COMPTROLLER OF THE TREASURY

Jason E. Mumpower
Comptroller of the Treasury

STATE AUDIT

Katherine J. Stickel, CPA, CGFM
Director

LOCAL GOVERNMENT AUDIT

Jim Arnette, CISA, CGFM
Director

INVESTIGATIONS

Jeff Puckett
Director
January 10, 2022

The Honorable Bill Lee, Governor
State Capitol
Nashville, Tennessee  37243

The Honorable Randy McNally, Lt. Governor
The Honorable Cameron Sexton, Speaker of the House
Members of the 112th General Assembly
Cordell Hull Building
Nashville, TN 37243

Ladies and Gentlemen:

The Department of Audit 2021 Annual Report is submitted herewith in accordance with Section 4-3-304, Tennessee Code Annotated.

The Department of Audit conducts audits, or ensures that audits are conducted, of state, county, and municipal governments; utility districts; internal school funds; and other local government authorities and agencies. Audits are also performed of state grants to nongovernmental organizations and of numerous federal programs for state and local governments.

The work we do results in a better government, which in turn will improve the lives of all Tennesseans.

Sincerely,

Jason E. Mumpower
Comptroller of the Treasury

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The General Assembly created the Department of Audit in 1937 to audit state, county, municipal and other local governmental entities, and recipients of grant funds. The department’s three divisions—State Audit, Local Government Audit, and Investigations—are accountable to the General Assembly and provide information to assist the legislature in overseeing the use of public funds and the efficient operation of government.

AUDITING STANDARDS

In accordance with the highest auditing standards, the Divisions of State Audit and Local Government Audit perform audits using auditing standards generally accepted (GAAS) in the United States of America and generally accepted government auditing standards promulgated by the American Institute of Certified Public Accountants (AICPA) and issued by the Comptroller General of the United States, respectively.

Government Auditing Standards (GAS or Yellow Book) applies to financial and performance audits and attestation engagements. For financial audits and attestation engagements, the Yellow Book incorporates by reference the AICPA Statements on Auditing Standards and the Statements on Standards for Attestation Engagements.

The department’s yearly Single Audit is in accordance with the Single Audit Act as amended by the 1996 Single Audit Act amendments; and Office of Management and Budget 2 CFR 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

As a post-audit agency, the department audits entities’ financial statements; compliance with applicable statutes, grant agreements, rules, and regulations; and/or its past record of efficiency and effectiveness at the end of a fiscal period. Post-audits are independent of the audited entity. In this respect, the Department of Audit is comparable to an independent certified public accounting firm in the private sector. Because independence is so important in a post-audit agency, the Department of Audit is in the legislative branch of state government.

PEER REVIEW

To comply with Section 8-4-102, Tennessee Code Annotated, the Speakers direct the Divisions of State Audit and Local Government Audit to undergo a quality assessment review under the auspices of the National State Auditors Association to ensure the department is following auditing standards generally accepted in the United States of America and Yellow Book standards.

In the peer review for the year ended June 30, 2020, performed in August 2020 by certified public accountants and other government professionals, the department earned the highest rating, “pass,” on its system of quality control, which the quality assessment team stated “has been suitably designed and was complied with during the period to provide the audit organization with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.” The next peer review is scheduled for July/August 2022.
For additional information, go to www.comptroller.tn.gov.
The Division of State Audit provides the General Assembly, the Governor, and the citizens of Tennessee with objective information about the state’s financial condition and the performance of agencies and programs. Through financial and compliance audits, performance audits, information systems audits, and attestation engagements, the division aids the legislature in ensuring that state government is accountable to the citizens of Tennessee.

In addition to auditing, the division reviews and comments on due process documents from professional standards-setting organizations and conducts technical research and training. The division also assists the Comptroller in the formulation of state policy and regulations, either directly with representatives of state agencies or indirectly by submitting comments about proposed policies and procedures.

**STATE AUDIT SECTIONS**

**State Agency Audits**

The State Agency Audits section conducts performance audits and financial and compliance audits of state departments, agencies, and institutions.

**Performance Audits**

A performance audit is an independent examination of the extent to which agencies and departments of state government are faithfully carrying out their programs. The audit reports assist the General Assembly and agency management by

- assessing the extent to which state agencies have fulfilled their statutory mandate and the efficiency and effectiveness of management’s organization and use of resources;
- developing recommendations for management or legislative action that might improve the efficiency and effectiveness of the agencies’ operations; and
- providing program and financial data.
Most of the performance audits are done to comply with the Tennessee Governmental Entity Review Law, commonly known as the Sunset Law (Section 4-29-101 et seq., Tennessee Code Annotated), which requires the Joint Government Operations Committee to review each entity at least once every eight years to determine whether the entity should be continued, restructured, or terminated.

Our audit reports are intended to aid the committee in its deliberations, as are our staff’s presentations of the findings at public hearings, when requested by the committee. The Government Operations Committee held 12 public hearings during the year ended June 30, 2021.

A limited number of other performance audits are conducted based on the identification of risks in statewide processes and programs or agency-specific operations and activities.

Financial and Compliance Audits

The objectives of financial and compliance audits are

- to consider the entity’s internal control over financial reporting as a basis for designing auditing procedures to express an opinion on the financial statements;
- to determine the fairness of the presentation of the financial statements; and
- to recommend appropriate actions to correct deficiencies.

Medicaid/TennCare

Under an agreement with the Department of Finance and Administration, the Medicaid/TennCare section staff perform the following attestation and rate-setting functions for the state’s TennCare program:

- Reimbursable cost computation and examinations for nursing home facilities participating in the Medicaid Program.
- Reimbursable rate computation and examinations for intellectual and developmental disabilities facilities participating in the Medicaid Program.
- Computations of reimbursement settlements and prospective rates for federally qualified health centers, federally qualified health center look-alikes, and rural health clinics as required by the Benefits Improvement and Protection Act of 2000.

The Division of State Audit provides the General Assembly, the Governor, and the citizens of Tennessee with objective information about the state’s financial condition and the performance of agencies and programs.

- Cost settlements for state-operated developmental centers serving individuals with intellectual disabilities.
- Technical, financial, and budgeting support to TennCare from paid claims extracts.
- Examinations of TennCare managed care contractors, who contract with the state to provide medical services formed jointly with the department of Commerce and Insurance.

Information Systems

In the Information Systems (IS) section, the data retrieval staff obtain data from the information systems used by entities under audit and provide that information to the respective audit teams. In addition, retrieval staff consult with audit teams to develop data analysis techniques to facilitate the teams’ audit field work.

The IS audit staff are responsible for obtaining and documenting an understanding of the internal control structure in the computerized accounting and management information systems of entities undergoing an audit. These entities include state agencies, colleges, and universities. The IS audit staff review the general and application controls within data processing systems when those systems could significantly impact the accuracy of financial reporting, effectiveness of operations, or the reliability of data used by other audit teams. The results of this work are included in the state agency audit reports.

In the area of computer forensic analysis, the IS section works in support of the Comptroller’s Division of Investigations, Office of General Counsel, and individual state agencies to identify and recover evidence of fraud, waste, or abuse using specialized software and hardware.
AUDIT REPORTS RELEASED

State Audit released 62 reports during the year ended June 30, 2021; another 65 audits were in progress at year-end. (You can read the full audit reports at comptroller.tn.gov/office-functions/state-audit.html.)

State Agency Audits

The division released 46 state agency reports during the year ended June 30, 2021. Of the 46 reports, 31 were financial and compliance reports, 14 were performance reports, and 1 was a special report. The 14 performance reports involved audits of 79 entities.

Single Audit

During the year ended June 30, 2021, a major endeavor of the division was the Single Audit of the State of Tennessee for the year ended June 30, 2020, conducted in accordance with the Uniform Guidance. The Single Audit Report reflected federal awards of approximately $19.9 billion.

We noted instances of noncompliance that resulted in a qualified opinion on compliance for one of the state’s 24 major federal programs. In addition, we noted other instances of noncompliance that met the reporting criteria contained in the Uniform Guidance. We also noted material weaknesses and significant deficiencies in internal control over compliance with compliance requirements related to federal programs.

As a result of testing the state’s compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to each major federal program, costs of over $2.4 million were questioned.

The Single Audit included an audit of the state’s basic financial statements. This audit resulted in an unmodified opinion on the basic financial statements of the State of Tennessee for the year ended June 30, 2020. The audit also determined that the Schedule of Expenditures of Federal Awards was fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In addition to the Single Audit Report, separate audit reports were issued on many agencies and institutions of state government.

The separate audits of the departments, agencies, and institutions are not meant to serve as organization-wide audits as described in the Single Audit Act as amended in 1996 and the Uniform Guidance. Some, however, serve as segments of the organization-wide audit of the State of Tennessee; therefore, they include the necessary tests for compliance with applicable laws, regulations, contracts, and grant agreements and the required consideration of the internal control.

Financial and Compliance Reports

- 2020 Single Audit Report
- Austin Peay State University
- Clean Water State Revolving Fund
- Department of the Treasury
- East Tennessee State University
- Endowment for Educational Excellence, Tennessee State University Foundation
- Jackson State Community College
- Local Government Group Insurance Fund
- Middle Tennessee State University
- Nashville State Community College
- Northeast State Community College
- Pellissippi State Community College
- Southwest Tennessee Community College
- State of Tennessee Postemployment Benefits Trust
- Teacher Group Insurance Fund
- Tennessee Board of Regents – System Office
- Tennessee Consolidated Retirement System, Department of the Treasury
- Tennessee Education Lottery Corporation
- Tennessee Housing Development Agency
Financial and Compliance Reports (Continued)

- Tennessee Local Development Authority
- Tennessee Rehabilitative Initiative in Correction
- Tennessee Residence Foundation
- Tennessee Sports Hall of Fame
- Tennessee State School Bond Authority
- Tennessee State University
- Tennessee State Veterans’ Homes Board
- Tennessee Student Assistance Corporation
- Tennessee Technological University
- The University of Memphis
- The University of Tennessee
- Walters State Community College

Performance Reports

- Department of Children’s Services
- Department of Economic and Community Development
- Fiscal Review Committee
- Human Resource Agencies
- Office of Legislative Administration
- Office of the Comptroller of the Treasury
- Tennessee Alcoholic Beverage Commission
- Tennessee Bureau of Investigation
- The Austin Peay State University Board of Trustees
- The East Tennessee State University Board of Trustees
- The Middle Tennessee State University Board of Trustees
- The Tennessee State University Board of Trustees
- The Tennessee Technological University Board of Trustees
- The University of Memphis Board of Trustees

Special Report

- Annual Report on the Status of Submission of Title IX Implementation Plans

Medicaid/TennCare Reports

The division released a total of 16 Medicaid/TennCare reports during the year ended June 30, 2021, including examinations of the following nursing facilities:

- Ardmore Health and Rehabilitation Center
- Madisonville Health and Rehabilitation Center
- Ripley Healthcare and Rehabilitation Center
- The Cambridge House, Bristol, TN
- Westmoreland Health and Rehabilitation Center, Knoxville, TN
- Willows of Winchester Health and Rehabilitation Center

The division completed an examination of the following federally qualified health center:

- Morgan County Medical Center, Wartburg, TN

The division completed examinations of the following rural health clinics:

- Athens Pediatrics, PLLC
- Center for Family Medicine, Manchester, TN
- Crockett Medical Clinic, Alamo, TN
- Just 4 Kids Pediatrics, LLC, Lawrenceburg, TN
- Just 4 Kids Pediatrics, LLC, Pulaski, TN
- Manchester Rural Health Clinic
- One Stop Medical, LLC, Lawrenceburg, TN
- One Stop Medical, LLC, Pulaski, TN
- Upper Cumberland Rural Health Clinic, PLLC d/b/a Cookeville Medical Clinic
Through the Division of Local Government Audit, the Department of Audit is responsible for the audits of all local governmental entities with statutory audit requirements as well as certain nonprofit and for-profit organizations that are publicly funded. The division may conduct the audit for governmental entities or accept an audit prepared by a certified public accountant provided the audit meets minimum standards established by the Comptroller of the Treasury.

The division conducts the annual audits for 91 of the state’s 95 counties. Through a contractual process with independent certified public accounting firms, the division ensures the performance of over 1,700 audits for the state’s remaining counties, municipalities, public internal school funds, charter schools, utility districts, housing authorities, local government created entities, quasi-governmental organizations, and other government-funded agencies.

**FINANCIAL AND COMPLIANCE AUDITS**

The division presently conducts audits in 91 counties. These audits are assigned to teams that audit the various offices and/or departments and entities of county government. The audit staff is divided into four geographical areas: East, Mideast, Middle, and West. Each area is under the supervision of an audit manager who is responsible for audit planning and supervision.

**The Audit Process**

The Division of Local Government Audit performs the following general procedures as part of the financial and compliance audit process:

- evaluates the entity’s existing internal controls in the appropriate areas of operation;
- confirms the accountability for receipts by examining, for example, tax rolls, state and federal revenue data, and letters of inquiry;
- determines the appropriateness of disbursements by examining budget authorization, paid invoice files, purchasing files, payroll records, and other financial records;
- determines the authorization for transactions by school boards, highway commissions, and various committees such as budget and finance, and purchasing;
- determines compliance with federal regulations and state and local laws;
- obtains management’s representations with respect to the financial statements, as well as the supporting accounting data, and other items of disclosure;
- evaluates financial statement presentation to determine conformity with accounting principles generally accepted in the United States of America; and
- evaluates the validity of all evidence obtained throughout the audit process to formulate an opinion on the financial statements.
Scope of Activity
Post-Audit of County Governments

The Division of Local Government Audit conducted audits in 90 of the state’s 95 counties for the fiscal year ended June 30, 2020. A minimum of 10 offices or departments in each of the 90 counties was audited:

1. County Trustee
2. County Mayor
3. Department of Education
4. Department of Highways
5. County Clerk
6. Circuit Court Clerk
7. General Sessions Court Clerk
8. Chancery Court Clerk and Master
9. Register
10. Sheriff

The audit field work in each county is conducted by an audit team. The size of the team is determined by the complexity of the assignment. Approximately ten weeks of field work are required, including audit review and supervision by a senior auditor and/or an audit manager. The draft audit reports are reviewed in the Nashville office and released. The division also performs special audits and reviews as requested or as deemed necessary.

Results of Audits

The division’s audits of the 90 counties revealed new cash shortages of $47,831, leaving a balance of outstanding cash shortages of $713,511 at June 30, 2020. Details of the latest cash shortage report are available on the Comptroller’s website at www.comptroller.tn.gov/office-functions/la.html. The audits disclosed a total of 267 audit findings in 78 counties. Twelve counties did not have any audit findings for the year ended June 30, 2020: Bedford, Chester, Henderson, Henry, Loudon, Marshall, Monroe, Obion, Robertson, Sumner, Tipton, and Williamson.

Information System Reviews

Most county government offices and departments in Tennessee have automated all or a portion of their daily operations. The division’s eight information systems (IS) auditors are responsible for evaluating the general and application controls of each county’s computerized accounting system. Findings resulting from this evaluation are discussed with the appropriate officials and included in the county’s annual financial report.

Scope of Activity
Information Systems

As required by the division’s annual audit plan, information system related controls were evaluated in 91 counties during the year ended June 30, 2021. To assist the financial and compliance audit staff, two IS specialists work with the county governments’ software vendors to obtain information from each county’s accounting system. This information along with software tools developed by the IS specialists is used for audit fieldwork.

Contract Audits

The division fulfills its audit responsibility through a contractual process with independent certified public accounting firms who perform the audits for the following Tennessee local governments:

**Counties**
- 4 of the state’s 95 counties
- 288 county-related entities

**Municipalities**
- 342 municipalities
- 85 municipal-related entities
Quasi Governments
• 175 utility districts
• 84 housing authorities
• 18 human resource agencies and development districts
• 109 other quasi-governmental entities

Schools
• 204 public internal school funds
• 58 charter schools
• 15 special school districts

The division further ensures that approximately 289 nonprofit and for-profit organizations are audited as required by state contracts and agreements.

The entities use standard contracts, prepared by the Comptroller of the Treasury, which must be approved by the Comptroller’s designees in the Division of Local Government Audit before audit work begins. These audits must be performed in accordance with generally accepted government auditing standards and certain other minimum requirements prescribed by the Comptroller of the Treasury. In addition, the auditor must comply with other federal and state provisions.

The Division of Local Government Audit approves the audit contracts of the certified public accountants and reviews each audit report to verify that it adheres to applicable reporting requirements. If a local governmental unit fails or refuses to have an audit, the Comptroller may direct the Division of Local Government Audit, or may appoint a certified public accountant, to perform the audit. If a nonprofit or for-profit organization refuses to have an audit, the division works in connection with the respective state funding agency to obtain an audit.

The division evaluates the audit working papers of certified public accounting firms that audit the entities. The objective of this review is to ensure that in addition to standards prescribed by the American Institute of Certified Public Accountants and Government Auditing Standards issued by the United States Comptroller General, standards prescribed by the Comptroller of the Treasury have been followed. If the firm’s audit working papers are deemed substandard, the Comptroller of the Treasury takes appropriate action, which might include referral to the State Board of Accountancy.

Scope of Activity
Monitoring and Review of Contract Audits

The division monitors the contracted CPA firms’ work in accordance with a monitoring plan, which includes a review of audit documentation prepared by certified public accountants. For the fiscal year ended 2021, the division performed audit documentation reviews of 35 contracted CPA firms and reviews of 1,734 audit reports submitted by certified public accountants for local governments and other publicly funded entities.

Other Services
Technical Assistance

In addition to the basic audit function and the monitoring and review of audits by certified public accountants, the division provides other services, which include:

• providing information and assistance to facilitate implementation of new auditing and accounting standards;
• submitting federal program data to the federal clearing house on behalf of county governments;
• requesting technical data for pension and other postemployment benefits note disclosures from the State of Tennessee;
• maintaining the uniform chart of accounts used by county governments; and
• participating in the review of notifications made to the Comptroller’s Fraud Hotline.
The division also provides, upon request, assistance to counties in resolving current problems with financial administration, as well as answering questions on various local governmental matters. The division provides fiscal reviews of new legislation related to county governments and works closely with the state legislature on the passage of new statutes for county governments.

**Statutory Referral of Utility Systems**

Sections 68-221-1010(a) and 7-82-703(a), *Tennessee Code Annotated*, require the Comptroller to refer financially distressed municipal water and/or wastewater systems and public utility districts to the state’s Water and Wastewater Financing Board and/or the Utility Management Review Board. Sections 68-221-1010(d) and 7-82-401(h) of *Tennessee Code Annotated* require the Comptroller to refer water systems with excessive unaccounted for water losses. After the Division of Local Government Audit refers applicable facilities to the appropriate board, the respective board obtains and reviews a proposed plan for correction by the facility. If the board finds the facility’s plan unacceptable, the board will recommend an alternate course of action.

During the year ended June 30, 2021, the division referred 113 utility systems to the Water and Wastewater Financing Board and/or the Utility Management Review Board. As a result, several utility districts and municipal utility systems are now operating or are on their way to operating on a financially sound basis and/or are in the process of taking measures to decrease their water loss rates.

**Reviews of Funds Administered by District Attorneys General**

During 2021, the division conducted reviews of District Attorney General Funds, Judicial District Drug Task Force Funds, and other funds the district attorneys general administer in the state’s 31 judicial districts. Each review covered the period July 1, 2019, through June 30, 2020. The scope of each review was limited to the transactions of the individual funds and did not include the overall operation of the district attorneys’ offices.

**Certified Finance Officer Programs**

The Division of Local Government Audit in association with Municipal Technical Advisory Service (MTAS) and County Technical Assistance Service (CTAS) has developed the Certified Municipal Finance Officer (CMFO) and the Certified County Finance Officer (CCFO) programs. These programs provide Tennessee’s municipal and county financial officers an opportunity to learn about accounting and financial reporting principles, understand how government is structured in Tennessee, and enhance their skills in order to carry out their job responsibilities for their city or county. MTAS and CTAS administer the educational program and testing to achieve the CMFO and CCFO designations, while the Division of Local Government Audit has been designated as the certification authority. These programs enhance government accountability and directly correlate to the Comptroller’s mission “to make government work better.”

<table>
<thead>
<tr>
<th>Program</th>
<th>Active Certificates</th>
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<tbody>
<tr>
<td>CMFO</td>
<td>793</td>
</tr>
<tr>
<td>CCFO</td>
<td>313</td>
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The Comptroller’s Division of Investigations investigates allegations of fraud, as well as certain allegations of waste and abuse of public funds. These cases frequently result in criminal prosecution.

The Investigation Process

Investigations are performed as a result of allegations received through the toll-free Fraud, Waste & Abuse Hotline; statutorily required fraud reporting forms; misappropriations or other significant issues indicative of fraud noted during routine audit work or audit report reviews; information received from certified public accountants, other state agencies, and concerned citizens and/or officials; and requests received from local District Attorneys General, Tennessee’s Office of the Attorney General, the Office of the United States Attorney, the Tennessee Bureau of Investigation, the Federal Bureau of Investigation, and local law enforcement agencies.

Results of investigations are presented in reports or letters that document occurrences of improper activity. These reports are forwarded to Tennessee’s Office of the Attorney General, the local District Attorney General, and, when applicable, the local Office of the United States Attorney for any legal action deemed necessary. The division’s investigators frequently work with local District Attorneys General, Tennessee’s Office of the Attorney General, the Office of the United States Attorney, the Tennessee Bureau of Investigation, the Federal Bureau of Investigation, and other prosecutorial and law enforcement agencies.

The division’s investigations also include an assessment of internal controls and compliance with applicable laws relative to the issues investigated. Often, investigators have found that weak internal controls or ineffective management were contributing factors in losses incurred as a result of fraud. In the resulting reports or letters, the division identifies these internal control and compliance deficiencies and recommends corrective action. The investigations point out to officials the importance of sound internal controls and compliance with applicable laws and regulations.

Investigators also share the information with the other divisions of the Department of Audit—State Audit and Local Government Audit—for consideration in audits of the affected entity.
INVESTIGATIONS RELEASED

During the fiscal year ended June 30, 2021, the division released 58 investigative reports and letters revealing losses of at least $6,488,152.25 due to fraud and cited an additional $528,736.27 in waste and/or abuse. As a result of these investigations, 40 public officials were indicted on 254 criminal counts. Most investigations also revealed deficiencies in (or the absence of) internal controls; lack of compliance with applicable laws and regulations; or other problem areas that created an environment conducive to fraud, waste, and abuse.

Investigations

• 24th Judicial District
• A.C.T.I.O.N. Coalition
• Apollo Middle Prep PTA
• Bartlett High School Choir
• Bradley County Sheriff’s Department
• Campbell County Clerk
• Cannon County Sheriff’s Department
• Christiana Middle School
• City of Bolivar Mayor’s Office
• City of Jackson
• City of Kingsport
• City of Kingston Parks and Recreation Department
• City of LaFollette
• City of Maynardville
• City of New Market Police Department
• City of Sweetwater Street Department
• Clinch Valley Volunteer Fire Department
• Clinton High School Baseball Boosters
• Columbia Central High School Cheer Program
• Cookeville Fire Department
• EastView Greeneville Schools in Action
• Farragut High School Lacrosse
• Fentress County Sheriff’s Department
• Giving Youth a Chance
• Grainger High School
• Greene County Highway Department
• Greene County Sheriff’s Department
• Hamblen County Morristown Solid Waste Disposal System
• Hawkins County Sheriff’s Department
• Hickerson Station Volunteer Fire Department
• Highland Rim School
• Hiwassee College
• Humphreys County Fire Department
• Isaiah T. Creswell PTSO
• Johnson County Safe Haven
• Knox County General Sessions Court Clerk’s Office
• Knox County Sheriff’s Office Inmate Industries
• Knoxville Police Department
• Knoxville Utilities Board
• Legacy Leadership Academy
• Lenoir City High School Culinary Arts Program
• Lincoln Health System
• Madison Academic High School Mustang Rebounders Club
• Madison County Juvenile Detention Center
• Marion County UT Extension Office
• Maury Regional Medical Center
• Melrose High School Band Director
• Middle Tennessee State University – Somali Students Association and Muslim Students Association
• Priority Senior Care, LLC
• PTO of Inglewood Elementary School
• Red Robins Academy of Learning
• Sullivan County Emergency Communications District
• Tellico Plains PTO
• Tennessee State Veterans’ Homes
• Textile Corporation of America
• Town of Bean Station Police Department
• Town of Henning
• Wilson County Judicial Commission
Investigators Uncover Fraud

MTSU Students Stole $114,000

On March 10, 2021, the Division of Investigations released an investigative report related to Middle Tennessee State University’s Somali and Muslim students associations. Investigators found that from fall 2017 to fall 2020, students Mohamed Gure and Mohamed Osman misappropriated $114,145 from MTSU. Gure was charged with theft, 30 counts of forgery, and 2 counts of criminal simulation; Osman, with theft, 28 counts of forgery, and 2 counts of criminal simulation. This investigation not only sparked statewide attention, but was also covered nationally and published by media outlets such as USA Today. The Comptroller’s Office welcomes coverage from media and the public and recognizes that all investigative reports require an immense amount of work and many hours behind the scenes—this is just one example of the fraud, waste, and abuse of taxpayer dollars that Comptroller investigators uncover on a far-too-regular basis.

*The allegations and charges contained within this story are merely accusations of criminal conduct and are not evidence. The defendants are presumed innocent unless and until proven guilty in a court of law.
The Fraud, Waste & Abuse Hotline received 656 notifications between July 1, 2020, and June 30, 2021. For fiscal year 2021, the hotline received 392 telephone calls and the online reporting website received 264 submissions. Of the 656 total notifications, 577 concerned substantive allegations of fraud, waste, or abuse. These notifications concerned a wide range of entities, including municipalities, counties, state agencies, federal agencies, and nonprofit recipients of government funds. A more detailed analysis is below. Substantive notifications are investigated by Comptroller staff or are referred to the appropriate agency or program.

### Results of Hotline Notifications

Of the 577 notifications referred for action, responses have been received on 482, and these are considered closed. The remaining 95 are considered open.

The remaining 79 notifications were not assigned for review because they were either repeat notifications or were not relevant to the purpose of the hotline. Notifications in the latter group include wrong numbers, hang-ups, general inquiries about the hotline, and requests for services provided by other agencies, such as benefits assistance. Where applicable, the person making the notification is referred to the appropriate agency or department that can provide assistance.

The following summaries detail hotline notifications upon which corrective action was taken for the year ended June 30, 2021. Each summary is preceded by the reviewing entity and a brief synopsis of the allegation.

1. **Reviewed by Comptroller of the Treasury – Improper Sale of County Property**

   The notification alleged city employees brought scrap metal to a recycling center and gave money to local county jail inmates. The resulting investigation determined that county jail inmates collected and sold scrap metal under the supervision of city employees. The total amount of money received from the sale of scrap metal by city employees could not be determined due to inadequate records. City officials indicated they would adopt a policy to prohibit scavenging recyclable materials.

2. **Reviewed by Comptroller of the Treasury – Improper Fuel Purchases**

   The notification alleged improper fuel purchases by members of a Volunteer Fire Department (VFD). It was stated that a VFD chief used county funds to fill up his personal vehicle with gasoline. The resulting investigation found that the VFD made undocumented gasoline purchases. Further, VFD personnel did not complete fuel reimbursement sheets or fuel logs. It could not be determined that all the fuel purchases were for the benefit of the VFD. VFD officers advised they would establish internal controls over fuel and supporting documentation for fuel purchases.

3. **Reviewed by Comptroller of the Treasury – Improper Use of County Equipment and Resources**

   The notification alleged a highway department’s superintendent improperly showed favoritism towards another county employee and used county equipment and resources for personal benefit. The investigation revealed the road superintendent authorized department personnel to obtain fill dirt donated from private property owned by a county employee. This type of authorization created a potential for adverse public perception and risk of abuse.

4. **Reviewed by Comptroller of the Treasury – Misappropriation of Funds**

   The notification alleged a former Volunteer Fire Department (VFD) treasurer made unapproved cash withdrawals and an unauthorized equipment purchase.
Further, it was alleged the VFD chief became aware of such discrepancies but did not follow appropriate VFD protocols. The investigation revealed the former treasurer misappropriated department funds and the VFD had questionable disbursements. The former VFD treasurer was indicted for theft.

5. Reviewed by Comptroller of the Treasury – Operational Deficiencies

The notification alleged a college was in dire financial condition and was retaining severe debt. The investigation revealed the college had multiple operational deficiencies caused by lack of management oversight and inadequate maintenance of accounting records. College officials indicated they would correct these operational deficiencies.

6. Reviewed by Comptroller of the Treasury – Misappropriation of Funds

The notification alleged a Volunteer Fire Department (VFD) chief misused department funds for personal benefit and did not allow appropriate access to VFD financial records. Further, it was alleged the chief deposited department funds into his personal accounts for personal benefit. The investigation revealed the chief misappropriated VFD and grant funds. The investigation also revealed the chief destroyed district records and may have inflated call reports for the department. The chief was indicted for theft, official misconduct, and tampering with governmental records.

7. Reviewed by Comptroller of the Treasury – Misappropriation of Funds

The notification alleged a financial representative for a school made fraudulent reimbursement requests for grant funds. The investigation revealed the school’s executive director misappropriated school funds. Further, it was revealed the executive director forged a signature on documentation submitted to the state. The school was found to be in noncompliance with grant requirements and the executive director was indicted for theft and forgery.

8. Reviewed by Comptroller of the Treasury – Misappropriation of Funds

The notification alleged town officials made questionable financial transactions. The investigation revealed the mayor used the town’s debit and purchasing cards for personal benefit. Further, it was determined the mayor had other questionable expenses. The mayor was indicted for theft and official misconduct.

9. Reviewed by Comptroller of the Treasury – Lack of Complaint Monitoring

The notification alleged an employee of a human resource agency was disrespectful and did not provide appropriate assistance to the client. The subsequent review observed that the agency did not have an agency-wide complaint monitoring process to ensure program areas track, investigate, and resolve client complaints timely. It was suggested that the oversight bodies implement an agency-wide policy or procedure to track client complaints.

10. Reviewed by Comptroller of the Treasury – Unemployment Pay

The notification alleged an individual was owed unemployment backpay. It was determined that the funds due were deposited to a debit card but returned due to overages. Upon review it was found that the funds were reissued via direct deposit and the transaction to the individual’s account was successful.

11. Reviewed by the Comptroller of the Treasury – Unemployment Pay

The notification alleged that an individual filed for unemployment and the claim was approved, despite an overage from a previous claim that the individual owed to the state. The subsequent review found that the individual was sent a repayment agreement.

12. Reviewed by Comptroller of the Treasury – Improper Accrued Pay

The notification alleged a town Recorder missed multiple days of work without using paid time off. The allegation was substantiated during audit. The former town Recorder’s employment was terminated with no accrued time paid. As a result, the Recorder position now must report accrued time to the Town Board.
13. Reviewed by Comptroller of the Treasury – Compensatory Time Violation

The notification alleged a county sheriff’s department employee took time off work and received pay when the employee did not have the appropriate leave. The subsequent audit found that the employee did not have the necessary leave and was using compensatory time in advance, resulting in unauthorized compensation. As a result, it was recommended that county management monitor leave balances and comply with policy.

14. Reviewed by the Department of Labor and Workforce Development – Fraudulent Unemployment Claim

The notification alleged an individual was unable to file for unemployment due to a previous fraudulent claim. It was determined a fraudulent claim had been submitted but benefits were not paid. The individual was able to file an appropriate unemployment claim and the claim was adjudicated.

15. Reviewed by the Department of Health – Fraudulent Calls

The notification alleged an individual and their minor child were receiving multiple fraudulent calls on behalf of the Department of Health. It was determined the allegations were substantiated; scammers spoofed phone lines and pretended to be from the Department of Health. Further, the Department of Health made several social media announcements, and news media sites reported on this issue to warn citizens of this fraudulent activity.

16. Reviewed by TennCare – Mistaken Identity

The notification alleged an individual did not receive appropriate TennCare benefits. It was also alleged that the individual’s private information was mishandled. It was determined to be a case of mistaken identity between two individuals with the same name and one individual’s information was changed, but for the incorrect account. The issue was corrected, and the individual’s benefits were retroactively reinstated.

17. Reviewed by Tennessee Board of Regents – Accounting Issue

The notification alleged a student appropriately received a refund check and attempted to cash the check, but it did not clear. Upon review of the allegation, it was determined the check had been cancelled and a new one was issued to the student. The student received the new check, and it cleared the bank with no issues.

18. Reviewed by Commerce and Insurance – Nepotism

The notification alleged an electrical inspector contracted for the department gave preferential treatment to a family member with his inspections. Upon review of the allegations, it was determined the inspector had shown preferential treatment despite being warned his actions were a conflict of interest. Further, the investigation revealed the inspector willfully attempted to conceal his behavior. As a result of the investigation, the inspector’s contract with the department was terminated.

19. Reviewed by the Department of Finance and Administration – Purchase Orders Policy Violations

The notification alleged that since 2018, an employee made a large amount of purchases for promotional materials from a particular vendor. Further, it was alleged that the orders were broken into small orders to avoid bid requirements. After review of this allegation, it was substantiated that orders were broken into small orders. However, it was determined that there was no intentional splitting of these purchased items and there was no intent to violate policy. The appropriate oversight agencies were informed of this conclusion and committed to adhering to applicable purchasing policies going forward.

20. Reviewed by the Department of Revenue – Lack of Oversight

The notification alleged a revenue collection officer boasted of limited oversight of her work-from-home position for the department. Review of the allegation determined one instance of improper access of her tax information through her work account and there were no instances of her accessing any other taxpayers’ information. In conclusion, management gave the employee a coaching session regarding her improper access of the internal system.

For more about the Division of Investigations, go to tncot.cc/DOI.
Citizens and agencies are encouraged to report fraud, waste, or abuse in State and Local government.

**NOTICE:** This agency is a recipient of taxpayer funding. If you observe an agency director or employee engaging in any activity which you consider to be illegal, improper, or wasteful, please call the state Comptroller’s toll free Hotline:

**1-800-232-5454**

Notifications can also be submitted electronically at:

## Analysis of Substantive Hotline Notifications

**Fiscal Year Ended June 30, 2021**

<table>
<thead>
<tr>
<th>Reviewing Agency</th>
<th>Notifications</th>
<th>Open</th>
<th>Closed</th>
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<tbody>
<tr>
<td><strong>STATE AND LOCAL GOVERNMENT</strong></td>
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<td>Commerce and Insurance</td>
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<td><strong>Total</strong></td>
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<td><strong>482</strong></td>
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</table>

*Department of Audit Annual Report*  
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*Division of Investigations*
Professional Staff

The Department of Audit’s professional staff perform a wide variety of audit work requiring different types of training and experience. Therefore, members of the staff have degrees in fields such as accounting, public administration, information systems, law, political science, criminal justice, education, and nursing. More than 80 of the professional staff have advanced degrees. The department encourages its employees to pursue professional certifications such as Certified Public Accountant, Certified Information Systems Auditor, Certified Fraud Examiner, and Certified Government Financial Manager. As of June 30, 2021, more than 180 employees of the department had received one or more professional certifications.

The department ensures its auditors receive the required continuing professional education to meet certification standards and Government Auditing Standards. Auditors participate in the department’s in-house training program as course developers, presenters, and participants. Over 18,000 hours of training were completed during the fiscal year ended June 30, 2021.

The Department of Audit fully supports its staff’s active participation in local and national professional organizations, recognizing that these organizations contribute to the staff’s continued growth.

Certifications represented in the Department of Audit are Certified Fraud Examiner (CFE), Certified Public Accountant (CPA), Certified Government Financial Manager (CGFM), Certified Information Systems Auditor (CISA), Chartered Global Management Accountant (CGMA), Certified Administrative Professional (CAP), IRS Enrolled Agent (IRSEA), and Senior Professional – Human Resources (SrProfHR).
DEPARTMENT OF AUDIT EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2021

TOTAL EXPENDITURES: $34,152,729.00

EXPENDITURES BY TYPE

- **SALARIES AND BENEFITS**
  - $32,055,259.99
  - 94%
- **SERVICES**
  - (from other agencies)
  - $656,810.27
  - 2%
- **TRAVEL**
  - $451,885.57
  - 1%
- **OTHER**
  - (supplies, training, etc.)
  - $988,773.17
  - 3%

EXPENDITURES BY DIVISION

- **STATE AUDIT**
  - $19,276,276.28
  - 57%
- **LOCAL GOVERNMENT AUDIT**
  - $11,325,889.99
  - 33%
- **INVESTIGATIONS**
  - $3,550,562.73
  - 10%
To report fraud, waste, or abuse of government funds and property, contact the Comptroller's Hotline at 1.800.232.5454 or www.comptroller.tn.gov/hotline