



FOURTH FRACTIONAL TOWNSHIP

Comptroller's Investigative Report
January 17, 2018

Justin P. Wilson, Comptroller





JUSTIN P. WILSON
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January 17, 2018

Board of Commissioners
Fourth Fractional Township
P. O. Box 254
Ducktown, TN 37326-0254

Ladies and Gentlemen:

The Office of the Comptroller of the Treasury conducted an investigation of selected records of the Fourth Fractional Township, and the results are presented herein.

Copies of this report are being forwarded to Governor Bill Haslam, the State Attorney General, the District Attorney General, certain state legislators, and various other interested parties. A copy is available for public inspection in our office and may be viewed at <http://www.comptroller.tn.gov/ia/>.

Sincerely,

A handwritten signature in black ink that reads "Justin P. Wilson".

Justin P. Wilson
Comptroller of the Treasury

JPW/RAD

INVESTIGATIVE REPORT

FOURTH FRACTIONAL TOWNSHIP

BACKGROUND

The Fourth Fractional Township (township) is situated in the third civil district of Polk County, Tennessee, and originally comprised approximately 640 acres. The township was established through acts of the United States Congress and by the General Assembly of Tennessee. *Private*



Acts of 1935, Chapter 138, established that the purpose of the township funds as being “intended for the purpose of educating the youth of said Township.” The township is governed by an elected three-member board serving four-year terms.

The township was funded primarily from royalty payments from copper mining companies before the mines closed in the 1980s. The township no longer has royalty income and does not collect taxes.

However, the township has assets of land and one building (currently vacant - the former Kimsey Junior College). The Polk County Board of Education leased the building and operated the Ducktown Elementary School prior to building a new middle/high school. The township retains ownership of the building and has maintained and secured the building while it remains vacant. We reviewed information about how the township was established and examined its operations. We examined available records for the period July 1, 2012, through June 30, 2017. Disbursements from the township totaled \$107,803.03 for the period, and the township had \$643,775.77 in cash and certificates of deposit at June 30, 2017.

Findings and recommendations as a result of our investigation are presented below. Also, these findings and recommendations have been reviewed with the district attorney general for the Tenth Judicial District.

INVESTIGATIVE FINDING AND RECOMMENDATION

FINDING 1 The township had questionable disbursements totaling \$28,365

We questioned disbursements totaling \$28,365 for the period examined. These disbursements involved payments to the sporting programs at Copper Basin High School and to the son of the township's board chairman. We noted the following:

- A. During the period examined, the township made disbursements to benefit Copper Basin High School for sporting programs and football field maintenance totaling \$23,497. Of this amount, disbursements totaling \$16,930 were for the girls' volleyball (\$9,675) and girls' softball (\$7,255) programs. The township's board chairman is the head coach for both teams and received payment from the school system for his coaching duties. The remaining \$6,567 was disbursed to the football, baseball, cheerleading, and general sporting programs of the Copper Basin High School. These payments may violate the state indirect conflict of interest statute, Section 12-4-101(b), *Tennessee Code Annotated*. This statute states that

it is unlawful for any officer, committee member, director, or other person whose duty it is to vote for, let out, overlook, or in any manner to superintend any contract in which any municipal corporation, county, state, development district, utility district, human resource agency, or other political subdivision created by statute shall or may be interested to be indirectly interested in any such contract unless the officer publicly acknowledges such officer's interest.

We were unable to find any evidence of the chairman making a public acknowledgment of the potential indirect conflict.

- B. We identified one payment from the township totaling \$1,925 to a local community pool. We were advised that this payment was made as a loan for startup costs for the pool. We later learned the board chairman was involved with the operations of the community pool during the summer season. Although the funds were repaid with interest, funds of the township are to be used for the education of youth within the township and should not be used for issuing loans.
- C. The township made 19 disbursements totaling \$2,943 to the chairman's son for security and lawn maintenance at the vacant building and lot owned by the township. These payments appear questionable due to the related party transactions between the father and son.

The questioned disbursements are summarized in the following table:

| | | |
|--------------------|-----------------------------|-----------------|
| Finding 1A | Sporting Program | \$23,497 |
| Finding 1B | Loan | 1,925 |
| Finding 1C | Lawn Maintenance & Security | <u>2,943</u> |
| Total Questionable | | <u>\$28,365</u> |

RECOMMENDATION

The township's management should take steps to determine whether these questionable disbursements should be recovered by the township. Management should review these payments and resolve any conflicts of interest.

INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES

FINDING 2 The township had operating deficiencies

Our examination revealed internal control and compliance deficiencies in the township. These deficiencies can be attributed to a lack of management oversight and inadequate maintenance of accounting records. The township did not provide documentation and/or records to us on a timely basis, resulting in unnecessary delays. Township officials appeared unable and/or unwilling to assist in providing these documents. Therefore, most documentation had to be obtained directly from banks and/or other departments. After multiple attempts to obtain complete bank records from township officials, without a timely response, our office issued subpoenas for requested records, causing additional delays. We noted the following internal control and compliance deficiencies:

- A. The township's commissioners did not have knowledge of and could not provide us documentation of all the land owned by the township. We were advised some township land was sold in past years. In addition, we could not determine the amount of land owned by the township after we inquired with the Offices of the Polk County Assessor of Property and Register of Deeds. The township's commissioners should maintain documentation for all land owned by the township to provide stewardship, maintenance, and oversight.
- B. The township operates with little management oversight and has no written guidelines governing the use and distribution of funds. Furthermore, we noted several checks that were issued without adequate supporting documentation.
- C. Duties were not segregated adequately among its members. The member responsible for maintaining records was also involved in depositing and/or disbursing funds. Allowing one member complete control over a financial transaction increases the risk of fraud and abuse.
- D. Transactions were not included in an official cash journal or other type of accounting system. An official cash journal or other type of accounting system should be the township's control record and should reflect all financial activity.
- E. Checks require a signature from two members: the chairman and the treasurer. However, we noted that the treasurer and chairman signed some checks prior to a purchase.
- F. The board did not have regularly scheduled meetings. In addition, board meeting minutes were not adequately maintained to document the decision-making process.

RECOMMENDATION

Management should maintain documentation for all land owned by the township to provide stewardship, maintenance, and oversight. Management should provide sufficient oversight over all financial transactions and make all records readily available for audit. The township should adopt written guidelines governing the use and distribution of funds and retain adequate supporting documentation for all disbursements. Duties should be segregated to the extent possible using available resources. All transactions should be posted to an official cash journal or other type of accounting system. Checks should have two authorizing signatures and should not be signed in advance. The board should conduct regular meeting with minutes maintained to document the decision-making process.
