



ROCKWOOD REVITALIZATION, INC.

Investigative Report
January 29, 2015

Justin P. Wilson, Comptroller





**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

Justin P. Wilson
Comptroller of the Treasury

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January 29, 2015

Mr. John C. Evans, President
Rockwood Revitalization, Inc.
P.O. Box 495
Rockwood, Tennessee 37854

Mr. Evans,

We performed an investigation of selected records of Rockwood Revitalization, Inc., a recipient of a State of Tennessee, Department of Economic and Community Development, revitalization grant for the period May 1, 2012, through June 30, 2014; however, we expanded the scope where necessary. Our investigation revealed the following deficiencies:

- Rockwood Revitalization, Inc., did not comply with the terms of its grant contract with the State of Tennessee, Department of Economic and Community Development, for the contract period, and false information was noted regarding completion of work performed.
- Questionable business practices were noted in the administration of Rockwood Revitalization, Inc.
- Rockwood Revitalization, Inc., is not following its bylaws.

The findings and recommendations, as a result of our investigation, are presented below. These findings and recommendations have been reviewed with the management of Rockwood Revitalization Inc., the City of Rockwood, and the State of Tennessee, Department of Economic and Community Development, to provide an opportunity for their responses. We have paraphrased their responses in this report. Also, these findings and recommendations have been reviewed with the District Attorney General for the 9th Judicial District.

Background

Rockwood Revitalization, Inc., was organized to stimulate downtown economic development for the City of Rockwood. The City of Rockwood is located in Roane County, Tennessee. Funding for this organization is primarily from grants and donations. The City of Rockwood offered a parcel of city land for the building of the visitor's center, and on May 18, 2012, the

Rockwood City Council also contributed \$7,000 to Rockwood Revitalization Inc., for the project.

The State of Tennessee, Department of Economic and Community Development, and Rockwood Revitalization, Inc., entered into a grant contract in January 2012. The purpose of the grant, according to the contract, was to “utilize funds for the development of downtown district visitors’ center by including a public restroom facility.” The grant amount was \$15,000 and was effective for the period January 23, 2012, through December 31, 2012.

INVESTIGATIVE FINDINGS

FINDING 1 ROCKWOOD REVITALIZATION, INC. DID NOT COMPLY WITH THE GRANT CONTRACT, AND FALSE INFORMATION WAS NOTED REGARDING COMPLETION OF WORK PERFORMED

Rockwood Revitalization, Inc. did not comply with the grant contract. Although building materials were purchased for the project, as permitted by the grant, no work on the project was ever started during the grant period. Rockwood Revitalization, Inc. later falsely claimed to the State of Tennessee, Department of Economic and Community Development, that the project was completed.

We noted the following:

- A. In December 2012, materials were purchased for the project in the amount of \$10,633.06 (Lowe’s \$4,420.81, Charlie’s Aluminum \$2,595, and Christmas Lumber \$3,647.25). The items purchased at Lowe’s were stored in a locked trailer while the items purchased at Charlie’s Aluminum and Christmas Lumber were never picked up during the grant period. Subsequent to the grant period examined, we were advised that all of the above-noted materials had been received by Rockwood Revitalization, Inc. Furthermore, during the contract period and at the time of the investigation, none of the purchased items were used for construction of a visitor’s center by including a public restroom facility, as required by the grant contract. Rockwood Revitalization, Inc. submitted apparently proper documentation for the building materials purchased and was reimbursed for the materials as permitted by the grant agreement.

- B. Rockwood Revitalization, Inc., submitted false information to the State of Tennessee, Department of Economic and Community Development, regarding completion of the project. On February 17, 2014, the president of Rockwood Revitalization, Inc., signed a grant close-out report indicating the visitor center and restroom facilities were completed; however, the project was never started. The president of Rockwood Revitalization, Inc., advised us that he misunderstood what was meant by the project being completed.

DEPARTMENT OF ECONOMIC & COMMUNITY DEVELOPMENT

I, the undersigned, hereby commit that the above-described project is now complete. The company has complied with all laws and regulations in the performance of this project. The company has met or exceeded the stated target in the hiring for the number of new jobs as committed and made the required investments, if any, to complete this grant project in accordance with contract terms. All funds have been appropriately disbursed by the grantee.


SIGNATURE

Chairman / President
TITLE

John C Evans
PRINTED NAME

2-17-14
DATE

Portion of Grant Close-Out Report

RECOMMENDATION

Rockwood Revitalization, Inc. should comply with the grant contract and ensure accurate information is submitted for contractual purposes.

MANAGEMENT'S RESPONSE - JOHN C. EVANS, PRESIDENT, ROCKWOOD REVITALIZATION INC.

All of the materials purchased with the State of Tennessee, Department of Economic and Community Development, grant monies have been used for the project. I did sign the grant close out document; however, I understood at the time that the document indicated that we had allocated all of the grant monies toward the project and that we would not be requesting further funds. Neither I, nor anyone else on the steering committee, ever indicated to anyone at any time that the project had been completed. During this time, both before the close out document was signed and after, we had periodic discussions with personnel from the State of Tennessee, Department of Economic and Community Development, on the progress and status of the project. This continued through the final project completion date of October 4, 2014.

RESPONSE OF STATE OF TENNESSEE, DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT (ECD) - COMMISSIONER BILL HAGERTY

The Department agrees with the Comptroller's findings, Rockwood Revitalization, Inc. submitted false information to the State of Tennessee. The Department agrees with the Comptroller's findings that grantees should comply with grant contracts and ensure accurate information is submitted. During the grant close out process, ECD learned that the project

was not completed. ECD then contacted Rockwood Revitalization, Inc. and the local mayor to inquire about the status of the project and to seek solutions to the ongoing issues. Pursuant to General Services Central Procurement Office Policy Number 2013-007, a state agency that has findings related to a grant may work with the subrecipient to develop solutions for correcting the finding. In the course of these discussions, two options presented themselves: one, that the monies be returned by Rockwood Revitalization, Inc. to the Department; the second, that the project be completed in order to enhance the city of Rockwood and spur economic development in time for the annual October festival. The organization elected to complete the project. Subsequent to the investigation, Rockwood Revitalization, Inc. used the materials purchased under the grant to develop a welcome center and complete the project at a different location. The visitor's center and restrooms were utilized at the city's recent festival. As a result, ECD considers this project completed.

FINDING 2 QUESTIONABLE BUSINESS PRACTICES WERE NOTED

We noted the following questionable business practices:

A. The City of Rockwood offered a parcel of land for the visitor's center and public restroom facility; however, the land was not used by Rockwood Revitalization, Inc. Instead, on July 1, 2013, Rockwood Revitalization, Inc. entered into a purchase agreement for property located at 219 West Rockwood Street for a proposed visitor's center. Additionally, \$500 earnest money (non-refundable) was provided by Rockwood Revitalization, Inc., to the seller of the property. This purchase agreement expired on August 15, 2013, resulting in the organization absorbing the loss of the earnest money. In addition, the organization paid \$1,613.75 for design plans for the property at 219 West Rockwood Street that were never used.

B. On June 11, 2014, the president of Rockwood Revitalization, Inc. signed a purchase agreement (\$20,000) to buy an existing building at 241 West Rockwood Street to renovate into a visitor center, museum, and restrooms. The seller accepted a non-refundable \$4,000 down payment, which will be applied to the purchase price, in order for Rockwood Revitalization, Inc. to begin renovations. In addition, Rockwood Revitalization, Inc. purchased property insurance (\$385.63) on June 25, 2014, on the building for coverage during renovations. The purchase option will expire on October 30, 2014, at which time Rockwood Revitalization, Inc. will have to pay the remainder of

the contract to own the building. At June 30, 2014, Rockwood Revitalization, Inc. had \$8,149 in the bank. The president said he would write a personal check to pay for the building if Rockwood Revitalization, Inc. is unable to raise the funds to complete the purchase.



Building at 241 West Rockwood Street

- C. On October 9, 2014, we interviewed the president of Rockwood Revitalization, Inc. regarding the disposition of the project at 241 West Rockwood Street. He advised us the renovation is not complete and Rockwood Revitalization, Inc. doesn't yet own the building. In addition, the President advised that he and his mother loaned Rockwood Revitalization, Inc. \$16,000 (\$8,000 each) in order to cover the balance due on the project. He advised this agreement was a two-year interest-free loan approved by resolution of Rockwood Revitalization, Inc.

RECOMMENDATION

Sound business practices dictate that an entity should not expend funds to improve or insure property for which it does not have clear ownership. In addition, an entity should not obligate itself for transactions when it does not have financing in place to cover the transactions. Entity officials should not commit themselves to personally covering shortages created by poor business practices, nor should they enter into loan agreements with the entity.

MANAGEMENT'S RESPONSE – JOHN C. EVANS, PRESIDENT, ROCKWOOD REVITALIZATION INC.

To the best of my knowledge no formal offer of city land was made. We had initially considered a location within the city park on South Front Street, however, various factors led us to seek a more favorable location. A better suited location was found, 219 W Rockwood St. We contracted WYST Wynd Designs to produce a design from which we spec'd the materials needed. The grant monies were requested for these materials. The building materials, structural block, for the walls were to be donated by Old Castle Block. Our major obstacle in this project was to find a contractor to donate their time to help with scheduling and construction issues. Early in 2014, Pelican Construction volunteered time to the project. After some discussions we were ready to proceed and made the "call before you dig" locate request on 04/09/2014. While waiting on the weather and the availability of our excavation contractor, Old Castle Block pulled their support for all projects in the city of Rockwood. Recent actions of our Mayor were cited as reasons. This left us without building materials. We at that time did not have the ability to proceed at this location. We were still committed to this project and the benefit it will be to our town. At this time, the property located at 241 West Rockwood became available. We have closed on the property now and own it. While our overall plans for the property are not complete and may not be for some time, we intend to use the bulk of the almost 10,000 square feet building for a Rockwood museum. We did complete the portion of the building associated with our grant project, Welcome Center and Public Restroom. The Welcome Center and Public restroom was open and functional for our Rockwood Fall Festival on October 4, 2014.

MANAGEMENT'S RESPONSE – JAMES L. WATTS, FORMER MAYOR, CITY OF ROCKWOOD

On the question of whether or not the city offered the property to Rockwood Revitalization-First, the city attorney who handled all the dealings on the property is deceased. Having said that, the grant application and the support letter from a Rockwood Revitalization, Inc. board member clearly says the center would be located at the Homecoming Park on city property. And, the resolution passed by council clearly says the council endorses the submission of the application. There was never any question as to where the center would be built. However, it doesn't matter to me as mayor that they changed locations without letting anyone know and apparently not getting pre-approval from the state.

What does bother me is that tax dollars from the taxpayers of the City of Rockwood and tax dollars from the State of Tennessee were used to not only improve private property at the current location but to pay down on land and design for the second piece they chose, when if they had stayed with the city, the land would have been free. The council voted in good faith to give the \$7,000 based on the fact that the center would be on city property. I am not sure if they had known the location would change to a third site and that \$2,113.75 would be spent that was not refundable with another \$4,385.63 that could have been non-refundable had the deal not been worked out for the Evans' to make a loan. My concern remains the same that this is misuse of tax dollar funds.

The last issue I still have is that the Rockwood Revitalization went out on the last day of December, (the day of the grant deadline) in 2012, at the very last minute and purchased materials with the grant funds, some of which were stored and others never even picked up. Over one year later in February 2014, the grant documents were signed that the project was complete when in fact, nothing had been done. In June of 2014, when the state set up a meeting to come visit, they showed the state the new location that had not even been purchased at the time. This whole issue disturbs me because in my opinion as a city mayor, we hold our employees accountable for every tax dollar that is spent and feel other organizations should be held to that same standard.

Since my last day as Mayor is November 30, 2014, I wanted to get this issue resolved if possible. I was hoping to prevent questions for the next administration. Thank you again so much for taking the time to investigate.

FINDING 3 ROCKWOOD REVITALIZATION, INC., DID NOT FOLLOW ITS BYLAWS

- A. The Rockwood Revitalization, Inc., treasurer did not issue official receipts for collections. Therefore, we were unable to determine if all monies received by Rockwood Revitalization, Inc. were properly deposited into the bank account. The treasurer and president both stated collections are minimal and are usually checks.

- B. Of the twelve checks issued by Rockwood Revitalization, Inc. for the period examined, six checks were signed only by the treasurer or president. The bylaws provide that all checks shall be signed by the treasurer and one officer or by the treasurer and the program director. In the absence of the treasurer, any two officers can sign. In addition, the bylaws also provide any payment or transfer, which exceeds \$500, shall require that all members of the Board of Directors be contacted for approval. The payment or transfer shall not take place without the approval of at least (six) members of the Board of Directors. Rockwood Revitalization, Inc., issued five checks over \$500, and we were unable to ascertain whether the checks were approved by the Board of Directors.

RECOMMENDATION

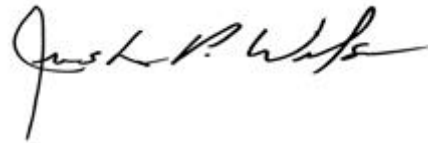
Official pre-numbered receipts should be issued for all collections. In accordance with bylaws, a minimum of two signatures should be required on all checks issued, and board approval should be obtained for payments that exceed \$500.

MANAGEMENT'S RESPONSE - JOHN C. EVANS, PRESIDENT, ROCKWOOD REVITALIZATION INC.

We will endeavor to follow these recommendations in the future.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Justin P. Wilson". The signature is fluid and cursive, with a long vertical stroke at the end.

Justin P. Wilson
Comptroller of the Treasury

JPW/kbh