



## **ORENA HUMPHREYS PUBLIC LIBRARY**

### **Comptroller's Investigative Report** February 9, 2018

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**Justin P. Wilson, Comptroller**





JUSTIN P. WILSON  
*Comptroller*

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February 9, 2018

Marion County Library Board  
Orena Humphreys Public Library  
1130 North Main Street  
Whitwell, TN 37397

Ladies and Gentlemen:

The Office of the Comptroller of the Treasury conducted an investigation of selected records of the Orena Humphreys Public Library, and the results are presented herein. These findings and recommendations have been reviewed with management. Furthermore, the findings and recommendations have also been reviewed with the district attorney general for the Twelfth Judicial District of Tennessee.

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

## ORENA HUMPHREYS PUBLIC LIBRARY

### BACKGROUND



On April 27, 2017, the Office of the Comptroller of the Treasury received an allegation that cash was being mishandled at the Orena Humphreys Public Library. As a result, we performed an investigation of selected records for the period January 1, 2016, through June 30, 2017.

The Orena Humphreys Public Library (OHPL) is in Whitwell, Tennessee, and is one of three libraries in Marion County. The libraries are part of the Marion County Library Board (MCLB), a jointly governed organization, and the MCLB provides

oversight to the libraries. The MCLB has seven members who are recommended by the city mayors and the library directors plus an “at-large” member all of whom are approved by the Marion County Commission. Marion County provides the MCLB an annual contribution. During the period examined, Marion County appropriated \$150,524.29 to the MCLB for the fiscal year ended June 30, 2016, and \$151,139 for the fiscal year ended June 30, 2017. Most of these funds were used for salaries. The land and buildings that the libraries occupy are owned by the cities of Whitwell, Jasper, and South Pittsburg. The cities also pay for some library expenses including utilities and building maintenance.

Operations of each library are overseen by a library director appointed by the MCLB. Library expenses include books, technology, supplies, postage, etc. During the period examined, the director of the OHPL requested reimbursements for various operating expenses from both the MCLB and the City of Whitwell.

The findings and recommendations, as a result of our investigation, are presented below. These findings and recommendations have been reviewed with management to provide them an opportunity to respond. Furthermore, the findings and recommendations have been reviewed with the district attorney general for the Twelfth Judicial District of Tennessee.

## INVESTIGATIVE FINDINGS AND RECOMMENDATIONS

### **FINDING 1 A cash shortage of at least \$3,680.37 existed in the Orena Humphreys Public Library at June 30, 2017**

A cash shortage of at least \$3,680.37 existed in the Orena Humphreys Public Library at June 30, 2017. This amount could be greater due to a lack of complete and accurate accounting records for donations; therefore, investigators could not determine if the OHPL properly accounted for all funds donated by individuals or organizations.

The table below summarizes the components of the cash shortage:

City of Whitwell Reimbursement	\$1,115.00
Marion County Library Board Reimbursement	140.06
Donations	1,125.00
Food Purchases	1,406.68
Cigarette Purchases	<u>21.86</u>
<b>Subtotal</b>	<b>\$3,808.60</b>
LESS: Documentation to Support Cash Purchases	<u>(128.23)</u>
<b>Total</b>	<b><u>\$3,680.37</u></b>

During the period examined, the OHPL director sought reimbursement for various library expenditures from the City of Whitwell and the MCLB. Investigators noted that the director submitted seven requests for reimbursement to the City of Whitwell; however, six of the seven checks totaling \$1,115 were not deposited in the library checking accounts. The director also submitted four requests for reimbursement from the MCLB; however, one of the four checks totaling \$140.06 was not deposited in the library checking accounts. Included in the above-noted seven checks from the City of Whitwell and four checks from MCLB were two instances where the OHPL director submitted duplicate invoices for reimbursements to the City of Whitwell and to the MCLB. Both the City of Whitwell and the MCLB issued checks to the OHPL as requested. Two reimbursement checks issued by the City of Whitwell for \$200 and \$300 were not deposited and were therefore included in the \$1,115 cash shortage presented above. The reimbursement check issued by the MCLB for the same requests were properly deposited.

We noted at least five donations were made to the library; however, at least three of the donations totaling \$1,125 were not deposited in the library checking accounts.

The OHPL director advised that she cashed the undeposited checks and placed the cash in the library's petty cash fund. The director stated, "I know this was wrong, and I shouldn't have done that." The director provided various questionable receipts as documentation of items purchased for the library with cash. Of these receipts, only three receipts totaling \$128.23 appear to support cash purchases benefiting the OHPL. Many receipts were outside of our investigative scope and/or were card transactions made with a card not associated with the library. Several receipts also had no documented purpose; therefore, we could not determine the propriety of these receipts and question their validity.

The investigation also revealed numerous unallowable purchases of food (\$1,406.68) from local vendors as well as cigarettes (\$21.86) from grocery stores. Investigators were advised by the director that food is sometimes provided for inmate labor, library staff, and board members when the board meetings are held at the OHPL. We reviewed the food purchases with the board chairman who advised us the large amounts of food purchased could not be reasonably explained. In addition, the board chairman advised that food for inmate labor was not an allowable use of library funds. The library does not have a written policy related to food purchases for board meetings and/or staff. Furthermore, investigators were advised that inmate laborers should be provided with meals from the sheriff's department while part of a work program. Finally, cigarettes are not an allowable use of library funds. The table below details the unallowable food purchases.

<b>Date Posted</b>	<b>Vendor</b>	<b>Amount</b>
01/04/2016	Chef	\$ 63.89
01/05/2016	Chef	53.83
01/28/2016	Harvest Grocery	51.89
03/07/2016	Whitwell Dairy Bar	38.63
03/28/2016	Sonic Drive In	24.53
05/11/2016	Walmart	96.34
05/12/2016	Subway 00398	76.82
06/22/2016	Walmart Supercenter	28.53
07/20/2016	Dollar General	39.27
08/17/2016	Scottie's Whitwell Pizza	56.14
10/13/2016	Walmart	212.64
10/18/2016	Walmart Supercenter	18.37
11/01/2016	Walmart	11.16
11/07/2016	Johnny's Hook N Grill	28.00
11/09/2016	Dairy Queen	17.54
11/09/2016	Walmart Supercenter	102.19
11/15/2016	Zaxbys	16.03
12/07/2016	Whitwell Pizza Company	47.34
12/12/2016	Whitwell Pizza Company	44.70
12/16/2016	Walmart Supercenter	103.90
01/05/2017	Whitwell Pizza	43.46
01/18/2017	Dollar General	14.72
01/20/2017	Dollar General	12.92
01/20/2017	Whitwell Pizza	56.88
02/27/2017	Whitwell Pizza	48.15
03/02/2017	Hardees	23.27
03/06/2017	Whitwell Pizza Company	18.16
03/08/2017	Whitwell Pizza Company	31.60
03/27/2017	McDonalds	6.57
06/12/2017	Dairy Bar	19.21
	<b>TOTAL</b>	<b><u>\$1,406.68</u></b>

On February 5, 2018, the Marion County Grand Jury indicted Marilyn Frazier, the Orena Humphreys Library Director, on theft charges of amounts between \$2,500 and \$10,000.

**RECOMMENDATION**

Management should take immediate steps to collect the cash shortage of at least \$3,680.37. Management should work with city officials to ensure written policies and procedures are in place for procurement and reimbursement.

**FINDING 2 Questionable disbursements totaling \$2,166.54 were noted**

Based on our examination of accounting records, bank statements, various policies and procedures, and interviews; investigators noted questionable disbursements totaling \$2,166.54 during the period examined. Disbursements included cash withdrawals, donations, employee reimbursement, charges for gas, and purchases without adequate supporting documentation. Investigators question whether many of these disbursements were for a business-related purpose.

The questioned disbursements are summarized in the table below:

A. Questionable – Cash	\$ 243.00
B. Questionable – Donation	150.00
C. Questionable – Employee	66.00
D. Questionable – Gas	122.98
E. Questionable – Miscellaneous	330.07
F. Questionable – Unsupported	<u>1,254.49</u>
<b>Total</b>	<b><u>\$2,166.54</u></b>

- A. The director made one ATM withdrawal of cash and wrote two checks payable to “cash” totaling \$243. Investigators noted that one of the checks had a notation “winners of reading contest.” Insufficient documentation was provided to support the use of the cash. All disbursements should be made with official prenumbered checks and be adequately documented.
- B. The director used library funds to make donations totaling \$150. The investigation revealed at least one instance where library funds were given to a school fundraiser as a donation. Additionally, library funds were used to purchase memorial flowers from a local flower shop, and library funds were given to an individual “for charity of your choice” as noted on the check. According to the board chairman, library funds should not be used for donations to other entities or individuals.
- C. The director wrote a \$66 check to a library employee as reimbursement of expenses. Investigators were provided with multiple receipts for both cash and card transactions as supporting documentation for the employee’s expenditure on behalf of the library;

however, investigators were unable to determine if the reimbursement was appropriate and accurate.

- D. The director used library funds for the purchase of fuel totaling \$122.98. The director stated that the fuel purchases were for business-related travel, but the director did not provide specific supporting documentation that would allow investigators to determine if the fuel was for a business-related purpose or personal in nature. Additionally, the library does not have a written policy governing employee travel.
- E. The investigation noted questionable miscellaneous purchases totaling \$330.07. These purchases included a Swiffer pet, can opener, and Halloween costumes. Investigators could not determine if the purchases were business-related or personal in nature.
- F. The director made purchases totaling \$1,254.49 without adequate supporting documentation. In most instances, no documentation was provided other than the monthly bank or credit card statements.

Numerous disbursements were made without a clear purpose as related to library operations and programs. Expenditures considered part of “normal business operations” such as the annual Summer Reading Program, did not require MCLB approval. The characterization of “normal business operations” for the library varied significantly among members of the MCLB and the directors of the libraries. Moreover, no one was able to provide a dollar threshold for expenditures in which board approval was required.

### **RECOMMENDATION**

Management should take immediate steps to determine if the above-noted disbursements were for the benefit of the library. Adequate documentation should be on file to support all disbursements.

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### **FINDING 3 The director created at least eight invoices in the names of other entities to support library expenditures totaling \$938**

The director created at least eight invoices in the names of other entities to support library expenditures totaling \$938. The director used these invoices to seek reimbursements from the City of Whitwell and the MCLB. The director advised that the invoices were created with permission from the individuals or businesses who rendered a legitimate service or provided a legitimate product to the library. We did determine that these vendors provided services and were paid with library funds. However, the practice of creating invoices on behalf of other entities or individuals could result in the library paying for or submitting requests for reimbursements for expenses not incurred.

The pictures below provide an example of an invoice created by the OHPL director to support an expenditure as well as seek reimbursement from the City of Whitwell and the MCLB as compared to a sample invoice received directly from the business.

Super Science TN

**INVOICE**

INVOICE # 234845  
DATE October 29, 2016

www.supersciencetn.com |  
@supersciencetn.com

TO  
Orena Humphreys Public Library  
1130 N. Main Street  
Whitwell, TN 37397  
Phone 423-658-6134

FOR Halloween Bash

Description	Amount
Payable to: [redacted] or Super Science TN	\$200.00
<b>Total</b>	\$200.00

Make all checks payable to Super Science TN

THANK YOU FOR YOUR BUSINESS!

*Created Invoice Obtained from OHPL*

SUPER SCIENCE TN

**INVOICE**

DATE 07/12/2017  
INVOICE NUMBER 1250  
TAX ID. 26-3102409  
PO Number

BILL TO  
Whitwell Library,  
Whitwell, TN

DESCRIPTION	AMOUNT
SUMMER READING PROGRAM	\$225
<b>TOTAL</b>	\$225

Thank you for choosing SUPER SCIENCE TN  
SUPER SCIENCE TN

www.supersciencetn.com  
@supersciencetn.com

*Sample Invoice Obtained from Vendor*

**RECOMMENDATION**

The library director should never create an invoice for a vendor. The library should request vendors to provide original invoices for all goods or services.

**FINDING 4 Personal checks and an “IOU” totaling \$85 were exchanged for cash from the petty cash fund**

A former library employee was allowed to exchange personal checks and an “IOU” totaling \$85 for cash from the petty cash fund. Investigators could not determine the total amount of personal checks placed in the library’s petty cash as compared with the amount of cash taken out because of the accessibility of the petty cash fund to all library employees and, in some cases, library employees’ family members. As a result, the amount of petty cash taken out in exchange for personal checks and IOUs could be greater. Investigators did note several personal checks from the same former library employee were deposited into the library’s checking account.

**RECOMMENDATION**

Only official transactions of the office should flow through the petty cash fund. The petty cash fund should be secured, and only designated employees should have access to the fund.



## **INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES**

### **FINDING 5 The library had accounting and internal control deficiencies**

Our investigation revealed the following accounting and internal control deficiencies in the Orena Humphreys Public Library (OHPL), which can be attributed to a lack of management oversight and an inadequate maintenance of accounting records.

- A. The library operated with little management oversight, and the library had no written policies and procedures governing the collection and disbursement of funds. As previously noted above, numerous checks were issued without adequate supporting documentation. The lack of management oversight by the MCLB and board representatives responsible for OHPL accountability contributed to the failure to properly account for library funds.
- B. Duties related to the library were not segregated adequately. The director was responsible for maintaining records, preparing deposits, and disbursing funds. Allowing one person complete control over a financial transaction increases the risk of fraud.
- C. Some checks were signed in advance. Internal controls should be in place to ensure disbursements have management approval prior to the preparation and issuance of checks.
- D. Investigators noted some checks were written out of numerical sequence. Allowing checks to be written out of sequence reduces appropriate management oversight and increases the risk of fraud.
- E. Although a MCLB representative was required to view and initial monthly bank statements, investigators noted several bank statements that were not initialed by the board representative. Furthermore, investigators were advised that when the bank statements were reviewed, the board representative did not always request to see supporting documentation.
- F. The library incurred finance charges and late fees totaling \$285.20 on a library credit card. The library's checking account had sufficient funds to pay the credit card bills each month; therefore, there was no reason to incur finance charges or late payment fees.
- G. Collections were not adequately secured until deposited. As shown in the pictures below, the cash drawer was not locked and contained various items in the drawer with the cash; loose bills were also found lying in the drawer. Likewise, the petty cash fund was maintained in an unlocked filing cabinet drawer behind the director's desk.



- H. Collections were not deposited in a timely manner. A review of bank statements noted that in one instance, the library made no deposits of collections for at least three consecutive months.
- I. Prenumbered receipts were not issued for all collections. Collection receipts were automated and not prenumbered; therefore, we could not determine if all funds were properly deposited to the OHPL.
- J. Collection logs were not properly maintained nor reconciled with cash on hand and bank deposits.
- K. The library's debit and credit cards were not secured. Unsecured procurement cards can lead to unauthorized access and improper use of library funds.
- L. Investigators noted disbursements totaling \$278.88 that appeared as reasonable and normal expenditures for the library but did not have adequate supporting documentation such as a receipt or invoice.

### **RECOMMENDATION**

- A. Management should exercise appropriate oversight over internal controls and all financial transactions. The OHPL should adopt written policies and procedures governing the collection and disbursement of library funds.
- B. Duties should be segregated to the extent possible using available resources.
- C. Checks should not be signed in advance.
- D. Checks should be issued in numerical sequence.
- E. The MCLB representative who reviews monthly bank statements should also review the supporting documentation and initial the bank statement as evidence the review was performed.
- F. The library should pay invoices currently to avoid finance charges and late fees.

- G. Cash and checks should be secured with access limited to authorized users.
- H. Collections should be deposited in the bank on a current basis.
- I. Prenumbered receipts should be issued for all collections.
- J. Collection logs should be properly maintained and reconciled with cash on hand and bank deposits.
- K. The library's debit and credit cards should be adequately secured and available only to authorized users.
- L. All expenditures should be supported with adequate documentation.

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**Management's Response – Whitwell Mayor Linda Hooper and City Manager Todd Mistrot**

We have dealt with this issue. We will not issue checks to the library. We will only issue checks directly to the vendor once we have an invoice directly from the vendor.

**Management's Response – Marion County Library Board Chairman Jerry Don Moss**

We have created a new internal controls manual, a new policy manual, and a new personnel manual. We will incorporate the recommendations the Comptroller's Office has made.