



COMPTROLLER'S INVESTIGATIVE REPORT

Town of Henning

October 7, 2020

Justin P. Wilson
Comptroller of the Treasury



DIVISION OF INVESTIGATIONS



JUSTIN P. WILSON
Comptroller

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Deputy Comptroller

October 7, 2020

Board of Mayor and Aldermen
Town of Henning
P. O. Box 488
Henning, TN 38041

Ladies and Gentlemen:

The Office of the Comptroller of the Treasury conducted an investigation of selected records of the Town of Henning, and the results are presented herein.

Copies of this report are being forwarded to Governor Bill Lee, the State Attorney General, the District Attorney General of the 25th Judicial District, certain state legislators, and various other interested parties. A copy of the report 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, appearing to read "Justin P. Wilson", is written over a light gray rectangular background.

Justin P. Wilson
Comptroller of the Treasury

JPW/MLC

INVESTIGATIVE REPORT

TOWN OF HENNING

The Office of the Comptroller of the Treasury investigated allegations of malfeasance related to the Town of Henning. The investigation was limited to selected records for the period July 1, 2017 through December 31, 2019. The results of the investigation were communicated with the Office of the District Attorney General of the 25th Judicial District.

BACKGROUND



The Town of Henning is in Lauderdale County and is governed by a mayor and six aldermen who are elected every four years. Baris Douglas (Douglas) was elected mayor in 2017. The town employs six full-time employees: a City Recorder; Town Superintendant; and four sanitation and/or maintenance workers. The mayor is responsible for overseeing the day-to-day operations of the town and the management of employees. The town has retained a certified public accounting (CPA) firm to act as the town's certified municipal financial officer and

also retained a financial consultant to provide certain professional services.

RESULTS OF INVESTIGATION

1. DOUGLAS USED THE TOWN'S DEBIT AND WAL-MART CREDIT CARDS TO MISAPPROPRIATE AT LEAST \$2,237.74

Our investigation noted the following misappropriations of town funds:

- A. Douglas used the town's debit card to make at least \$1,396.42 in unauthorized personal purchases. Douglas was the only town employee to have a debit card associated with the town's bank account. On 12 occasions, Douglas used the debit card to pay for personal meals. When interviewed, Douglas told investigators he assumed he could use the card for meals if he was working on town business, yet he could not say what business he may have been conducting. Douglas also used the card to make purchases at various retail establishments (**Refer to Exhibit 1**). Douglas did not provide any supporting documents for his purchases, could not identify items purchased, nor could he show the town received any of the purchases or benefit from them.

- B. Douglas used the town's Wal-Mart credit card to purchase \$841.32 worth of personal items. These items included sinus medications, food products, and a laptop with accessories. Douglas denied purchasing the items, such as sinus medication, and further explained that he occasionally permitted community members to use the card. Investigators could not substantiate that any community members used the card. When asked about the laptop, Douglas admitted to investigators that he used the laptop for work related to his full-time job. Douglas also revealed the laptop in question had been stolen from his car and he did not notify any town officials of the theft.

Summary		
Item	Description	Amount
A.	Unauthorized debit card purchases	\$1,396.42
B.	Unauthorized credit card purchases	<u>841.32</u>
Total		\$2,237.74

Exhibit 1

OTHER DEBITS					
DATE	AMOUNT	TRANSACTION DESCRIPTION	CHK NO/ATM	CD	
11/02	6.58	POS PIN MCDONALD'S F543	COVINGTON	TN	
11/02					
11/05					
11/09					
11/14					
11/16					
11/20	9.43	POS PIN MCDONALD'S F543	COVINGTON	TN	
11/21					
11/23	34.21	BOATWRIGHT PHARM	MILLINGTON	TN	
11/29	66.45	SOMETHING SPECIA	COVINGTON	TN	
11/30					

Town of Henning bank statement showing personal transactions facilitated by Douglas using the debit card.

2. DOUGLAS HAD QUESTIONABLE EXPENSES TOTALING AT LEAST \$4,151.51

We noted the following questionable expenses:

- A. Douglas used the town's debit card for \$204.30 in meal purchases on four occasions. Douglas told investigators he purchased these meals for town

employees, however, investigators could not verify if employees received these meals.

- B. Douglas used the town's Wal-Mart credit card for \$158.72 to purchased items such as lawn fertilizer and printer ink. Douglas may have purchased these items for the town's benefit, but investigators could not determine if they were received by or used by the town.
- C. Douglas made \$3,788.49 in questionable travel expenses due to a lack of supporting documents and failure to comply with applicable town policies. Douglas did not submit any travel expense reimbursement forms related to his travel, nor did he remit any receipts for travel expenses. When questioned by investigators, Douglas could not say what the purpose of all his travel had been. He also claimed he was not aware the town had a travel policy.

Summary		
Item	Description	Amount
A.	Meal transactions	\$204.30
B.	Fertilizer and printer ink	158.72
C.	Travel expenses	<u>3,788.49</u>
Total		\$4,151.51

3. FINANCIAL CONSULTANT RECEIVED \$48,000 FOR QUESTIONABLE SERVICES

In December 2017, Douglas entered into a contract with a financial consultant for the town's financial matters at a rate of \$2,000 a month, even though the town employed a CPA firm to act in the certified municipal financial officer capacity for the town. Investigators determined the Town of Henning aldermen retroactively approved the contract. According to the contract between the financial consultant and the Town of Henning, the financial consultant's responsibilities included reviewing: the town's audit findings and corrective action plans; each department's internal controls, employees' duties and payroll, inventories, purchases, journal entries, subsidiary ledgers, cash collection logs, and bank reconciliations; all outstanding debt; and all town contracts. Based on interviews and lack of documentation, investigators could not substantiate that the financial consultant provided any of the services to the town that were outlined in the contract. When investigators interviewed the financial consultant, he provided the following examples of work he had performed:

- A. The financial consultant claimed he had worked on an issue with the town's water meters and the time it took to read them. Investigators interviewed town employees directly associated with the water metering process, and no one had any interaction

with the financial consultant concerning either the water meters or the water meter reading process. The town’s process for reading the meters had not changed in the last ten years.

- B. The financial consultant claimed he did a property tax audit for the town to resolve delinquent property taxes. The Town of Henning City Recorder stated she knew the financial consultant was involved with delinquent property taxes but had no knowledge of the extent of his work. Delinquent property taxes are handled by the Lauderdale County Clerk and Master. When investigators interviewed the clerk and master, she stated she had never met the financial consultant or worked with him on the town’s delinquent property taxes.
- C. When reviewing invoices created by the financial consultant, investigators noted the financial consultant listed his services as “administrative, financial, and auditing consulting services” (**Refer to Exhibit 2**). When questioned by investigators about what service he provided in these areas, the financial consultant claimed this description is wrong and should say “assistant to the mayor.” The financial consultant stated to investigators that he was not involved with the day-to-day finances of the town. This was in direct conflict with the financial consultant’s contract that calls for him to fulfill several financial duties to the town. Also, the financial consultant could not provide any calendars or documentation to show work done for the town in any capacity.

The financial consultant voluntarily stated to investigators he would reimburse the town half of monies paid to him for his services. As of the date of this report, the financial consultant has not paid any money back to the town.

Exhibit 2

Invoice Number: A423

Description			Cost
Consultant Services: Administrative, Financial, Auditing June 2019			\$ 2,000

Invoice from the financial consultant listing his services to the Town of Henning as Administrative, Financial, and Auditing.

On October 5, 2020, the Lauderdale County Grand Jury indicted Baris Clayton Douglas on one count of Theft over \$2,500 and two counts of Official Misconduct.

[Town of Henning Investigation Exhibit](#)

INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES

Our investigation revealed deficiencies in internal controls and compliance, some of which contributed to the mayor's ability to perpetrate his misappropriation without prompt detection. These deficiencies included:

Deficiency 1: The Town of Henning had deficiencies related to employee travel

Our examination of town employee travel reimbursement revealed the following deficiencies and non-compliance with the town's travel policy, which are a direct result of a lack of management's oversight and their failure to implement adequate internal control procedures over travel and credit card transactions.

- A. The adopted travel policy specifies that travel advances are only available for special travel and only after completion and approval of a travel authorization form. On multiple occasions, the town paid travel advance checks without a travel authorization form or details of how the necessary travel funds were calculated.
- B. The travel policy explicitly states a travel expense reimbursement form will be used to document all expense claims. It also requires the original receipt to support any claim for five dollars or more. Investigators found no evidence of any forms or supporting receipts to document overnight travel.

Deficiency 2: The Town of Henning does not have adequately documented internal controls

Tennessee Code Annotated, Section 9-18-102(a), requires, "Each agency of state government and institution of higher education along with each county, municipal, and metropolitan government shall establish and maintain internal controls" to protect funds, property, and other assets from fraud, waste, or abuse. The Town of Henning had the following internal control deficiencies:

- A. The town had no established and documented purchasing policy. As part of proper purchasing procedures, all purchases should be supported by proper documentation.
- B. The town had not adopted written guidelines governing the use of credit cards. Sound business practices dictate that management should provide written

guidance by identifying those who are entitled to use the credit cards and the purposes for which the credit cards can be used. This deficiency is the result of a lack of management oversight. Without a formal credit card policy, employees are not properly advised of the limitations on their credit card purchases.

- C. The town does not maintain inventory records for capital assets. Therefore, investigators were unable to determine if the office properly accounted for all capital assets, such as the laptop mentioned in the investigative findings. The town should maintain a perpetual inventory log for all capital assets, to ensure proper control over assets.
- D. The town does not segregate duties adequately concerning its mail. The mayor had the only key to the town's post office box because he wanted to see what mail was coming in. In his absence, mail could have been left in the post office box for several days, therefore, monies mailed in for services could be delayed getting to the City Recorder's office. The town should adequately segregate the retrieval, opening, and distribution of mail.

Deficiency 3: The Town of Henning's City Recorder Office did not maintain all records

Tennessee Code Annotated, Section 6-21-404, states the recorder "shall have custody of, and preserve in the recorder's office..., all [other] records, papers, and documents, ... and shall keep an accurate and modern index thereof." Investigators visited the town's City Hall and requested several documents pertinent to our investigation, such as contracts and credit card statements, and the city recorder could not produce them.

Town of Henning officials indicated that they have corrected or intend to correct these deficiencies.
