



COMPTROLLER'S INVESTIGATIVE REPORT

Town of Mountain City

July 21, 2022

Jason E. Mumpower
Comptroller of the Treasury



DIVISION OF INVESTIGATIONS



JASON E. MUMPOWER
Comptroller

July 21, 2022

Town of Mountain City
210 South Church Street
Mountain City, TN 37683

Town of Mountain City:

The Office of the Comptroller of the Treasury conducted an investigation of selected records of the Town of Mountain City, 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 1st 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 blue ink, appearing to read "Jason E. Mumpower", is written over a faint, larger version of the signature.

Jason E. Mumpower
Comptroller of the Treasury

JEM/MLC

INVESTIGATIVE REPORT

Town of Mountain City

The Office of the Comptroller of the Treasury investigated allegations of malfeasance related to the Town of Mountain City. The investigation was initiated after town officials identified questionable transactions and was limited to selected records for the period July 2017, through September 2021. The results of the investigation were communicated with the Office of the District Attorney General of the 1st Judicial District.

BACKGROUND



The Town of Mountain City (town) is in Johnson County, Tennessee, located between the Virginia and North Carolina state lines. The town was incorporated in 1905 and has a population of approximately 2,500 and offers water and sewer services. The town is governed by an elected mayor, vice mayor, and three aldermen. An appointed town recorder is responsible for day-to-day financial operations.

Insufficient funds payments, commonly referred to as “bad checks,” occur when a customer’s bank account does not have an adequate balance to cover a check or draft payment. The town’s bank notified town employees with an insufficient funds notice whenever a water and/or sewer customer’s payment was rejected due to insufficient funds in their bank account. Town employees then contacted those customers and requested they submit cash or credit card payments to redeem those bad checks and settle their debts.

RESULTS OF INVESTIGATION

- 1. FORMER BOOKKEEPER DONNA NELSON MISAPPROPRIATED TOWN COLLECTIONS TO REDEEM INSUFFICIENT FUNDS PAYMENTS TOTALING AT LEAST \$3,959.71**

Our investigation revealed that between July 2017 and September 2021, Nelson misappropriated town collections to redeem insufficient funds payments totaling at least \$3,959.71 as follows:

A. Nelson Misappropriated Town Collections Totaling at Least \$2,369.71

Nelson misappropriated town collections to redeem insufficient funds payments totaling at least \$2,369.71. Nelson perpetrated her misappropriation by failing to remit repayments of customer insufficient funds payments to the recorder for deposit into a town bank account. In some instances, Nelson kept small amounts of cash from these collections in town hall attached to the bank notice of insufficient funds. For example, records show that on May 30, 2019, \$92.99 cash was collected to replace a customer’s insufficient funds check; however, that cash was not deposited into a town bank account. Investigators located only \$2.99 in cash; Nelson kept \$90 for her personal use from this transaction. [Refer to Exhibit 1.] Nelson was solely responsible for accounting for these repayments.

Exhibit 1



Repayment of insufficient funds with \$90 misappropriated

B. Nelson Cashed Personal Checks Totaling \$1,260 from the Town’s Cash Drawer that Were Later Returned by the Bank for Insufficient Funds

Nelson cashed at least 11 personal checks totaling \$1,260 from herself or her family members using the town’s cash drawer that were later returned by the bank for insufficient funds. Nelson did not repay these insufficient fund payments to the town. In addition, she did not pay the town’s \$30 returned check fee, which totaled \$330 in fees.

Schedule of Misappropriations	
	Amount
Customer Insufficient funds repayment	\$2,369.71
Personal Insufficient funds checks	\$1,260.00
Personal Unpaid returned check fees	\$330.00
Total Misappropriation	\$3,959.71

2. ADDITIONAL QUESTIONABLE CUSTOMER INSUFFICIENT FUNDS PAYMENTS

Investigators question at least ten other repayments for insufficient funds payments totaling \$1,142 that were never deposited into a town bank account. However, town records did not include adequate documentation to determine conclusively that these funds had been repaid.

3. RECORDER SHEILA SHAW WITHHELD AT LEAST \$5,582.63 IN CASH REPAYMENTS FROM BANK DEPOSIT

Shaw refrained from performing a duty that is imposed by law or is clearly inherent in the nature of her employment by failing to perform her duty to promptly deposit customer cash payments made to redeem insufficient funds payments. Shaw held at least \$5,582.63 in these cash repayments in her office, some of which were collected more than a year prior. [Refer to Exhibit 2 and 3.] A portion of this undeposited cash were repayments of misappropriated amounts by Nelson. Shaw told investigators that she did not re-deposit those amounts because she believed that someone may realize what Nelson had been doing.

Exhibit 2



Cash collected from Nelson since 2019 but not deposited until October 2021

Exhibit 3



Cash collected from customer in August 2021 but not deposited until October 2021

Donna Nelson resigned from her position with the town on September 30, 2021.

On July 15, 2022, the Johnson County Grand Jury indicted Donna Nelson on one count of Theft over \$2,500 and one count of Official Misconduct, and indicted Sheila Shaw on one count of Official Misconduct.

The charges and allegations contained in the indictment are merely accusations of criminal conduct, and not evidence. The defendant is presumed innocent unless and until proven guilty beyond a reasonable doubt and convicted through due process of law.

[Town of Mountain City Investigative Exhibit](#)

INTERNAL CONTROL DEFICIENCY

Our investigation revealed a deficiency in internal control which contributed to the recorder's ability to perpetrate her misappropriation schemes without prompt detection. The deficiency was:

Deficiency 1: The recorder did not ensure that insufficient funds payments were accounted for adequately

The recorder did not implement adequate controls over the accounting for or redemption of insufficient funds payments. She did not require or maintain either a formal record of customers whose payments were rejected due to insufficient funds, or a formal record of when customers repaid the town. Furthermore, customers whose payments were rejected due to insufficient funds were not compelled to repay the town. In the case of utility payments, the customer's account did not reflect that they had not made proper payment; therefore, they were not subjected to penalty or discontinued service. Ensuring that adequate records of all transactions are created and maintained, and collecting debts owed the town reduces the risk of lost revenue, error, or fraud.

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