



TOWN OF ROGERSVILLE WATER DEPARTMENT

Comptroller's Investigative Report
April 18, 2018

Justin P. Wilson, Comptroller





JUSTIN P. WILSON
Comptroller

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April 18, 2018

Mayor and Members of the
Board of Aldermen
Town of Rogersville
P. O. Box 788
Rogersville, TN 37857

Ladies and Gentlemen:

The Office of the Comptroller of the Treasury, in conjunction with the Tennessee Bureau of Investigation and the Town of Rogersville Police Department, conducted an investigation of selected records of the Town of Rogersville Water Department, 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

Town of Rogersville Water Department

The Office of the Comptroller of the Treasury, in conjunction with the Tennessee Bureau of Investigation and the Town of Rogersville Police Department, investigated allegations of malfeasance related to the Town of Rogersville Water Department (water department). Town officials notified the Comptroller's Office after becoming concerned about missing bank deposits.

INVESTIGATIVE RESULTS

- **Former water department superintendent Shawn Hatchett diverted \$338,929 in cash collections**

Former water department superintendent Shawn Hatchett diverted cash collections totaling at least \$338,929. Mr. Hatchett perpetrated the misappropriation by withholding cash collections from deposits he was entrusted to deliver to the bank.

Lapping scheme

Over the course of the 10-month period ending May 2017, Mr. Hatchett failed to deposit within 20 days or more water department cash collections totaling at least \$338,929, effectively depriving the department of the use of those funds. Using his authority as water department superintendent, Mr. Hatchett assigned to himself the responsibility of delivering the daily cash collections to the water department's bank. An analysis of bank records and water department records revealed that Mr. Hatchett was not promptly delivering cash to the bank. The timing of collections and Mr. Hatchett's deposits were consistent with a lapping scheme, which involved Mr. Hatchett diverting daily cash collections for his personal benefit, and then concealing that misappropriation by depositing in its place water department cash collections received on a subsequent day.

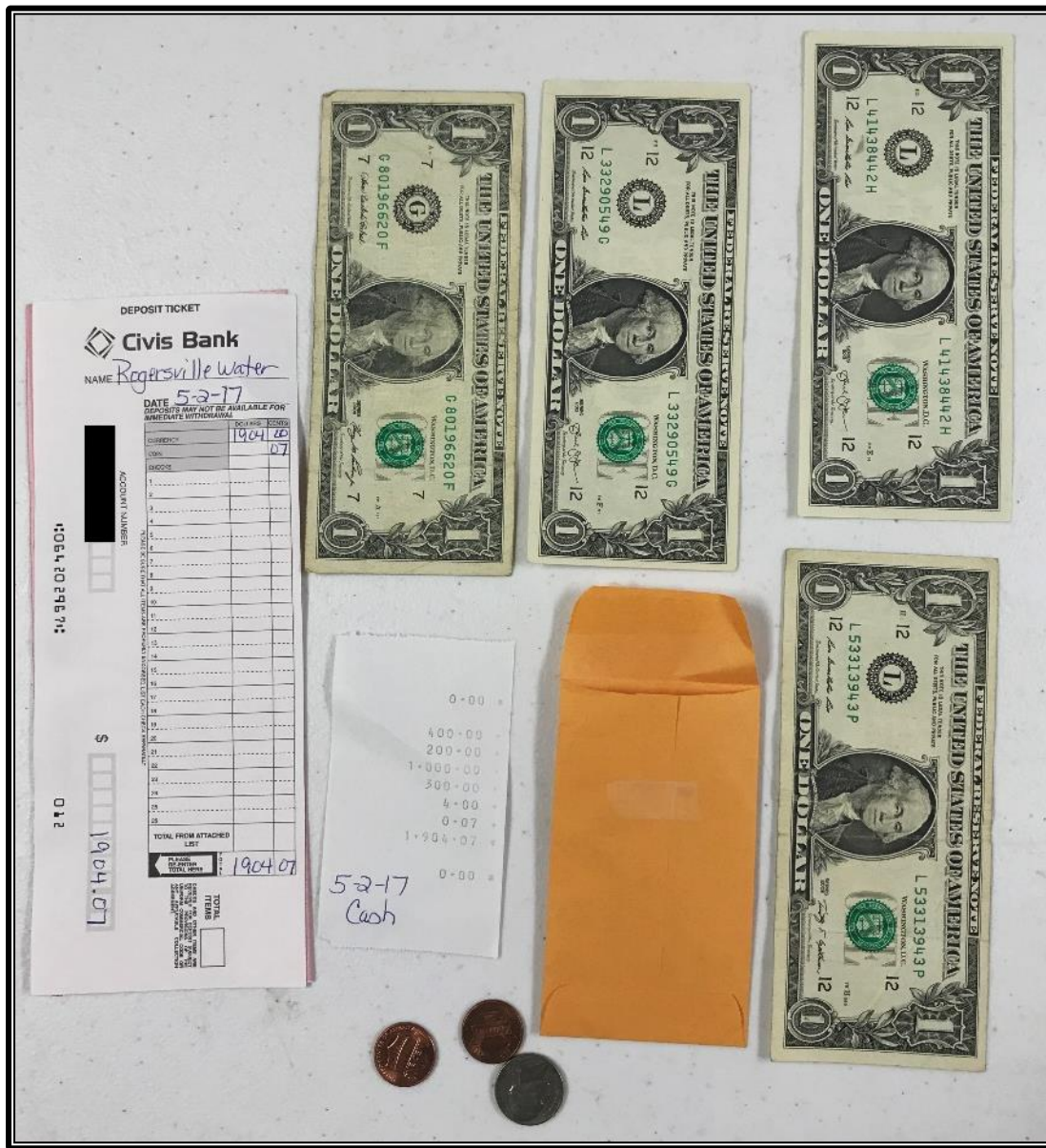
Missing collections

The investigation revealed that Mr. Hatchett diverted for his personal use water department cash collections totaling at least \$69,444, which he never deposited into the water department bank account. As noted previously, Mr. Hatchett assigned to himself the responsibility for making bank deposits. On May 22, 2017, a water department official revoked Mr. Hatchett's responsibility for making the water department's deposits. Because this removed Mr. Hatchett's access to future collections, he was no longer able to conceal his fraudulent scheme. At that time, water department records indicated Mr. Hatchett had failed to deposit cash collections from 16 separate deposits. The water department board suspended Mr. Hatchett with pay on July 18, 2017, and terminated him on August 14, 2017.

After Mr. Hatchett was terminated, the interim superintendent found seven bank bags locked in a drawer in Mr. Hatchett's water department office that contained deposit slips and \$992 in cash from those 16 missing deposits.

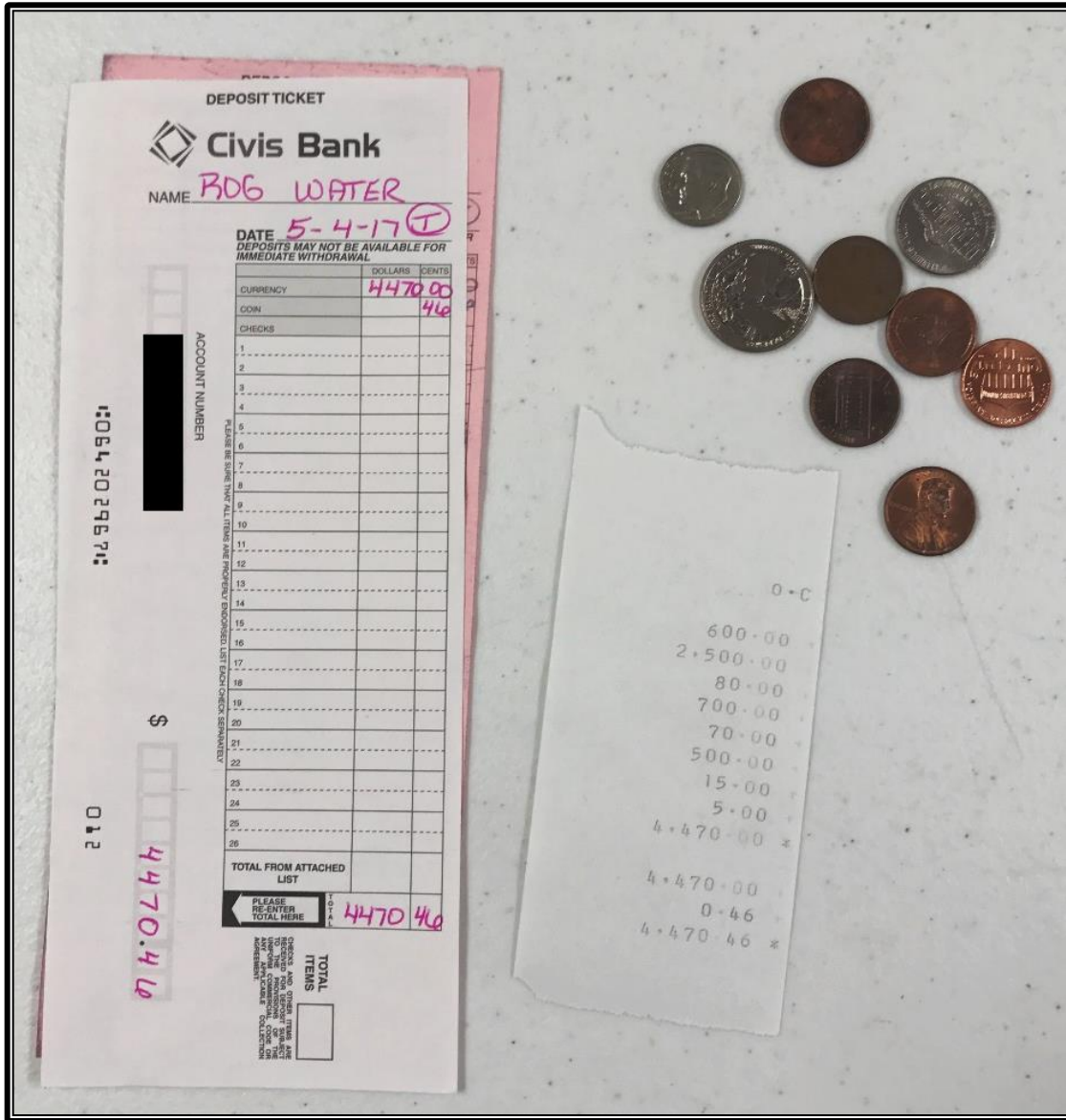
In some instances, small amounts of cash were found attached to some of the deposit slips in the bank deposit bags. For example, the cash portion of the May 2, 2017, deposit Mr. Hatchett withheld totaled \$1,904.07. After his termination, the related deposit slip with \$4.07 in cash attached was recovered from Mr. Hatchett's office. Mr. Hatchett kept for his personal use a total of \$1,900 in cash from that deposit. **(Refer to Exhibit 1.)**

Exhibit 1



Similarly, the cash portion of the May 4, 2017, deposit that Mr. Hatchett withheld totaled \$4,470.46. After his termination, the related deposit slip with \$0.46 in cash attached was recovered from Mr. Hatchett's office. Mr. Hatchett kept for his personal use a total of \$4,470 in cash from that deposit. **(Refer to Exhibit 2.)**

Exhibit 2



Investigators discovered that Mr. Hatchett went to the bank on at least a weekly basis to make other water department transactions. As noted however, he failed to deposit the water department's cash collections entrusted to his custody at this time. Instead, he removed and retained these funds for his personal benefit.

- **Former water department superintendent Shawn Hatchett directed an unauthorized department check be cashed for his benefit**

Mr. Hatchett misappropriated the proceeds of an unauthorized \$500 water department check, preparing false records to effectively conceal the fraudulent transaction. On May 7, 2015, Mr. Hatchett prepared and signed an unauthorized \$500 check made payable to a water department employee. Mr. Hatchett directed the employee to cash the check and deliver the cash back to him, stating that the cash was for the water department collection drawer. Mr. Hatchett prepared a fraudulent invoice indicating the check was for the purchase of a motor hoist, jack stands, and a tire changer. Investigators determined that the \$500 was not used either for the purchase of equipment or for the water department's collection drawer. Rather, the cash was for Mr. Hatchett's personal use.

- **Former water department superintendent Shawn Hatchett improperly gave himself significant compensatory time**

Without authority, in January 2017, Mr. Hatchett improperly ordered the water department payroll clerk to add 3,000 hours of compensatory time (comp time) to his leave balance for calendar year 2017. City policies prohibited exempt employees, including the water department superintendent, from earning or receiving comp time. By adding 3,000 hours of comp time to his normal 40-hour work week, Mr. Hatchett projected he would work 97 hours per week - almost 14 hours every day during a seven-day week, or almost 19½ hours every day during a five-day week. Investigators discovered Mr. Hatchett also had outside employment with at least one other entity during this time. **[Refer to the Investigative Result below.]**

Water department records showed that Mr. Hatchett first began to pay himself for comp time in 2015, when he directed the water department payroll clerk to pay him for an extra 1,818 hours he purportedly worked during that year. For calendar year 2016, Mr. Hatchett ordered 2,000 hours of comp time to be added to his leave balance, although payroll records indicated that Mr. Hatchett eventually claimed and was paid for 2,320 hours of comp time that year.

Shawn Hatchett's Annual Compensation from the Water Department			
Calendar Year	2015	2016	2017**
Base Pay	\$ 75,103	\$ 75,181	\$ 49,365
Comp time	63,975	83,878	45,782
Redeemed leave	9,265	8,149	12,328
Other pay	<u>3,670</u>	<u>3,487</u>	<u>1,958</u>
Total Compensation	<u>\$152,013</u>	<u>\$170,695</u>	<u>\$109,433</u>

**Compensation received for partial year prior to his termination in August 2017.

- **Former water department superintendent Shawn Hatchett had undisclosed outside employment**

From at least 1998, Mr. Hatchett privately contracted with the Hawkins County Board of Education to serve as the certified operator for onsite wastewater treatment systems at four

schools. According to the contract, Mr. Hatchett was to provide testing and analysis of samples, and perform site visits. The school system paid Mr. Hatchett \$800 per month for these services. The Town of Rogersville's personnel policy manual states that employees must not let outside employment interfere with their town responsibilities and that employees should discuss any outside employment with their supervisor to ensure there is not a conflict of interest. Mr. Hatchett failed to notify the water department's board members of his outside employment, preventing board members from determining whether a conflict of interest existed.

These issues were referred to the local district attorney. On April 16, 2018, the Hawkins County Grand Jury indicted Shawn Hatchett on one count of Theft of Property over \$250,000, one count of Theft of Property over \$60,000, and one count of Official Misconduct.

ADDITIONAL ISSUES

Our investigation revealed deficiencies in administering certain financial processes, some of which contributed to the former water superintendent's ability to perpetrate his misappropriation without prompt detection. These financial process deficiencies included:

- The water department board failed to ensure that staff responsible for depositing collections did so as soon as practical, but no later than three working days after receipt, into an authorized department bank account. The board also failed to monitor adequately the former superintendent's safekeeping and handling of cash collections.
- The water department board failed to supervise adequately the work time for which the former superintendent claimed and was paid. The board failed to consider or investigate:
 - The reasonableness of the hours the former superintendent claimed he was working,
 - The duties and responsibilities that purportedly demanded the superintendent's time considering that the water department employed highly competent and capable supervisors available for all aspects of the department's operations.
- The water department board failed to review the supervisory decisions made by the former superintendent to the detriment of the department. The former superintendent permitted employees to enter regular time into their time sheets while they were out of work for both routine illnesses as well as for extended health-related absences. The former superintendent did not require employees to use compensated leave time when required by department policy.
- The water department board allowed the presigning of blank department checks, negating the benefit of required dual signatures, and removing crucial control over disbursement of department funds.

- The water department board did not enforce the department's personnel policy. The former superintendent disregarded the outside employment policy applicable for the water department, as well as the nepotism¹ and compensation policies that applied directly to him.

Water department officials indicated that they have corrected or will correct these deficiencies.

¹ Mr. Hatchett's son has worked for the water department since July 2016.