
STATE OF TENNESSEE

**SPECIAL REPORT ON THE
LAKE COUNTY MAYOR'S OFFICE**

**FOR THE PERIOD OCTOBER 18, 2005
THROUGH JULY 26, 2010**



Division of County Audit



**SPECIAL REPORT ON THE
LAKE COUNTY MAYOR'S OFFICE
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**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF COUNTY AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7841**

September 9, 2010

To the Lake County Mayor
and Board of County Commissioners
Lake County, Tennessee

On July 27, 2010, we were notified of possible irregularities in the Lake County Mayor's Office involving checks issued to a payee named Purchase Power. Purchase Power is a payment mechanism provided by Pitney Bowes enabling its customers to pay for postage and other office related expenses. Our investigation revealed that from October 18, 2005 through July 26, 2010, the county mayor's bookkeeper, Kim Keeling, issued 191 vendor checks totaling \$202,344.63 from the county's General Fund for personal use.

We reviewed the finding resulting from this special investigation with the county mayor, the former bookkeeper, and the district attorney general. This finding, together with our recommendation and management's response, is presented in this report.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Arnette".

Jim Arnette, Director
Division of County Audit

cc: Honorable Phillip Bivens, District Attorney General
Norm Norment, West Tennessee Audit Manager

SPECIAL REPORT ON THE LAKE COUNTY MAYOR'S OFFICE

For the Period October 18, 2005 through July 26, 2010

A finding and recommendation, as a result of our special investigation, are presented below. We reviewed this finding and recommendation with the county mayor and the former bookkeeper to provide an opportunity for their response. The written response of the county mayor is paraphrased in this report. We have also reviewed this finding and recommendation with the district attorney general.

BACKGROUND

Purchasing procedures for the Lake County general government require requisitions and purchase orders approved by either the bookkeeper or the county mayor. The bookkeeper subsequently receives invoices from the vendors, matches the invoices with the requisitions/purchase orders, and generates the checks for authorizing signatures. The checks are then presented to the county mayor and the county clerk for their signatures; however, in the absence of the county clerk, the county clerk's deputy signs the checks. No supporting documentation is provided to the county mayor or county clerk/deputy for their examination at the time the checks are presented to them for their signatures. The bookkeeper files all of the supporting documentation by account number.

**FINDING 10.01 A CASH SHORTAGE TOTALING \$202,344.63 EXISTED ON
JULY 26, 2010, RESULTING FROM THE BOOKKEEPER
ISSUING COUNTY CHECKS FOR PERSONAL USE
(Material Noncompliance Under Government Auditing Standards)**

On July 27, 2010, we were notified of possible irregularities in the Lake County Mayor's Office involving checks issued to a payee named Purchase Power. Purchase Power is a payment mechanism provided by the Pitney Bowes Company enabling its customers to pay for postage and other office related expenses. Our investigation revealed that from October 18, 2005 through July 26, 2010, the county mayor's bookkeeper, Kim Keeling, issued 191 vendor checks totaling \$202,344.63 (see Exhibit A) from the county's General Fund for personal use. These checks were issued to Purchase Power, purportedly to pay for postage obtained through Pitney Bowes. However, none of these checks were for amounts owed to Pitney Bowes. Ms. Keeling included her name on the face of the check in the payee section on 189 of the 191 checks and coded all of these checks to various budgetary accounts within the fund accounting records. During an interview, Ms. Keeling admitted to us that she had generated the checks and deposited them into her personal bank account for her personal use. Ms. Keeling also voluntarily provided us copies of her personal bank statements, and we traced many of the Purchase Power checks into her personal account.

The absence of adequate internal control procedures provided the opportunity for this cash shortage to occur. As noted in prior audit reports, the bookkeeper was responsible for maintaining the accounting records and was also involved in receiving, depositing, posting, and disbursing funds. Accounting standards provide that internal controls be designed to give reasonable assurance of the reliability of financial reporting and of the effectiveness

and efficiency of operations. This lack of segregation of duties is the result of management's decisions based on the availability of financial resources and is a significant deficiency in internal controls that increases the risk of unauthorized transactions.

As noted in the Background section, all checks issued from the Office of County Mayor were prepared by the bookkeeper and manually signed by the county mayor and county clerk/deputy. Therefore, while manually signing each check, the check signer should have physically examined the front of each check paying close attention to the payee section. The payee section typically contains three lines: the vendor name, the street address, and the city/state. Bookkeeper Kim Keeling's name created a fourth line in the payee section on the face of 189 of the 191 checks in question. A county employee's name appearing on the face of a vendor check is highly irregular. The county mayor advised he was not aware Kim Keeling's name was listed in the payee section on the checks. Ms. Keeling's name appeared on the second line of the payee section on 188 checks and on the top line of one check. The county mayor indicated to us that he was not looking at the entire payee section on the checks or any supporting documentation, but was only looking at the first line of the payee section, the amount, and signing the bottom corner of all checks presented to him by the bookkeeper. The county clerk advised she had noticed Ms. Keeling's name on the checks but was told by Ms. Keeling this was necessary to set up the payment account for Purchase Power. The county clerk accepted this explanation and did not examine any supporting documentation. There was no internal control procedure for reviewing supporting documentation and vendor names as part of the check signing process. None of the 191 checks had any supporting documentation on file.

We have included Exhibits A through H in this report to document the checks issued by Ms. Keeling for her personal use. These Exhibits represent the following:

- Exhibit A: listing by fiscal year of the 191 checks comprising the cash shortage
- Exhibit B: one check representative of 185 of the 191 checks issued with Ms. Keeling's name on the second line of the payee section
- Exhibits C, D: two checks without Ms. Keeling's name in the payee section, but endorsed by Ms. Keeling
- Exhibits E, F, G: three other versions of the payee section reflecting Ms. Keeling's name
- Exhibit H: one check with Ms. Keeling's name handwritten on the first line

The county mayor terminated Ms. Keeling's employment with Lake County on July 29, 2010.

RECOMMENDATION

Officials should seek restitution for the \$202,344.63 cash shortage. The county mayor and county clerk should take immediate steps to develop improved internal control procedures over the segregation of duties and the issuance of checks to vendors.

MANAGEMENT'S RESPONSE – COUNTY MAYOR

I regretfully concur with the finding. We are working to put in place the following corrective measures:

1. We will be offering our employees direct deposit for their checks. The bank in return for no additional charge will give us a copy of the front and back of all checks. All checks will be reconciled in the County Mayor's Office.
2. Invoices will accompany all checks when presented to the county mayor and county clerk for signature.
3. We are considering filing our documentation by vendor instead of by account number.
4. I have already put our insurance carrier on notice and will try to recover funds from Ms. Keeling.

	Check Number	Check Date	Payee	Amount	
1	20814	10-18-05	Purchase Power	\$ 607.46	
2	20970	11-10-05	Purchase Power	920.00	
3	21026	11-18-05	Purchase Power	400.00	
4	21093	12-2-05	Purchase Power	550.00	
5	21161	12-15-05	Purchase Power	1,435.65	
6	21277	1-6-06	Purchase Power	750.00	
7	21386	1-27-06	Purchase Power	700.00	
8	21464	2-13-06	Purchase Power	600.00	
9	21552	2-28-06	Purchase Power	600.00	
10	21670	3-10-06	Purchase Power	600.00	
11	21725	3-17-06	Purchase Power	500.00	
12	21807	3-24-06	Purchase Power	1,060.00	
13	21896	4-7-06	Purchase Power	400.00	
14	21967	4-18-06	Purchase Power	400.00	
15	22008	4-28-06	Purchase Power	1,300.00	
16	22049	5-5-06	Purchase Power	500.00	
17	22074	5-10-06	Purchase Power	400.00	
18	22125	5-19-06	Purchase Power	600.00	
19	22195	6-2-06	Purchase Power	1,000.00	
	Total 2005-06			<u>\$ 13,323.11</u>	
20	22413	7-7-06	Purchase Power	\$ 400.00	
21	22460	7-14-06	Purchase Power	925.17	
22	22559	7-21-06	Purchase Power	1,050.00	
23	22667	8-9-06	Purchase Power	500.00	
24	22787	8-25-06	Purchase Power	800.00	
25	22828	9-1-06	Purchase Power	1,400.00	
26	22869	9-8-06	Purchase Power	645.50	
27	23014	10-2-06	Purchase Power	1,000.00	
28	23047	10-6-06	Purchase Power	500.00	
29	23185	10-30-06	Purchase Power	1,500.00	
30	23267	11-9-06	Purchase Power	800.00	
31	23363	11-27-06	Purchase Power	700.00	
32	23385	12-1-06	Purchase Power	1,050.00	
33	23458	12-11-06	Purchase Power	500.00	
34	23564	12-29-06	Purchase Power	1,000.00	
35	23835	2-9-07	Purchase Power	1,200.00	
36	23953	2-28-07	Purchase Power	1,500.00	
37	23994	3-9-07	Purchase Power	700.00	
38	24094	3-26-07	Purchase Power	400.00	
39	24126	4-2-07	Purchase Power	800.00	
40	24203	4-13-07	Purchase Power	500.00	
41	24252	4-20-07	Purchase Power	1,000.00	
42	24276	4-24-07	Purchase Power	350.00	
43	24313	5-4-07	Purchase Power	1,250.00	
44	24366	5-11-07	Purchase Power	700.00	See Exhibit B
45	24418	5-18-07	Purchase Power	972.27	See Exhibit C
46	24452	5-30-07	Purchase Power	1,370.30	See Exhibit H
47	24731	6-26-07	Purchase Power	723.00	See Exhibit E
48	24746	6-29-07	Purchase Power	1,008.66	See Exhibit F
	Total 2006-07			<u>\$ 25,244.90</u>	

	Check Number	Check Date	Payee	Amount	
49	24783	7-9-07	Purchase Power	\$ 1,666.07	See Exhibit G
50	24861	7-20-07	Purchase Power	1,700.00	
51	24895	7-31-07	Purchase Power	550.00	
52	24918	8-3-07	Purchase Power	600.00	
53	24952	8-10-07	Purchase Power	1,050.00	
54	25029	8-23-07	Purchase Power	1,000.00	
55	25127	9-5-07	Purchase Power	1,000.00	
56	25172	9-7-07	Purchase Power	950.00	
57	25262	9-21-07	Purchase Power	800.00	
58	25318	10-2-07	Purchase Power	1,050.00	
59	25339	10-4-07	Purchase Power	500.00	
60	25417	10-15-07	Purchase Power	1,600.00	
61	25481	11-2-07	Purchase Power	1,000.00	
62	25515	11-9-07	Purchase Power	800.00	
63	25567	11-16-07	Purchase Power	1,500.00	
64	25600	11-21-07	Purchase Power	800.00	
65	25706	11-30-07	Purchase Power	1,500.00	
66	25744	12-7-07	Purchase Power	800.00	
67	25810	12-14-07	Purchase Power	1,500.00	
68	25848	12-19-07	Purchase Power	500.00	
69	25874	12-28-07	Purchase Power	1,511.00	
70	25902	1-2-08	Purchase Power	500.00	
71	25955	1-11-08	Purchase Power	500.00	
72	26013	1-18-08	Purchase Power	600.00	
73	26058	1-31-08	Purchase Power	1,500.00	
74	26130	2-8-08	Purchase Power	1,700.00	
75	26238	2-21-08	Purchase Power	1,000.00	
76	26304	3-4-08	Purchase Power	1,200.00	
77	26339	3-6-08	Purchase Power	500.00	
78	26420	3-20-08	Purchase Power	1,500.00	
79	26454	3-28-08	Purchase Power	800.00	
80	26551	4-4-08	Purchase Power	1,200.00	
81	26667	4-11-08	Purchase Power	600.00	
82	26719	4-18-08	Purchase Power	1,400.00	
83	27412	5-2-08	Purchase Power	1,150.00	
84	27429	5-6-08	Purchase Power	2,413.68	
85	27513	5-15-08	Purchase Power	1,400.00	
86	27568	5-30-08	Purchase Power	2,837.08	
87	27707	6-13-08	Purchase Power	1,500.00	
88	27754	6-18-08	Purchase Power	800.00	
89	27802	6-25-08	Purchase Power	800.00	
90	27824	6-27-08	Purchase Power	1,041.00	
Total 2007-08				<u>\$ 47,318.83</u>	

	Check Number	Check Date	Payee	Amount	
91	27890	7-11-08	Purchase Power	\$	1,513.00
92	27953	7-24-08	Purchase Power		1,000.00
93	27971	7-30-08	Purchase Power		1,500.00
94	28116	8-8-08	Purchase Power		896.00
95	28208	8-20-08	Purchase Power		896.00
96	28225	8-22-08	Purchase Power		1,807.66
97	28233	8-26-08	Purchase Power		800.00
98	28267	9-2-08	Purchase Power		600.00
99	28291	9-5-08	Purchase Power		800.00
100	28420	9-19-08	Purchase Power		1,756.66
101	28438	9-23-08	Purchase Power		896.00
102	28465	9-30-08	Purchase Power		600.00
103	28486	10-2-08	Purchase Power		1,542.61
104	28573	10-15-08	Purchase Power		978.50
105	28615	10-17-08	Purchase Power		500.00
106	28636	10-24-08	Purchase Power		978.00
107	28661	10-28-08	Purchase Power		400.00
108	28681	10-31-08	Purchase Power		1,350.00
109	28713	11-3-08	Purchase Power		600.00
110	28780	11-14-08	Purchase Power		1,200.00
111	28819	11-19-08	Purchase Power		896.00
112	28853	11-26-08	Purchase Power		2,129.61
113	28900	12-1-08	Purchase Power		1,696.00
114	28986	12-7-08	Purchase Power		896.00
115	29005	12-12-08	Purchase Power		700.00
116	29024	12-15-08	Purchase Power		800.00
117	29039	12-19-08	Purchase Power		800.00
118	29050	12-23-08	Purchase Power		1,200.00
119	29068	12-30-08	Purchase Power		1,200.00
120	29086	1-6-09	Purchase Power		1,296.00
121	29126	1-9-09	Purchase Power		1,000.00
122	29168	1-14-09	Purchase Power		896.00
123	29207	1-21-09	Purchase Power		800.00
124	29252	1-23-09	Purchase Power		1,540.00
125	29292	2-3-09	Purchase Power		500.00
126	29453	3-4-09	Purchase Power		876.00
127	29476	3-6-09	Purchase Power		964.00
128	29559	3-20-09	Purchase Power		1,460.00
129	29682	4-2-09	Purchase Power		896.00
130	29701	4-3-09	Purchase Power		876.00
131	29726	4-9-09	Purchase Power		600.00
132	29756	4-15-09	Purchase Power		800.00
133	29784	4-20-09	Purchase Power		500.00
134	29815	4-28-09	Purchase Power		750.00
135	29845	5-1-09	Purchase Power		896.00
136	29874	5-8-09	Purchase Power		879.00
137	29941	5-14-09	Purchase Power		879.00
138	29964	5-22-09	Purchase Power		579.00
139	29981	5-26-09	Purchase Power		879.00
140	29997	5-29-09	Purchase Power		1,789.00
141	30012	6-1-09	Purchase Power		2,079.00
142	30254	6-17-09	Purchase Power		879.00
143	30303	6-23-09	Purchase Power		290.00
144	30318	6-26-09	Purchase Power		1,443.00
145	30338	6-30-09	Purchase Power		1,400.00
Total 2008-09				\$	<u>56,678.04</u>

See Exhibit D

	Check Number	Check Date	Payee	Amount
146	30384	7-10-09	Purchase Power	\$ 600.00
147	30406	7-13-09	Purchase Power	1,500.00
148	30538	7-31-09	Purchase Power	1,200.00
149	30581	8-7-09	Purchase Power	1,758.00
150	30712	8-21-09	Purchase Power	1,200.00
151	30739	8-25-09	Purchase Power	896.00
152	30775	8-31-09	Purchase Power	1,789.00
153	30803	9-4-09	Purchase Power	600.00
154	30905	9-15-09	Purchase Power	1,858.57
155	30925	9-18-09	Purchase Power	1,200.00
156	30954	9-29-09	Purchase Power	1,896.00
157	31131	10-16-09	Purchase Power	600.00
158	31155	10-20-09	Purchase Power	879.00
159	31250	10-30-09	Purchase Power	2,500.00
160	31322	11-13-09	Purchase Power	600.00
161	31401	11-16-09	Purchase Power	1,200.00
162	31446	11-24-09	Purchase Power	1,200.00
163	31476	11-30-09	Purchase Power	2,400.00
164	31527	12-7-09	Purchase Power	879.00
165	31552	12-11-09	Purchase Power	1,200.00
166	31568	12-15-09	Purchase Power	1,200.00
167	31593	12-21-09	Purchase Power	1,898.00
168	31634	1-4-10	Purchase Power	1,200.00
169	31660	1-8-10	Purchase Power	1,200.00
170	31723	1-19-10	Purchase Power	600.00
171	31734	1-22-10	Purchase Power	896.00
172	31789	2-3-10	Purchase Power	1,200.00
173	31808	2-5-10	Purchase Power	879.00
174	31968	3-8-10	Purchase Power	600.00
175	32184	4-6-10	Purchase Power	2,500.00
176	32233	4-12-10	Purchase Power	1,796.00
177	32273	4-16-10	Purchase Power	896.00
178	32335	4-20-10	Purchase Power	896.00
179	32356	4-26-10	Purchase Power	879.00
180	32380	4-29-10	Purchase Power	1,854.25
181	32506	5-18-10	Purchase Power	1,340.12
182	32535	5-25-10	Purchase Power	876.00
183	32568	6-1-10	Purchase Power	1,792.00
184	32626	6-8-10	Purchase Power	1,100.00
185	32690	6-15-10	Purchase Power	896.00
186	32727	6-22-10	Purchase Power	1,163.81
187	32747	6-24-10	Purchase Power	2,499.00
188	32784	6-30-10	Purchase Power	1,200.00
Total 2009-10				<u>\$ 55,316.75</u>
189	32844	7-9-10	Purchase Power	\$ 879.00
190	32894	7-19-10	Purchase Power	1,792.00
191	32915	7-26-10	Purchase Power	1,792.00
Total 2010-11				<u>\$ 4,463.00</u>
Total				<u><u>\$ 202,344.63</u></u>

REGIONS BANK
TIPTONVILLE, TN

029050

VOID AFTER 90 DAYS

TO THE TRUSTEE OF LAKE COUNTY
LAKE COUNTY, TENNESSEE
BOX 1 - COURTHOUSE
328 CHURCH STREET
TIPTONVILLE, TENNESSEE 38079

*****1,200 DOLLARS AND 00 CENTS

PAY TO THE ORDER OF

DATE 12/23/2008 101

CHECK NO. 00029050

AMOUNT \$1,200.00

PURCHASE POWER
P.O. BOX 856042
LOUISVILLE, KY 40285-6042

Daryl H. ...
COUNTY CLERK

...
COUNTY EXECUTIVE CHAIRMAN

#029050# #06400017# #0020000205# 200001200002

VERY IMPORTANT INFORMATION FOR THE USER

Jim ...

REC-29 01
#0620000194
3000288223

9130 18694

THIS INSTRUMENT IS VALID ONLY IF PAID BY AN AUTHORIZED FEDERAL RESERVE BANK, A FEDERAL RESERVE BANK, A MEMBER BANK, OR A FEDERAL RESERVE BANK.

TO THE TRUSTEE OF LAKE COUNTY
LAKE COUNTY, TENNESSEE
 BOX 1 - COURTHOUSE
 229 CHURCH STREET
 TIFTONVILLE, TENNESSEE 38079

RECORDS BANK
 TIFTONVILLE, TN

NO. 024731

VOID AFTER 90 DAYS

PAY
 TO THE ORDER OF

*****723 DOLLARS AND 00 CENTS

DATE 06/26/2007 CHECK NUMBER 101 00024731 AMOUNT \$723.00

PURCHASE POWER
 KIM KEELING-LAKE CO. EXEC.
 P.O. BOX 876842
 LOUISVILLE, KY 40205-6842

[Signature]

⑆024731⑆ ⑆084000084⑆ ⑆0020000205⑆ ⑆0000072300⑆

WARNING: THIS CHECK IS VOID IF THE MICR LINE IS NOT RECORDED BY THE BANK.

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 RETURN TO FINANCIAL INSTITUTION USE

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IN 97 09

4996187418

⑆127 40045⑆

⑆08200200⑆

THIS DOCUMENT IS PRINTED ON COLORED PAPER, HAS AN ULTRAVIOLET FEATURE AND A SIMULATED WATERMARK ON BACK

TO THE TRUSTEE OF LAKE COUNTY
LAKE COUNTY, TENNESSEE
 BOX 1 - COURTHOUSE
 228 CHURCH STREET
 TIPTONVILLE, TENNESSEE 38079

REGIONS BANK
 TIPTONVILLE, TN

No. 024452

VOID AFTER 90 DAYS

PAY *****1,370 DOLLARS AND 38 CENTS

TO THE ORDER OF
KIM KEELING
PURCHASE POWER
66 RILEY RD.
REDGELY, TN 38080

DATE 05/30/2007 CHECK NUMBER 101 00024452 AMOUNT \$1,370.38

[Signature]
 COUNTY CLERK

⑆024452⑆ ⑆084000084⑆ ⑆002000205⑆ ⑆0000137030⑆

WARNING: MICROPRINTING IN SIGNATURE LINE. MAGNIFY TO VERIFY ORIGINAL CHECK.

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X *[Signature]*

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0127 66657

REC'D BANK POS DEPOSIT
 TO BANK DRIVE 6512907
 BIRMINGHAM, AL

4723143964

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 BIRMINGHAM, AL
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