board of Education’s conflict of interest policy adopted in June 2001, which provides the board shall make no purchases of supplies, materials, or equipment from a school system employee. This finding is a result of a lack of management oversight.

The following table summarizes the School Department’s expenditures to Decatur Plumbing and Electrical Supply:

<u>Period</u>	<u>Amount</u>
10-1-10 through 6-30-11	\$ 21,907.19
7-1-11 through 6-30-12	28,687.52
7-1-12 through 6-30-13	22,475.41
7-1-13 through 5-28-14	<u>23,494.32</u>
Total Expenditures	<u>\$ 96,564.44</u>

RECOMMENDATION

Management should review these payments and resolve the conflict of interest.

MANAGEMENT’S RESPONSE – DONALD ROBERTS, DIRECTOR OF SCHOOLS

Management agrees that a total of \$96,564.44 was expended for supplies from Decatur Plumbing and Electrical Supply between October 1, 2010, and May 28, 2014. Management also agrees that the retail vendor is now owned by a school employee, and these expenditures violate the Board of Education’s conflict of interest policy. However, management strongly disagrees that the finding is “...a result of a lack of management oversight” as stated in the finding. The laws of the State of Tennessee do not mandate that management of a public entity either research or make inquiry into the ownership interests in a vendor or corporate entity prior to making purchases. In this case, the employee of the public entity was under an obligation to report to management once the conflict of interest arose. Management had no knowledge of, or reason to suspect that, an employee had

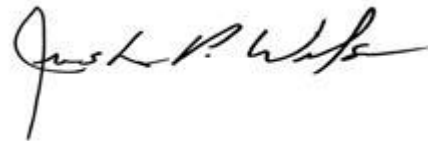
purchased the business and, when such information was presented, all purchasing was stopped immediately. Management will remind all employees of the conflict of interest policy and of each employee's affirmative duty to report instances when a conflict of interest may exist. Furthermore, the Meigs County Board of Education has drafted a Conflict of Interest Disclosure Form that will become part of every employee annual contract.

INVESTIGATOR'S COMMENT

During our interview with the director of schools, he advised us that he believed the maintenance employee was at least a partial owner of Decatur Plumbing and Electrical Supply, and he was aware that the School Department made purchases from the business. In addition, the maintenance employee's direct supervisor advised us that Decatur Plumbing and Electrical Supply was owned by his maintenance employee, supplies were purchased there, and the business was approximately one block from the school's maintenance building where they worked. The maintenance supervisor further advised us the maintenance employee was at his business most every evening with his assigned school department vehicle parked in front of the building. Therefore, management had reason to suspect a possible conflict of interest existed, which violated the School Department's policy. It is management's responsibility to establish internal controls to ensure compliance with School Department policies.

If you have any questions concerning the above, please contact this office.

Sincerely,



Justin P. Wilson
Comptroller of the Treasury

JPW/kbh