

“The Good, the Bad, and the UGGly”

State Agency Fraud Case

May 19, 2022

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AU-C 240.05 (*Consideration of Fraud in a Financial Statement Audit*)

■ Objectives

- ◆ Identify and assess the RMM of the financial statements due to fraud;
- ◆ Obtain sufficient appropriate audit evidence regarding the assessed RMM due to fraud, through designing and implementing appropriate responses; and
- ◆ Respond appropriately to fraud or suspected fraud identified during the audit.

TN Single Audit and Investigation Report Examples

- ◆ 2015 TN Single Audit
 - DHS
 - Labor and Workforce Development
- ◆ TN F&C Investigation Reports (DHS) – Child & Adult Care Food Program (CACFP – CFDA # 10.558 and 10.559)
 - Academy for Kidz
 - ABC Nutrition
 - Cherry Tree

Problems Discovered at DHS

- ◆ Not documenting eligibility
- ◆ Erroneous reimbursement claims
- ◆ Overpayments
- ◆ Poor risk assessment
- ◆ Failure to detect obvious fraud
- ◆ Insufficient staffing
- ◆ Inadequate training
- ◆ Providing meals to ineligible participants
- ◆ Not collecting overpayments
- ◆ Subrecipients not eligible for program
- ◆ Documentation not maintained upon closing
- ◆ Paid claims for unapproved feeding sites
- ◆ Failure to document review of **NDL**
- ◆ Failure to identify high-risk subrecipients
- ◆ Failed to detect conflict of interest
- ◆ Failed to recognize falsified documents
- ◆ Paid cash advances that weren't requested
- ◆ Paying for unauthorized meals
- ◆ Reimbursed with incorrect rates
- ◆ Outdated Income Eligibility Application used
- ◆ Failed to reconcile budget with expenses
- ◆ Paid late claims
- ◆ Failed to complete Vendor Review Guide
- ◆ Failed to recover excess funds

How was the fraud found?

- ◆ Audit testwork.
- ◆ Most fraud discovered via inquiry, **fraud hot line calls**, observation, but not substantive audit testing or test of details.
- ◆ Benford's law
- ◆ ACL data analysis
- ◆ Understanding the data and internal controls over its completeness and accuracy to establish parameters.

Questioned Costs - \$11.6 Million

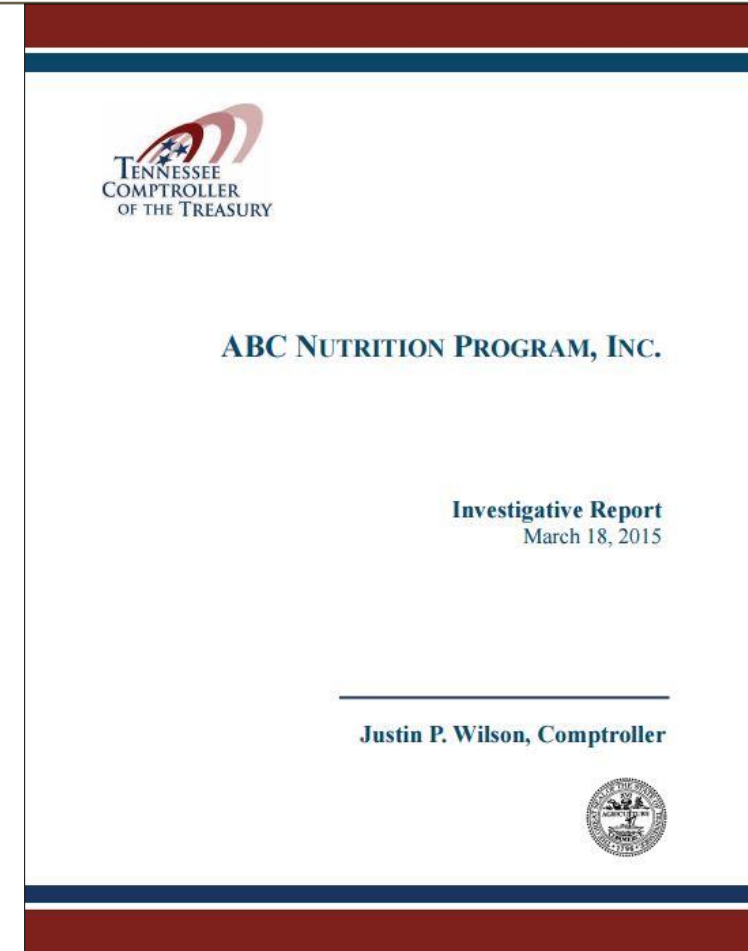
- ◆ Costs resulted from a violations or possible violations of federal requirements.
- ◆ Costs were not supported by adequate documentation.
- ◆ Costs were unreasonable.
- ◆ Improper payments
- ◆ Potential fraud with no paper trail
- ◆ Wasteful spending

ABC Nutrition Program, Inc.

- ◆ Non-profit sponsoring organization in Camden, TN. Offices located in the basement of CEO's home. Had approximately 10 full-time employees during the period examined.
- ◆ Administers federal grants received from TN DHS for the CACFP on behalf of 216 daycare homes and 120 daycare centers
- ◆ Receives a percentage of grant funds for admin
 - Sole source of revenue
- ◆ Funds required to be spent as part of an approved DHS budget

ABC Nutrition Program, Inc.

- ◆ Period Oct. 2008 – Sept. 2014
- ◆ Unauthorized Pay
 - \$419,269 as bonuses
 - \$170,776 in salaries
- ◆ \$27,185 for the CEO's home
- ◆ \$99,538 in other unauthorized expenses



ABC Nutrition Program, Inc.

2009 – 2014 by Federal Fiscal
Year

For **Bonuses** to Mother and two
Daughters:

Vivian Parker - \$142,248.77

Lisa Carter - \$138,510.26

Tracy Coady – 138,510.26

Other 10 Employees Combined -
\$15,933.22

More...Additional Salary...
Totaling \$170,776.18

Vivian Parker - \$25,674

Lisa Carter - \$101,647.30

Tracy Coady - \$43,454.88



ABC Nutrition Program, Inc.

◆ *...Additional Misspending...*

- Construction and Improvements to *Home*
- New deck attaching home to storage
- Driveway Expansion
- ✧ Totaling - \$27,185.56

◆ *...Additional Misspending...*

- Utility payments
- Equipment rental
- Technology services and equipment
- Insurance
- ✧ Totaling - \$99,538.66

ABC Nutrition Program, Inc.

Other Noteworthy misspending...

- ◆ Waste removal
- ◆ Internet Services
- ◆ Meals
- ◆ Late charges on credit card purchases
- ◆ Coffee, tea, hotel movies...

Should have been divided between business and personal

Results of Ineffective Monitoring

- ◆ Subrecipients may use money for their own personal gain. Fraud = Theft.
- ◆ Mistakes are made and not corrected.
- ◆ Children and adults may not be fed.

Erroneous Reimbursement Claims

The Department relies on subrecipients to submit accurate meal reimbursement claims. This is how most subrecipients receive their money.

- ◆ State Audit looked at a *sample* of 60 claims
 - 27 of the 60 were inaccurate
 - In other words, DHS reimbursed 45% of these claims based on inaccuracies.
- ◆ DHS had previously reviewed some of these claims but did not always find the errors.

DHS Paid Cash Advances that Were Not Requested

DHS allows Summer Program participants to request cash advances for their monthly costs.

- ◆ Our sample found two sponsors received cash advances even though they had not requested them.
 - Sponsor 1 received \$25,721 for July 2015
 - Sponsor 2 received \$43,580 for July 2015

Failed to Recover Excess Funds

DHS did not recover funds paid to Summer Program sponsors in 2014 that did not participate in the 2015 program.

- ◆ **Three sponsors decided not to participate in 2015**
 - DHS failed to recover \$206,165 that was overpaid to these sponsors
 - DHS did not have procedures to track excess funds.

ABC Nutrition Program, Inc.

So...How did this happen?

- ◆ Lack of Independent Board of Directors
- ◆ Lack of Independence and Separation of Duties

ABC Nutrition Program, Inc.

Where are they now?

- ◆ On February 19, 2015 - Benton County Grand Jury indicted Vivian Parker, Lisa Carter, and Tracy Coady on 1 count of theft over \$250,000, and 1 count of theft of property over \$60,000
- ◆ Hung jury initially on sentencing
- ◆ CEO in really bad health
- ◆ One of her daughters has cancer
- ◆ DA is relooking at establishing new sentencing date.

Latest NPR 2016 Elections Coverage

Tennessee Non-Profit CEO, Directors Indicted For Misusing More Than \$730K

By WHITNEY JONES • MAR 18, 2015

SHARE

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Updated 9:52 a.m.
3/19/15

A Camden, Tennessee, non-profit has allegedly misused more than \$730,000 in federal

M I D T O W N

M A R K E T

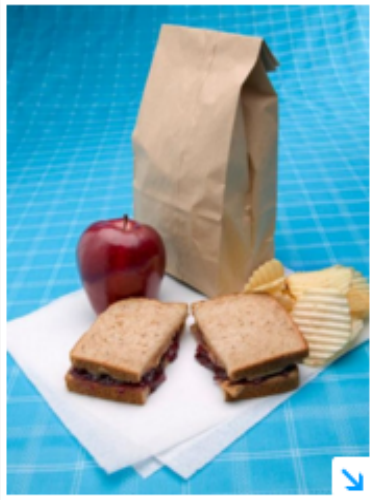
270.444.3996
3000 BROADWAY
PADUCAH, KY

Child food program failures cost taxpayers millions



Anita Wadhvani, awadhvani@tennessean.com

11:22 a.m. CDT July 12, 2015



(Photo: Getty Images)

STORY HIGHLIGHTS

- Department of Human Services-administered food programs are responsible for stewarding the expenditures of close to \$80 million to feed needy children and some adults.
- Last year, billing issues added up to \$1.8 million in questionable payments in just the small sample of

For five years, Vivian Parker and her two adult daughters raked in nearly half a million dollars in bonuses — taxpayer dollars, rubber-stamped by state officials — to operate a food program in rural west Tennessee intended to feed hungry children.

Parker's nonprofit agency, ABC Nutrition Services, headquartered in the basement of her home, billed the state to pay for salaries that are almost unheard of at small, anti-poverty organizations.

Parker's salary plus bonus topped \$100,000 last year. She was also reimbursed for the cost of remodeling her home office in Camden, adding a new deck and widening her driveway. Thousands more were spent on other perks: meals, hotel movies, late credit card fees and cable and internet services.

Year after year, state officials continued to approve payments to the three-person agency, which billed the state to give itself bonuses that, at times, topped \$110,000 annually.

Eventually, inspectors with the USDA in 2013

Auditor Speak For...THE GOAL

Making sure the money goes to feed the kids.



Every dollar that is paid out improperly means one more kid doesn't eat.

North Carolina Office of the State Controller

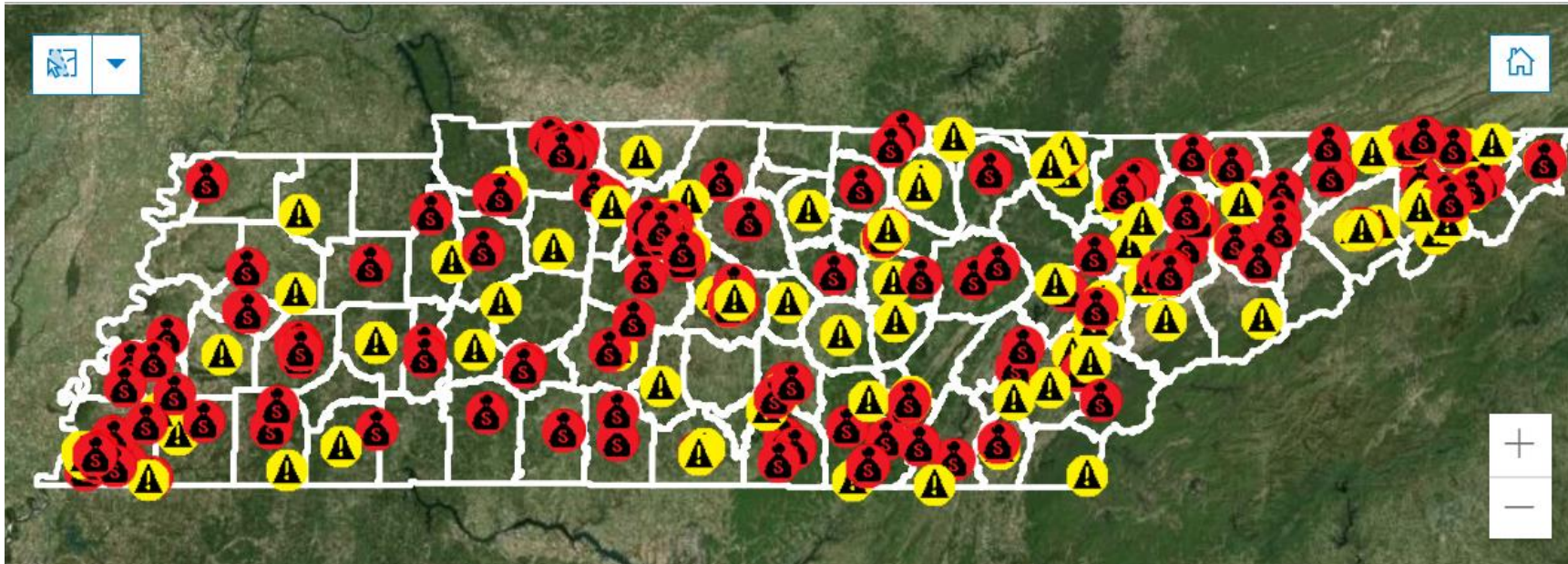
Fraud, Fraud, and More Fraud

May 19, 2022

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<https://tn->

[cot.maps.arcgis.com/apps/dashboards/f1ca6510f33c4aafb824ce4a85ad06da](https://tn-cot.maps.arcgis.com/apps/dashboards/f1ca6510f33c4aafb824ce4a85ad06da)



Division of Investigations -2021

City of Cookeville Police Department Canine Team	August 3, 2021
Peakland Baptist Church and Associated Exhibit	August 3, 2021
Claiborne County Clerk and Associated Exhibit	August 2, 2021
Scott County Emergency and Rescue Squad	July 30, 2021
Spring Hill School PTO and Associated Exhibit	July 27, 2021
Rossview High School Band and Associated Exhibit	July 26, 2021
West Greene High School and Associated Exhibit	July 21, 2021
Carter County Head Start and Associated Exhibit	July 19, 2021
Appalachian Regional Coalition on Homelessness and Associated Exhibit	July 16, 2021
Unicoi County Schools and Associated Exhibit	July 12, 2021
AZ Kelley PTA and Associated Exhibit	July 12, 2021
City of Decherd and Associated Exhibit	July 8, 2021
Knox County and Associated Exhibit	July 1, 2021
Textile Corporation of America and Associated Exhibit	June 29, 2021
Decatur County General Hospital and Associated Exhibit	June 25, 2021
City of Maynardville	June 25, 2021
Hickerson Station Volunteer Fire Department and Associated Exhibit	June 24, 2021
Fentress County Sheriff's Department and Associated Exhibit	June 10, 2021
Marion County UT Extension Office and Associated Exhibit	June 8, 2021
City of Bolivar Mayor's Office	June 4, 2021

Division of Investigations - 2021

Marion County UT Extension Office and Associated Exhibit	June 8, 2021
City of Bolivar Mayor's Office	June 4, 2021
Bartlett High School Choir and Associated Exhibit	June 4, 2021
Legacy Leadership Academy and Associated Exhibit	May 27, 2021
Greene County Sheriff's Department and Associated Exhibit	May 18, 2021
Madison Academic High School Mustang Rebounders Club and Associated Exhibit	May 17, 2021
Tellico Plains Elementary School PTO and Associated Exhibit	May 12, 2021
Cookeville Fire Department and Associated Exhibit	May 6, 2021
Highland Rim School and Associated Exhibit	April 22, 2021
Priority Senior Care, LLC and Associated Exhibit	April 16, 2021
Clinton High School Baseball Boosters	April 15, 2021
Bradley County Sheriff	April 12, 2021
Hawkins County Sheriff's Department	April 1, 2021
Knox County Sheriff's Office Inmate Industries	March 26, 2021
Columbia Central High School Cheer Program and Associated Exhibit	March 23, 2021
City of New Market Police Department	March 12, 2021
EastView Greeneville Schools in Action	March 11, 2021
MTSU - Somali Students Association and Muslim Students Association	March 10, 2021
City of Kingsport and Associated Exhibit	March 8, 2021
Hamblen County Morristown Solid Waste Disposal System and Associated Exhibit	March 5, 2021
City of LaFollette and Associated Exhibit	March 1, 2021
City of Kingston Parks and Recreation Department	February 10, 2021

Division of Investigations - 2021

Knox County General Sessions Court Clerk's Office and Associated Exhibit	February 4, 2021
City of Jackson	February 4, 2021
Sullivan County Emergency Communications District	January 29, 2021
Town of Bean Station Police Department and Associated Exhibit	January 25, 2021
Knoxville Utilities Board	January 22, 2021
Johnson County Safe Haven	January 14, 2021
A.C.T.I.O.N Coalition and Associated Exhibit	January 14, 2021
Cannon County Sheriff's Department	January 11, 2021
Greene County Highway Department	January 6, 2021

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- ◆ What do all these highlighted cases have in common?
 - They are nonprofit entities!
 - 16 out of 49 cases = 33%

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◆ Tennessee Law:

- Laws allow Investigators to investigate private sector entities at the request of the Local District Attorney.
- Laws also allow Investigators to investigate School Support Organizations. (PTA, Band Boosters, Athletic Boosters, Cheer-team Boosters, etc.)

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- ◆ Nonprofit organizations can operate as governments. Under that scenario, the nonprofit entities should use GASB rather than FASB accounting standards.
- ◆ Example, Charter Schools in Tennessee

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Phony Feeding

The Frauds

Additionally, auditors determined that [REDACTED] claimed reimbursement for days when children were not served. Auditors have questioned \$79,771 in reimbursements paid to Open Door in 2020.

Although the majority of the sites visited by auditors were not feeding children, auditors did observe a supper service on July 23, 2020 at [REDACTED] Giving Back feeding site. The meal contained a slice of bologna, one pineapple chunk, a package of crackers, ten cheeseballs, and approximately 2-3 ounces of punch and milk (see photo). The reimbursable rate for supper for the 2020 SFSP program was \$4.15 per supper.



[REDACTED] submitted meal reimbursement claims to DHS for June and July 2020. DHS initially reimbursed them \$49,325 for the June claim, but subsequently disallowed \$41,784 and requested repayment based on their independent desk review. DHS denied all of the July 2020 meal reimbursement claim, totaling \$141,403.

The Frauds

Furthermore, auditors noted that [REDACTED] personnel had connections to former SFSP sponsors that had previously been terminated from the SFSP program for serious deficiencies. Interestingly, auditors also documented connections between [REDACTED] and [REDACTED] including overlapping feeding sites in the same strip mall or apartment housing which is not allowed according to program guidance.

“Although these problems are concerning, we recognize that DHS has taken several steps to improve its administration, oversight, and monitoring of the Summer Food Service Program,” said Comptroller Jason Mumpower. “DHS is taking proactive steps to uncover and remove bad actors from these programs, which are fully supported by taxpayer dollars. I encourage department leaders to continue strengthening these efforts.”

“We appreciate the partnership with the Tennessee Comptroller’s Office to ensure this vital nutrition benefit gets to those eligible to receive it and the program is operated within the bounds of all applicable rules and regulations,” said DHS Commissioner Clarence H. Carter.

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An EPIC Fraud

The Frauds

Charter Schools: A World investigation

Andrea Eger Jul 11, 2021 Updated Jul 14, 2021  0

The Frauds

State auditor wins access to ██████████ spending records



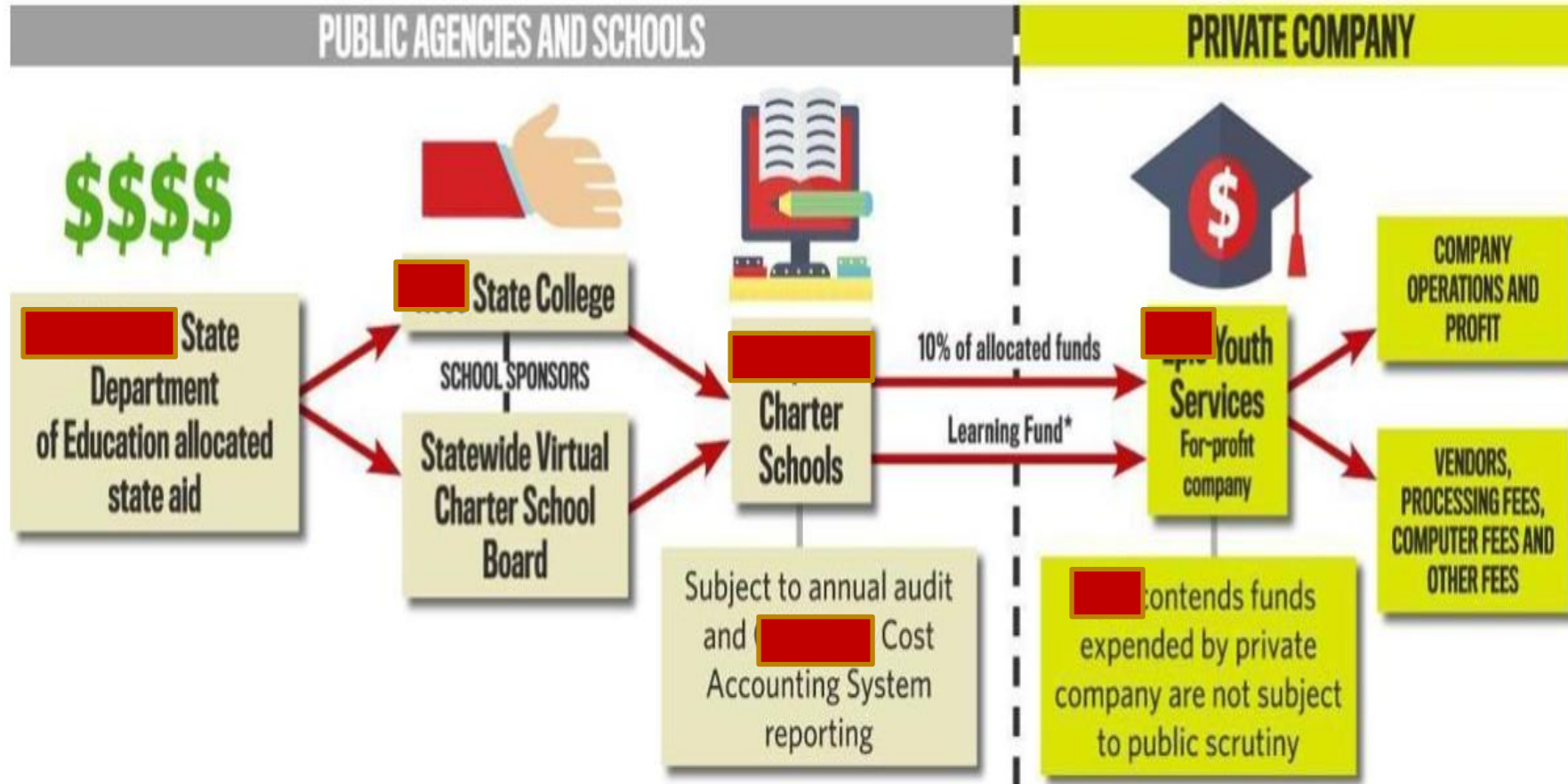
The Frauds

 Charter Schools slapped with new \$10.5 million penalty



The Frauds

HOW TAXPAYER DOLLARS FLOW TO A PRIVATE COMPANY FOR THE EPIC LEARNING FUND



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◆ Tennessee Law:

- Laws allow State Auditors to Audit Charter Management Organizations.

Questions

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