STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF COUNTY AUDIT
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July 12, 2006

Morgan County Executive, County Clerk, and
Board of County Commissioners
Morgan County, Tennessee

To the County Executive, County Clerk, and County Commissioners:

The annual financial report of Morgan County for the year ended June 30, 2005, revealed a cash shortage of $6,103.19 in the Office of County Clerk. We also reported that our examination was ongoing, and if any additional shortage was determined, we would communicate those results in a future report. As a result of our examination, an additional $8,652.74 cash shortage has been identified, bringing the total cash shortage to $14,755.93. The finding, recommendation, and management's response, as a result of our examination, are presented below:

FINDING 06.01 AUDIT PROCEDURES HAVE IDENTIFIED AN ADDITIONAL CASH SHORTAGE OF $8,652.74, BRINGING THE TOTAL CASH SHORTAGE TO $14,755.93

The $6,103.19 cash shortage previously reported resulted from the failure of the clerk to account for three wholesale beer tax checks paid by a Cookeville beer distributor. These three checks had not been receipted by the County Clerk's Office but had been deposited to the clerk's official bank account. Therefore, these checks had been substituted for cash that had been receipted by the clerk's office. Duplicate copies of deposit slips on file in the clerk's office for the days that these beer tax checks were deposited did not agree with deposit slips returned with bank statements for those days. Although the total amount of each deposit agreed between the two documents, the allocation between cash and checks did not agree. The deposit slips returned with the bank statements reflected more checks and less cash being deposited on those days, indicating that the wholesale beer checks had been substituted for other cash collections of the clerk's office.

Our report also identified other instances where deposit slips on file in the clerk's office did not agree with deposit slips returned by the bank. During our extended audit procedures, we examined those deposits for the period July 1, 2004, through February 28, 2006, and found other checks deposited to the bank that did not agree with receipts issued by the clerk's office.

We requested assistance from the Tennessee Bureau of Investigation (TBI) to obtain copies of original documents from certain customers. The TBI obtained documentation from customers of the clerk's office which confirmed the purpose of these customers' checks. Many instances were found where the customers' documentation agreed with the amount of the checks deposited by the clerk's office, while corresponding records in the clerk's office did not reflect the customers' payments, or reflected their payments at altered (lower) amounts. These transactions involved: (1) title applications that were recorded with altered (lower) amounts of sales taxes and clerk fees; and (2) registration renewals where funds were collected but not recorded at all.

The following table lists the collections which were unaccounted for and resulted in the additional cash shortage of $8,652.74.

Transaction Type	Check Date	Amount of Check Received	Amount Recorded by Clerk		Unaccounted For
Title Applications Recorded with Altered Sales Tax and Clerk Fees:					
	11-17-04	$ 453.00	$ 15.00		$ 438.00
	12-11-04	429.50	35.50		394.00
	3-12-05	494.50	35.50		459.00
	3-12-05	258.75	15.00		243.75
	4-9-05	189.50	10.50		179.00
	9-24-05	453.00	112.50		340.50
	10-8-05	279.25	37.94		241.31
	10-14-05	157.38	35.50		121.88
	10-21-05	555.50	35.50		520.00
	12-12-05	348.00	15.00		333.00
	12-9-05	649.00	-	(1)	649.00
	1-14-06	69.50	35.50	(1)	34.00

(1) Two checks were received for one transaction totaling $718.50.

Morgan County, Tennessee
Office of County Clerk

Transaction Type (Cont.)	Check Date	Amount of Check Received	Amount Recorded by Clerk	Unaccounted For
Registration Renewal Transactions not Recorded by Clerk:				
	10-21-04	$ 714.25	$ -	$ 714.25
	1-6-05	111.50	-	111.50
	1-27-05	1,651.00	-	1,651.00
	4-4-05	138.15	24.00 (2)	114.15
	8-29-05	546.45	-	546.45
	9-27-05	546.45		546.45
	10-22-05	302.25	-	302.25
	11-3-05	713.25	-	713.25
Total		$ 9,060.18	$ 407.44	$ 8,652.74

(2) This transaction was for two renewals; one was reported and one was not reported.

In addition to the checks listed in the table, we discovered other checks deposited to the clerk's office bank account that we could not trace to receipts in the clerk's office. However, we have not included these transactions in the cash shortage since we have been unable to document that these funds were not accounted for.

This finding has been reviewed with the district attorney general and the county executive.

RECOMMENDATION

The county clerk should immediately liquidate the cash shortage of $14,755.93 from personal funds and make appropriate reports and remittances for the registrations, taxes, and fees that have been diverted from the office.

MANAGEMENT'S RESPONSE – COUNTY CLERK (DIRECT QUOTE)

After a decade of perfect audits with the State of Tennessee, it was much to my surprise that a shortage was noted of approximately $14,000 for your audit of 2005. I am conducting my own internal investigation as to the negligent cause of these inaccuracies. Upon the advice of counsel, due to employee privacy concerns, I will not comment further upon the current manner and status of my independent investigation. Once this investigation has been concluded, there may be a supplemental response forthcoming.

However, though I currently do not know the exact cause for any negligent discrepancies, it is my fullest intent to discover what occurred. Even though I do not think I am directly responsible for the negligent discrepancies, if the exact cause cannot be determined by my own investigation, it is my full intent, as the captain of the ship for the County Clerk's Office for Morgan County, Tennessee, to ensure that the monies are repaid.

AUDITOR'S REBUTTAL

It should be noted that audit reports for previous years have included an internal control finding each year regarding the lack of segregation of duties among the official and employees of the County Clerk's Office.

Sincerely,

Arthur L. Alexander
Director

cc: Mr. James Scott McCluen, District Attorney General
Ms. Loren L. Chumley, Commissioner of Revenue
Mr. Paul G. Summers, State Attorney General