



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

April 13, 2011

MEMORANDUM

TO: Honorable Justin P. Wilson  
Comptroller of the Treasury

FROM: James R. Arnette, Director  
Division of County Audit

A handwritten signature in black ink, appearing to read "James R. Arnette", written over the printed name in the "FROM:" field.

SUBJECT: Report of Cash Shortages and Other Thefts in County Offices/Departments  
as Reported in Annual Financial Reports for the Year Ended June 30, 2010,  
and Certain Special Reports

This division has prepared the enclosed schedules of cash shortages and other thefts reported in annual financial reports for the year ended June 30, 2010, and certain special reports for Tennessee's 89 county governments audited by our division and for six counties audited by CPA firms.

If you have any questions please let me know.

Enclosures

This report is available at [www.comptroller.tn.gov](http://www.comptroller.tn.gov)

**REPORT OF CASH SHORTAGES AND OTHER THEFTS IN COUNTY  
OFFICES/DEPARTMENTS AS REPORTED IN ANNUAL FINANCIAL REPORTS  
FOR THE YEAR ENDED JUNE 30, 2010, AND CERTAIN SPECIAL REPORTS**

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**Division of County Audit**  
**Schedule of Cash Shortages in County Offices/Departments**  
**As Reported in the Annual Financial Reports for the Year Ended June 30, 2010**  
**and Certain Special Reports**

<b>County/Office or Department</b>	<b>Fiscal Year Reported</b>	<b>Original Amount of Shortage</b>	<b>Beginning Report Cash Shortage</b>	<b>New Shortage</b>	<b>Reduction of Shortage</b>	<b>(1) Ending Report Cash Shortage</b>
<b><u>Anderson</u></b>						
1. Office of County Clerk	2008-09	\$ 4,104.26	\$ 4,104.26	\$ 0.00	\$ (4,104.26)	\$ 0.00
Additional shortage discovered	2009-10	1,209.87	0.00	1,209.87	0.00	1,209.87
<b><u>Campbell</u></b>						
2. School Department	2009-10	4,778.12	0.00	4,778.12	(4,778.12)	0.00
<b><u>Carter</u></b>						
3. Office of General Sessions Court Clerk	2009-10	2,036.43	0.00	2,036.43	(2,036.43)	0.00
4. Office of Sheriff	2009-10	800.00	0.00	800.00	(800.00)	0.00
<b><u>Cheatham</u></b>						
5. Highway Department	2007-08	68,281.11	37,713.75	0.00	(4,000.00)	33,713.75
<b><u>Cocke</u></b>						
6. Office of Clerk and Master	1996-97	101,821.73	41,315.00	0.00	(975.00)	40,340.00
<b><u>Cumberland</u></b>						
7. School Maintenance Department	2008-09	8,893.20	8,893.20	0.00	0.00	8,893.20
<b><u>DeKalb</u></b>						
8. Office of General Sessions Court Clerk	2007-08	8,501.00	8,501.00	0.00	0.00	8,501.00

(Continued)

**Division of County Audit**  
**Schedule of Cash Shortages in County Offices/Departments**  
**As Reported in the Annual Financial Reports for the Year Ended June 30, 2010**  
**and Certain Special Reports**

<b>County/Office or Department</b>	<b>Fiscal Year Reported</b>	<b>Original Amount of Shortage</b>	<b>Beginning Report Cash Shortage</b>	<b>New Shortage</b>	<b>Reduction of Shortage</b>	<b>(1) Ending Report Cash Shortage</b>
<b><u>Dickson</u></b>						
9. Office of Circuit Court Clerk	2005-06	\$ 1,350.00	\$ 300.00	\$ 0.00	\$ (300.00)	\$ 0.00
10. Office of County Clerk	2009-10	13,193.83	13,193.83	2,276.00	(12,693.83)	2,776.00
<b><u>Fayette</u></b>						
11. School Food Service Department	2009-10	177,629.93	177,629.93	0.00	(155,500.00)	22,129.93
<b><u>Fentress</u></b>						
12. Sharp/Alticrest Volunteer Fire Department	2007-08	2,032.00	2,032.00	0.00	(1,488.00)	544.00
13. Highway Department	2008-09	8,741.70	8,741.70	2,500.00	(11,241.70)	0.00
<b><u>Hamblen</u></b>						
14. Drug Court	2008-09	1,205.00	1,205.00	0.00	(1,205.00)	0.00
<b><u>Hardeman</u></b>						
15. Solid Waste Department	2007-08	3,032.47	3,032.47	0.00	0.00	3,032.47
16. Office of Sheriff	2008-09	296.32	296.32	0.00	(296.32)	0.00
17. Office of Sheriff	2009-10	1,297.00	0.00	1,297.00	(1,297.00)	0.00
<b><u>Henry</u></b>						
18. Office of Sheriff	2005-06	162,656.91	93,693.00	0.00	0.00	93,693.00

(Continued)

**Division of County Audit**  
**Schedule of Cash Shortages in County Offices/Departments**  
**As Reported in the Annual Financial Reports for the Year Ended June 30, 2010**  
**and Certain Special Reports**

<b>County/Office or Department</b>	<b>Fiscal Year Reported</b>	<b>Original Amount of Shortage</b>	<b>Beginning Report Cash Shortage</b>	<b>New Shortage</b>	<b>Reduction of Shortage</b>	<b>(1) Ending Report Cash Shortage</b>
<b><u>Hickman</u></b>						
19. Emergency Communications District	2005-06	\$ 11,773.00	\$ 8,783.00	\$ 0.00	\$ (8,783.00)	\$ 0.00
20. Office of County Mayor	2008-09	6,357.25	6,107.25	0.00	(6,107.25)	0.00
21. Office of County Clerk	2009-10	4,628.50	0.00	4,628.50	(4,628.50)	0.00
22. Emergency Management Agency	2009-10	2,042.81	0.00	2,042.81	0.00	2,042.81
<b><u>Humphreys</u></b>						
23. Office of Trustee	2009-10	1,907.71	0.00	1,907.71	(1,907.71)	0.00
<b><u>Lake</u></b>						
24. Office of County Mayor	2009-10	202,344.63	0.00	202,344.63	(149,000.00)	53,344.63
<b><u>Macon</u></b>						
25. Office of Juvenile Court Clerk	2009-10	576.00	0.00	576.00	(576.00)	0.00
<b><u>Marion</u></b>						
26. Election Office	2009-10	27,170.93	0.00	27,170.93	0.00	27,170.93
27. Halletown Volunteer Fire Department	2009-10	94,823.91	0.00	94,823.91	(7,800.00)	87,023.91
<b><u>Marshall</u></b>						
28. Ambulance Service Department	2007-08	49,950.00	49,950.00	0.00	(49,950.00)	0.00

(Continued)

**Division of County Audit**  
**Schedule of Cash Shortages in County Offices/Departments**  
**As Reported in the Annual Financial Reports for the Year Ended June 30, 2010**  
**and Certain Special Reports**

<b>County/Office or Department</b>	<b>Fiscal Year Reported</b>	<b>Original Amount of Shortage</b>	<b>Beginning Report Cash Shortage</b>	<b>New Shortage</b>	<b>Reduction of Shortage</b>	<b>(1) Ending Report Cash Shortage</b>
<b><u>Maury</u></b>						
29. Maury Regional Hospital	2008-09	\$ 25,140.00	\$ 25,140.00	0.00	\$ (25,140.00)	\$ 0.00
<b><u>McMinn</u></b>						
30. Office of Circuit, General Sessions, and Probate Courts Clerk	2008-09	15,484.00	15,484.00	0.00	(15,484.00)	0.00
<b><u>McNairy</u></b>						
31. Office of Circuit Court Clerk	2007-08	13,528.19	4,405.00	0.00	0.00	4,405.00
<b><u>Monroe</u></b>						
32. Office of Sheriff	2008-09	30,646.08	10,000.00	0.00	0.00	10,000.00
33. Office of Sheriff	2009-10	10,651.30	0.00	10,651.30	0.00	10,651.30
<b><u>Morgan</u></b>						
34. Office of County Clerk	2009-10	54,611.33	0.00	54,611.33	(53,700.71)	910.62
Court ordered amount for audit costs	2009-10	0.00	0.00	11,562.00	0.00	11,562.00
<b><u>Polk</u></b>						
35. School Department	2007-08	12,499.19	12,499.19	0.00	(12,499.19)	0.00
36. School Department	2007-08	1,047.45	1,047.45	0.00	0.00	1,047.45

(Continued)

**Division of County Audit**  
**Schedule of Cash Shortages in County Offices/Departments**  
**As Reported in the Annual Financial Reports for the Year Ended June 30, 2010**  
**and Certain Special Reports**

<b>County/Office or Department</b>	<b>Fiscal Year Reported</b>	<b>Original Amount of Shortage</b>	<b>Beginning Report Cash Shortage</b>	<b>New Shortage</b>	<b>Reduction of Shortage</b>	<b>(1) Ending Report Cash Shortage</b>
<b><u>Putnam</u></b>						
37. School Department	2009-10	\$ 6,564.98	\$ 0.00	\$ 6,564.98	\$ (3,000.40)	\$ 3,564.58
<b><u>Robertson</u></b>						
38. Sanitation Department	2009-10	200.00	0.00	200.00	(200.00)	0.00
<b><u>Rutherford</u></b>						
39. Offices of County Mayor and Sheriff	2009-10	14,551.56	0.00	14,551.56	(5,200.00)	9,351.56
40. Office of Circuit, General Sessions, Juvenile Courts Clerk	2009-10	745.85	0.00	745.85	0.00	745.85
<b><u>Sequatchie</u></b>						
41. Office of Sheriff	2006-07	8,669.00	8,551.26	0.00	(608.00)	7,943.26
42. Office of Sheriff	2007-08	2,011.81	814.81	0.00	0.00	814.81
43. Office of County Clerk	2007-08	4,248.51	1,000.00	0.00	(490.00)	510.00
44. School Department	2008-09	31,710.00	31,710.00	0.00	(30,670.00)	1,040.00
<b><u>Sevier</u></b>						
45. Office of General Sessions Court Clerk	2004-05	16,643.47	14,916.22	0.00	(14,916.22)	0.00
46. Office of County Clerk	2009-10	94,645.50	0.00	94,645.50	(94,645.50)	0.00

(Continued)

**Division of County Audit**  
**Schedule of Cash Shortages in County Offices/Departments**  
**As Reported in the Annual Financial Reports for the Year Ended June 30, 2010**  
**and Certain Special Reports**

<b>County/Office or Department</b>	<b>Fiscal Year Reported</b>	<b>Original Amount of Shortage</b>	<b>Beginning Report Cash Shortage</b>	<b>New Shortage</b>	<b>Reduction of Shortage</b>	<b>(1) Ending Report Cash Shortage</b>
<b><u>Smith</u></b>						
47. Highway Department	2008-09	\$ 4,084.54	\$ 500.00	\$ 0.00	\$ (500.00)	\$ 0.00
48. Highway Department	2009-10	10,930.00	0.00	10,930.00	(10,930.00)	0.00
<b><u>Stewart</u></b>						
49. Office of Sheriff	2009-10	150.00	0.00	150.00	0.00	150.00
<b><u>Sullivan</u></b>						
50. Office of Clerk and Master	2009-10	203.50	0.00	203.50	(203.50)	0.00
<b><u>Sumner</u></b>						
51. School Department	2006-07	2,022.70	2,022.70	0.00	(2,022.70)	0.00
52. Ambulance Service	2008-09	180.00	180.00	0.00	(180.00)	0.00
53. Office of Sheriff	2008-09	40.00	40.00	0.00	(40.00)	0.00
54. School Department	2009-10	657.84	0.00	657.84	0.00	657.84
<b><u>Tipton</u></b>						
55. Office of County Executive	2007-08	4,324.95	4,243.95	0.00	(251.00)	3,992.95
56. School Department	2009-10	27,357.19	0.00	27,357.19	(27,357.19)	0.00
<b><u>Unicoi</u></b>						
57. Office of General Sessions Court Clerk	2005-06	22,222.00	12,891.50	0.00	0.00	12,891.50
58. School Department	2009-10	20,967.36	0.00	29,757.36	(20,967.36)	8,790.00

(Continued)

**Division of County Audit**  
**Schedule of Cash Shortages in County Offices/Departments**  
**As Reported in the Annual Financial Reports for the Year Ended June 30, 2010**  
**and Certain Special Reports**

<b>County/Office or Department</b>	<b>Fiscal Year Reported</b>	<b>Original Amount of Shortage</b>	<b>Beginning Report Cash Shortage</b>	<b>New Shortage</b>	<b>Reduction of Shortage</b>	<b>(1) Ending Report Cash Shortage</b>
<b><u>Williamson</u></b>						
59. Recreation Department	2005-06	\$ 45,037.43	\$ 43,455.93	0.00	\$ (3,080.00)	\$ 40,375.93
60. Office of County Clerk	2008-09	3,386.18	3,386.18	0.00	0.00	3,386.18
61. Animal Control Department	2009-10	106,446.17	0.00	106,446.17	0.00	106,446.17
<b>Total</b>		<b>\$ 1,565,043.70</b>	<b>\$ 657,779.90</b>	<b>\$ 717,426.49</b>	<b>\$ (751,553.89)</b>	<b>\$ 623,652.50</b>

**Footnote:**

(1) The ending report cash shortage date is the date of the last day of field work.

**Division of County Audit**  
**Summary of Other Thefts**  
**As Reported in Annual Financial Reports for the Year Ended June 30, 2010**

<b><u>Office/Department</u></b>	<b><u>Description</u></b>
1. <b><u>Giles County</u></b> Emergency Management Office	We reported a theft of a laptop computer and two tires valued at \$1,200 and \$300, respectively.
2. <b><u>Macon County</u></b> Highway Department	We reported a theft of a 1997 Dodge truck, 14 gallons of gasoline, 18 gallons of diesel fuel, and approximately 30 pieces of equipment.
3. <b><u>Sullivan County</u></b> Highway Department	Highway Department equipment used to benefit private individuals. The highway commissioner and section forman have been indicted.

**Division of County Audit**  
**Explanations of Cash Shortages in County Offices/Departments**  
**As Reported in Annual Financial Reports for the Year Ended June 30, 2010, and**  
**Certain Special Reports**

**1. Anderson County - Office of County Clerk**

A cash shortage of \$4,104.26 was reported in the 2008-09 annual financial report, resulting from documents that had not been entered into the accounting records. A review of the deposit slips for those days revealed that nine checks related to the unrecorded documents had been included in the items deposited, and cash from other unrelated documents had been removed from the deposits to reconcile with the amount of work reflected on each date. This \$4,104.26 cash shortage was collected by the county clerk from a former employee's family on November 24, 2009.

During the billing cycle for 2009-10 business tax collections, the county clerk discovered an additional four checks totaling \$1,209.87 that had been channeled through the office without being accounted for on the official records. The following table details these four receipts that had not been accounted for properly:

<u>Date</u>	<u>Description</u>	<u>Amount</u>
8-1-09	M & M Treasures	\$ 22.00
11-25-08	Tower Services, Inc.	149.75
8-25-09	Vogue Beauty Shop	432.08
4-27-09	New Harvest Buffet, Inc.	<u>606.04</u>
Total		<u>\$ 1,209.87</u>

The county clerk has notified the county attorney and the district attorney general of this additional cash shortage. The county's bonding company has been notified that the county plans to file a claim.

**2. Campbell County - School Department**

It should be noted that prior to the beginning of our audit work, Director of Schools Dr. Michael Martin and Title I Director Karen Bundren were indicted by a Campbell County Grand Jury on December 3, 2010. The indictments stem from the director of schools and Title I director allegedly falsifying transcripts of Ms. Bundren indicating she had a Doctorate of Education Degree. The alleged falsified degree was presented to the Campbell County Finance Office and the State of Tennessee in December 2009. The director of schools and the Title I director were both indicted on one count of theft - \$1,000-\$10,000, two counts of official misconduct, two counts of forgery, two counts of tampering with governmental

records, and two counts of falsifying educational and academic records. The director of schools and Title I director both resigned their positions subsequent to June 30, 2010, and are awaiting trial on these charges. Ms. Bundren repaid the School Department \$4,778.12 on October 28, 2010, for the difference in pay she received by falsifying claiming an advanced degree.

**3. Carter County - Office of General Sessions Court Clerk**

In March 2010, three fraudulent checks totaling \$2,036.43 were paid by the bank from the General Sessions Court's checking account. These checks were generated by an unknown individual(s) using the General Sessions Court's bank routing and checking account numbers. This fraud was discovered by the bookkeeper during the reconciliation process in April 2010. However, the clerk did not file a Fraud Reporting Form with the state Comptroller's Office until June 15, 2010. Section 8-4-501, Tennessee Code Annotated, requires that a fraud reporting form be filed within five working days of the time the clerk has knowledge that suspected unlawful conduct has occurred. The bank refunded \$2,036.43 to the clerk on April 14, 2010.

**4. Carter County - Office of Sheriff**

In the summer of 2009, a Sheriff's Department drug officer reported to his supervisor that undercover funds totaling \$800 had been stolen from him, and the officer immediately reimbursed the \$800 from personal funds. The sheriff advised us that he was not aware of this situation until March 15, 2010; however, the sheriff did not file a Fraud Reporting Form with the state Comptroller's Office. Section 8-4-501, Tennessee Code Annotated, requires that a fraud reporting form be filed within five working days of the time the sheriff has knowledge that suspected unlawful conduct has occurred. It should be noted that a Fraud Reporting Form was filed by the county finance director on April 13, 2010.

**5. Cheatham County - Highway Department**

The audit of Cheatham County for the 2007-08 year reported a cash shortage of \$68,281.11 in the Highway Department. Our investigation revealed that from February 5, 2007, through December 18, 2007, the Highway Department bookkeeper fraudulently issued 16 vendor checks totaling \$68,281.11 for personal use. On August 15, 2008, the bookkeeper was found guilty of theft of \$60,000 or more and was sentenced. The bookkeeper was also ordered to pay restitution totaling \$68,211.11 to the Highway Department. As of June 30, 2010, the former bookkeeper had paid restitution of \$34,497.36, and a \$70 reduction was made for the difference between the shortage amount and the court order leaving an unpaid shortage of \$33,713.75 at June 30, 2010.

**6. Cocke County - Office of Clerk and Master**

The audit of the Constitutional Officers – Agency Fund for the 1996-97 year reported details of a \$101,822 cash shortage in the Office of Clerk and Master. The

former clerk and master, Charles Chesteen, pled guilty to theft and conversion of office funds and was ordered to pay restitution totaling \$101,822. His surety bond company paid the office \$50,000 during a previous year, and as of June 30, 2010, Mr. Chesteen had paid \$11,482 toward liquidating the remaining shortage. A balance of \$40,340 is reflected as a cash shortage in the financial statements of this report.

7. **Cumberland County - School Maintenance Department**

The audit of Cumberland County for the 2008-09 year reported a cash shortage of \$8,893.20 in the School Maintenance Department as of November 4, 2009. This cash shortage resulted from a recycling company paying \$11,175.69 in cash to Maintenance Department truck drivers for the sale of scrap metal. The truck drivers remitted the cash to the maintenance supervisor; however, the maintenance supervisor could not document the use of \$8,893.20 from the sale of the scrap metal. This shortage has been reviewed with the district attorney general.

8. **DeKalb County - Office of General Sessions Court Clerk**

The audit of DeKalb County for the 2007-08 year reported a cash shortage of \$8,501 in the Office of General Sessions Court Clerk. This shortage resulted from numerous bank deposits for the period April 2008 through June 2008 being less than the amount of deposits posted to the general ledger. Tonya Page, a former office employee, has been indicted by the DeKalb County Grand Jury on the charge of theft in excess of \$1,000 and is currently awaiting trial.

9. **Dickson County - Office of Circuit Court Clerk**

The audit of Dickson County for the 2005-06 year revealed a cash shortage of \$1,350 in the Office of Circuit Court Clerk. During December 2005, the circuit court clerk informed auditors that the office's bank deposit was short \$1,050, and the employee who receipted the collections could offer no explanation; therefore, the clerk replaced the cash shortage with personal funds. On August 28, 2006, the clerk informed auditors that this same employee had altered records and stolen an additional \$300 from the office by altering records in the office computer system. The employee's employment was terminated on August 30, 2006. On October 25, 2006, the Grand Jury indicted the employee. However, the case is still pending and no trial date has been set. The \$300 balance has been written-off and is no longer reflected as a receivable.

10. **Dickson County - Office of County Clerk**

A special report dated March 8, 2010, on the Dickson County Clerk for the period January 1, 2009, through September 30, 2009, reported a cash shortage of \$13,193.83. In September 2009, County Clerk Phil Simons discovered that several motor vehicle title application transactions and business tax license payments had been manipulated and/or altered by an employee of the office. Our investigation discovered numerous individual transactions had been manipulated and/or altered.

Of the numerous transactions that had been manipulated and/or altered, 231 of these transactions totaling \$13,193.83 had not been accounted for as of September 30, 2009. These funds had been diverted from the office for the personal use of an employee. The employee's employment with the County Clerk's Office was terminated on September 29, 2009. On February 18, 2010, the Dickson County Grand Jury indicted Desiree Creech, a former employee of the County Clerk's Office, on one count of theft between \$10,000 and \$60,000. On August 16, 2010, the defendant pled guilty and was sentenced to four years probation and ordered to pay restitution of \$15,470, which includes \$2,276 for audit costs to Dickson County. The county's insurance carrier paid the county \$12,693.83 on September 29, 2010, leaving a balance due of \$2,776.

**11. Fayette County - School Department - Food Service Department**

On April 27, 2010, a special report was issued on the Fayette County School Food Service Department for the period July 1, 2007, through December 15, 2009. This report disclosed that the food service supervisor circumvented purchasing procedures, resulting in a cash shortage of \$142,433 and altered time sheets of a part-time cafeteria worker, resulting in a cash shortage of \$35,196.93. Three individuals have been indicted by the Fayette County Grand Jury. In May 2010, the School Department's insurance carrier paid the department \$149,500, and in November 2010, one of the individuals paid the department \$6,000 as the result of a plea arrangement.

**12. Fentress County - Sharp/Alticrest Volunteer Fire Department**

The audit of Fentress County for the 2007-08 year reported a cash shortage of \$2,032 at the Sharp/Alticrest Volunteer Fire Department. This shortage resulted from the misappropriation of county funds by a captain in the volunteer fire department. The captain was dismissed and subsequently on September 24, 2008, pled guilty to one count of theft over \$500 and one count of theft over \$1,000. The former captain was ordered to pay restitution of \$2,032 to Fentress County and \$1,556 to the Sharp/Alticrest Fire Department (\$150 monthly payments beginning November 1, 2008) plus court costs and was sentenced to four years of unsupervised probation. The former captain only made one payment during the year ended June 30, 2009, and in July 2009, the court issued a petition to revoke probation. At June 30, 2010, the balance of restitution owed to Fentress County was \$544. Subsequent to June 30, 2010, the defendant sustained injuries that do not allow him to work; therefore, the court has suspended payments until the defendant is medically cleared to return to work.

**13. Fentress County - Highway Department**

The audit of Fentress County for the 2008-09 year reported a cash shortage of \$8,741.70 at the Fentress County Highway Department. Certain allegations led to an investigation by our office and the Tennessee Bureau of Investigation concerning the sale of scrap metal by the Highway Department to a recycling company. During the period December 4, 2007 through October 21, 2009, truck drivers from the

Highway Department were paid both in cash and checks by a recycling company for the sale of scrap metals. We obtained documentation of all payments (\$26,975.10) made by the recycling company but were unable to account for \$8,741.70. On December 17, 2009, the grand jury indicted the road supervisor on the following charges: four counts of theft over \$1,000; two counts of theft over \$500; and one count of official misconduct. On June 7, 2010, the road supervisor entered a plea of no contest to one count of official misconduct. The court dropped the other charges and granted judicial diversion, with four years of unsupervised probation upon payment of restitution of \$8,742, audit costs of \$2,500, and court costs. The road supervisor paid these amounts (\$11,242) from personal funds on June 7, 2010.

**14. Hamblen County - Drug Court**

The audit of Hamblen County for the 2008-09 year reported a cash shortage of \$1,205 at the Drug Court. On February 10, 2010, the director of the Drug Court notified us of a theft of funds from the court. We extended certain audit procedures in the Drug Court through February 24, 2010. Based on our extended procedures, a cash shortage of \$1,205 was determined to exist. The majority of this shortage, \$1,180, consisted of monies that had been receipted but not deposited or otherwise accounted for during the period November 4, 2009, through January 22, 2010. The remaining \$25 of the cash shortage was from monies received on September 2, 2008, that were never deposited or otherwise accounted for properly. The cash shortage and other deficiencies have been reviewed with the director of the Drug Court, the judge of the Drug Court, the district attorney general, and the county mayor. The Hamblen County Sheriff's Department conducted an investigation. During 2009-10, management restructured collection procedures to require that all payments be made directly to the Office of Trustee rather than to the Drug Court. On June 21, 2010, the County Commission approved the write-off of the cash shortage.

**15. Hardeman County - Solid Waste Department**

The audit of Hardeman County for the 2007-08 year reported a cash shortage totaling \$3,032.47 in the Solid Waste Disposal Fund. This cash shortage is composed of 1) collections received at the landfill and delivered to the Solid Waste Office totaling \$2,152.97 that were not entered into the accounting system or deposited with the county trustee, and 2) receipts issued by the Solid Waste Office for monthly collections of landfill fees assessed to residents and businesses totaling \$879.50 that were not deposited with the county trustee. Contrina Robertson, was sentenced on August 5, 2010, for theft of property and ordered to pay restitution. However, as of January 11, 2011, Ms. Robertson had not made any payment to the county.

**16. Hardeman County - Office of Sheriff**

The audit of Hardeman County for the 2008-09 year reported a cash shortage totaling \$296.32. During the period September 2008 through March 2009, the chief deputy at the Sheriff's Department was on leave of absence due to personal illness. Records in the Office of County Mayor disclosed that during this time period, the

deputy improperly used a Sheriff's Department vehicle and a county fuel card to purchase gasoline totaling \$296.32 for personal use. On December 1, 2009, the chief deputy repaid the \$296.32 from personal funds.

**17. Hardeman County - Office of Sheriff**

A cash shortage of \$1,297 existed in the Sheriff's Department at June 30, 2010. This cash shortage resulted from the failure to account for all collections resulting from operations of the commissary. We initially reviewed the records of the commissary operations from July 1, 2009 through June 30, 2010, and determined that \$846 had been receipted but not deposited into the commissary bank account. We subsequently extended our procedures and reviewed the records of the commissary operations from July 1, 2008 through June 30, 2009, and determined that an additional \$451 had been receipted but not deposited bringing the total cash shortage to \$1,297. On July 1, 2010, Angela Anders, commissary bookkeeper, admitted to taking the funds in question, and on July 2, 2010, Ms. Anders' employment was terminated. On November 15, 2010, Ms. Anders repaid the \$1,297 to the Sheriff's Department.

**18. Henry County - Office of Sheriff**

The audit of Henry County for the 2005-06 year reported a cash shortage of \$162,658 in the Sheriff's Department. This cash shortage consisted of purchases of numerous items that had no apparent use or benefit to the Sheriff's Department, instances of collusion, falsified invoices, and purchases of items for personal use. David Bumpus, Henry County Sheriff, Faye Scott, business manager for the Henry County Sheriff's Department, and Jason Ferren, former owner of Elite Firearms, were indicted by a federal grand jury on conspiracy, mail fraud, theft from organization receiving federal funds. Mr. Bumpus and Mr. Ferren were also indicted for false entries by a licensed dealer of a firearm record. Mr. Bumpus, Ms. Scott, and Mr. Ferren all pled guilty to various charges and have received various sentences and fines. The three defendants have also been ordered to pay restitution of \$71,512. This amount is net of estimated auction proceeds of items recovered from David Bumpus totaling \$12,205. As of June 30, 2010, David Bumpus has paid \$2,376.80, Faye Scott has paid \$9,529.80, and Jason Ferren has paid \$19,583.69, toward liquidating the cash shortage. Also, a payment of \$25,000 was received from David Bumpus' official bond. As of June 30, 2010, the outstanding cash shortage totaled \$93,693.

**19. Hickman County - Emergency Communications District**

A special investigation by our office of the Hickman County Emergency Communications District during the 2005-06 year reported a cash shortage of at least \$11,773.06. Records of the district were so poorly maintained that the cash shortage could exceed the amount noted; however, we were unable to make a determination on the validity of numerous transactions. On September 26, 2007, Darlene Field, the former address coordinator, pled guilty to theft and was placed on probation for a period of two years and ordered to pay restitution of \$7,500. As of

June 30, 2010, all of the restitution has been paid to the Hickman County Emergency Communications District.

**20. Hickman County - Office of County Mayor**

The audit of Hickman County for the 2008-09 year reported a cash shortage of \$6,357.25 in the Office of County Mayor. On June 11, 2009, the county mayor's secretary advised the county mayor that she had cashed several checks made payable to Hickman County for her personal use. The county terminated the employment of this employee on June 11, 2009. On August 3, 2009, the former employee was indicted on one count of theft of property over \$1,000 and four counts of forgery. After the indictment, auditors discovered an additional check for \$250 that had been diverted for personal use, which was not included as part of the cash shortage by the court. On September 22, 2009, the former employee pled guilty to one count of theft of property between \$1,000 and \$10,000. The former employee was sentenced to three years probation and ordered to pay restitution to Hickman County totaling \$6,107.25. As of June 30, 2010, the former employee has paid restitution of \$821. Subsequent to June 30, 2010, the former employee paid the remaining balance of \$5,286.25.

**21. Hickman County - Office of County Clerk**

A special report dated August 4, 2010, on the Hickman County Clerk for the period July 1, 2008 through June 14, 2010 reported a cash shortage of \$4,628.50.

On May 13, 2010, the Hickman County Mayor informed us of suspected irregularities concerning falsified records and missing inventory in the Office of Hickman County Clerk. We conducted a special investigation with the assistance of a criminal investigator from the Office of District Attorney General for the period July 1, 2008, through June 14, 2010. This investigation included a review of the financial records and a physical inspection of certain equipment. Our examination disclosed that a cash shortage of \$4,628.50 existed at June 14, 2010. This cash shortage occurred during the administration of Ms. Andrea Totty as county clerk.

In May 2008, the Office of County Clerk began using a third-party vendor (VitalChek Network) to process credit card payments. VitalChek provides the clerk's office with equipment to process credit card transactions electronically. Once VitalChek processes and approves each credit card transaction, a VitalChek company check is electronically printed on-site for each credit card transaction. This check is then deposited into the county clerk's bank account along with the other transactions for the day. VitalChek also provides the clerk's office with pre-endorsed blank company checks to be used when the electronic system is not functioning properly. To manually use these pre-endorsed blank checks, the county clerk telephones VitalChek and obtains an authorization code before depositing the check into the clerk's bank account.

Our investigation revealed that five of these pre-endorsed checks provided by VitalChek totaling \$4,628.50 were manually written and deposited into the office

bank account without authorization codes. The clerk removed cash from the office and substituted these unauthorized checks for the cash she had removed. When three of these unauthorized checks were presented to VitalChek for payment, VitalChek contacted the Hickman County mayor who confronted the county clerk and then contacted our office. The other two checks were subsequently discovered to have been written without authorization codes.

The following table details the cash shortage identified by our investigation:

Date of Unauthorized Check	Check Number	Amount
3-16-10	27261	\$ 849.00
5-21-10	605661	859.00
5-25-10	605662	954.00
5-27-10	605670	1,126.00
6-1-10	605663	<u>840.50</u>
Total Cash Shortage		<u>\$ 4,628.50</u>

VitalChek discovered 21 non-business related checks that were issued by Ms. Totty to obtain cash for personal use out of the office’s operating funds. Ms. Totty used a personal credit card to cover these checks prior to final processing by VitalCheck; therefore, these 21 checks are not included in the \$4,628.50 cash shortage noted above. However, the use of these checks for non-business related activity is an indication of abuse of the system by the county clerk.

The following table details the 21 checks identified by VitalChek that were issued by Ms. Totty for non-business related activity of the Office of County Clerk:

Date of Check	Check Number	Amount
1-29-09	3316522	\$ 80.00
2-6-09	3316524	170.00
2-12-09	3316529	140.00
2-27-09	3316532	40.00
3-9-09	3316537	40.00
4-9-09	3339401	20.00
6-1-09	3316595	10.00
6-3-09	599549	450.00
7-1-09	3415610	70.00
7-1-09	3339475	140.00
7-17-09	3339480	150.00
7-30-09	3415627	40.00
8-28-09	3339499	190.00
9-25-09	3415528	450.00
10-13-09	3415676	25.00
12-2-09	3415565	400.00
1-14-10	3489421	85.00
1-21-10	3415590	560.00
1-27-10	3489429	300.00
2-14-10	3489455	770.00
5-5-10	3564233	<u>650.00</u>
Total		<u>\$ 4,780.00</u>

On June 14, 2010, we met with the district attorney's criminal investigator, Hickman County Sheriff, and Ms. Totty. At this meeting, Ms. Totty admitted to diverting office funds for her personal use and immediately resigned from office. On October 6, 2010, the former clerk was indicted on official misconduct and theft of property over \$1,000 but less than \$10,000. Subsequent to June 30, 2010, Hickman County's insurance company paid \$4,628.50 for the theft. This cash shortage resulted from management having access to pre-endorsed blank checks provided by VitalChek. We have discussed this internal control weakness in VitalChek's system with VitalChek's management.

**22. Hickman County - Emergency Management Agency**

The Tennessee Bureau of Investigation conducted an investigation into allegations of misconduct by the director of the Hickman County Emergency Management Agency (EMA) and the director of the Hickman County Emergency Medical Services (EMS). The investigation revealed that Terry Cloud, the director of the EMA, and Michael Lynn, the director of the EMS, misappropriated drugs and medical supplies for their personal use. These misappropriations for personal use resulted in a cash

shortage of \$2,042.81. On October 26, 2010, Mr. Lynn entered a guilty plea of official misconduct, received two years supervised probation, and was ordered to pay restitution of \$840.25. On December 21, 2010, Mr. Cloud entered a guilty plea of official misconduct, received two years supervised probation, and was ordered to pay restitution of \$1,202.56.

**23. Humphreys County - Office of Trustee**

The employees in the Trustee's Office consist of the trustee, a chief deputy, and a second deputy. In February 2010, the second deputy in the office noticed several tax receipts that appeared to have been voided in the computer system one month; however, the voided transactions reflected a future date. The deputy brought these dating discrepancies to the trustee's attention who believed the discrepancies were merely input errors. As a result, the trustee worked with her software provider to correct the suspected date errors.

On July 20, 2010, while the trustee was away from the office due to illness, the chief deputy resigned her position with the Trustee's Office purportedly to seek other employment, thus leaving only the second deputy to run the office. This deputy contacted auditors who happened to be working in the county and apprised them of the current staffing predicament and her continuing suspicion of irregularities surrounding the questionable tax receipts she had discovered in February. As a result of these circumstances, auditors began an investigation on August 26, 2010.

Our investigation of the trustee's records concluded the chief deputy had voided 12 property tax transactions that had been paid in cash totaling \$1,907.71 and diverted those funds for her personal use. The chief deputy retained the details of each property tax she diverted and subsequently repaid each diverted property tax plus interest and penalty calculated as of the repayment date. Details of the 12 property tax transactions diverted and the subsequent repayments are detailed as follows:

Intial Receipt Date	Original Taxes Diverted	Interest and Penalty Calculated	Total Tax Plus Interest and Penalty	Date Diverted Funds Repaid
12-29-08	\$ 179.80	\$ 35.06	\$ 214.86	3-31-10
12-29-08	155.55	30.33	185.88	3-31-10
2-5-09	49.84	5.16	55.00	3-31-10
2-17-09	154.18	30.07	184.25	4-1-10
2-23-09	80.06	15.61	95.67	4-1-10
12-18-09	184.83	16.63	201.46	8-31-10 *
12-21-09	195.35	17.58	212.93	8-31-10 *
2-16-10	116.21	10.46	126.67	9-3-10 *
2-19-10	266.72	24.01	290.73	8-17-10 *
2-28-10	187.58	16.89	204.47	8-31-10 *
4-5-10	114.51	6.67	121.18	9-1-10 *
6-7-10	223.08	6.32	229.40	8-31-10 *
Total	\$ 1,907.71	\$ 214.79	\$ 2,122.50	

\* Represents money orders received through the mail without a return address. The money orders included the tax receipt information to credit the account. The former deputy clerk admitted to sending these money orders.

On September 16, 2010, we conducted an interview with the former chief deputy. During the interview, the chief deputy admitted to us that she had voided several property tax collections that had been received in cash and used the funds for personal use. Since the office's accounting software allowed receipts to be post-dated up to 60 days, she devised a scheme to reinstate the diverted/voided transactions at a later date in order to cover the taxes taken plus interest and penalty. She informed us she had repaid all of the diverted funds in full with interest and penalty.

The Trustee's Office software has a void receipt report that presents the voided receipts for the day; however, the former chief deputy stated that the office would manually keep up with a receipt that was voided. The trustee would ask for this information at the end of the month. However, this process was discontinued when the trustee stopped asking for the information.

#### 24. Lake County - Office of County Mayor

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 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.

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.

The county mayor terminated Ms. Keeling's employment with Lake County on July 29, 2010. The county's insurance company paid the county \$149,000 on October 12, 2010.

**25. Macon County - Juvenile Court Clerk**

On December 15, 2010, employees of the juvenile court clerk notified us of a missing deposit from October 1, 2010, totaling \$173. We instructed the clerk to file a fraud reporting form with our office; however, the clerk did not file the form. On January 14, 2011, the clerk presented us with a bank bag containing \$173. The clerk stated that the bank bag was found in a desk earlier in the week. We counted the money, instructed the clerk to deposit the funds into the official bank account, and subsequently verified that the deposit was made. As a result of the above-noted missing deposit, we extended our testwork and requested certain deposit records from the clerk's bank. Our testwork revealed that on September 2, 2009, receipts totaling \$576 consisting of cash (\$454) and a check (\$122) were not deposited into the official bank account. The clerk liquidated the cash shortage with personal funds on February 23, 2011.

**26. Marion County - Election Office**

On February 22, 2010, the district attorney general for the Twelfth Judicial District requested that we assist the Tennessee Bureau of Investigation (TBI) in conducting an investigation into the fiscal management of the Marion County Election Office (MCEO). The district attorney general had concerns about the possible misuse of funds and improper practices in the operation of the MCEO. Findings and recommendations, as a result of our special investigation, are presented below. We reviewed these findings and recommendations with the current administrator of elections, county mayor, the election commission, and the district attorney general. We mailed a copy of these findings and recommendations to the former administrator of elections. The written responses of the Marion County Election Commission are included in this report.

**BACKGROUND SECTION**

County elections in Tennessee are regulated by a five member County Election Commission appointed by the State Election Commission. Each County Election Commission employs an administrator of elections who is the chief administrative officer of the election commission and is responsible for the daily operation of the MCEO as provided in Section 2-12-201, Tennessee Code Annotated (TCA). Ms. Holly Henegar has been the administrator of elections in Marion County since 1987.

The scope of our special investigation was to determine if there has been a misuse of funds and/or improper practices by the Marion County Election Commission and/or the administrator of elections. We reviewed all invoices submitted to the Office of County Mayor by the MCEO for payment from the county's General Fund for the period July 1, 2003 through March 31, 2010, examined bank records, and conducted interviews. On a few selected individuals we reviewed payments back to July 1, 1999.

It should be noted that on February 16, 2010, the State Election Commission voted to hold a hearing regarding the decertification of Ms. Henegar as administrator of elections in Marion County. The hearing was set for May 18, 2010; however, on April 8, 2010, Ms. Henegar submitted her resignation, which was effective immediately; therefore, the hearing did not proceed. The Appendix Section in this report contains copies of a Notice of Charges and Hearing and an Amended Notice of Charges and Hearing obtained from the State of Tennessee Division of Elections.

A cash shortage of \$27,170.93 existed in the Marion County Election Office (MCEO) as of March 31, 2010. This cash shortage resulted from 107 warrants being improperly issued to 34 individuals for work that was not performed for the MCEO.

On February 5, 2010, Ms. Holly Henegar advised us that she never paid anyone from her office that did not work, and although her husband helped during elections, he was often not paid for his help. Ms. Henegar stated that her husband, Billy Joe Henegar, went on disability in 1991. On March 23, 2010, during a second interview with Ms. Henegar, she admitted adding names to payroll certification lists for individuals who did not work, and that her husband was paid with county funds using names of relatives and friends. She stated that an election commissioner had suggested she use a grandchild's name to pay her husband for the work he did for the MCEO. However, of the election commissioners we interviewed, none corroborated this statement. This method of payment was used apparently to pay her husband without disrupting his disability status and appears to be a method of increasing his compensation without having to report this income to the Social Security Administration or the Internal Revenue Service.

Based on sworn statements taken by the TBI and our interviews with various individuals who were listed as the payees on the county election warrants, we concluded the following:

- A. Several of the 34 individuals had no knowledge that county warrants had been issued in their name or in the name of a member of their family. Several of these individuals advised us that:
  1. They had been approached by Ms. Henegar and/or her husband and asked if their name and/or their children's names could be used on payroll warrants as a means of compensating Mr. Henegar since he was limited on the amount he could earn because of his disability status. Many of the warrants payable to these individuals had the second endorsement of Mr. Henegar. Also, one individual stated that Ms. Henegar told them that an election commissioner advised her (Ms. Henegar) to pay Mr. Henegar this way.
  2. They had been told by Ms. Henegar and/or her husband on what to say if questions were asked them about this scheme.
  3. They firmly refused to participate in this scheme and were surprised that their name and/or their children's names had been used in spite of their refusal.

4. Neither they nor their family members ever performed any work for the MCEO.
  5. The endorsement on the back of the warrants was not theirs or their family member's signature.
- B. Nine of the 34 individuals were under the age of 14 at the time 20 warrants were issued in their name. Based on sworn statements taken by the TBI and our interviews with the parents of these children, work was not performed by the children, and many of the parents had no knowledge that warrants were being issued in their child's name. Section 50-5-103, TCA, provides that a minor under 14 years of age may not be employed in any gainful occupation, except in a few instances. None of these exceptions applied in this case.
- C. In some instances, individuals knowingly participated in the pay scheme and allowed the use of their name and/or a family member's name on invoices submitted for payment by the administrator of elections when these individuals did not perform any work. Some of these individuals advised us that they would endorse the warrant, cash the warrant, and give the cash to the administrator of elections or her husband.
- D. In some instances, the administrator of elections wrote the names of individuals and the dollar amounts to be paid to the individual on generic pieces of paper and submitted these documents to the Office of County Mayor for payment. Many of these documents did not contain the reason for the payment or the dates and hours worked. The administrator of elections picked up these warrants from the Office of County Mayor and distributed the warrants.
- E. Two warrants (warrant #23760 and #27833) issued to different individuals and included in the cash shortage were deposited into the bank account of the Hometown Volunteer Fire Department (HVFD). Ms. Henegar's husband was the treasurer for the HVFD. We noted three other election warrants that were deposited into the HVFD's bank account; however, these warrants are not included in the cash shortage because we could not confirm with the payees whether these checks were misappropriated or were properly endorsed by the payee and donated to the fire department. As a result of our questions about the deposits to the HVFD and a request by the Twelfth Judicial District Attorney General, a special investigation is presently being conducted on the HVFD, and a separate report will be subsequently issued.

The following table lists the 107 warrants to 34 individuals that comprise the \$27,107.93 cash shortage. Payee names have not been included in this table due to the number of minor children involved:

Exhibit C

Warrant Date	Warrant Number	Amount	Warrant Date	Warrant Number	Amount
11-15-00	22289	\$ 496.00	11-4-04	34421	\$ 165.20
5-15-02	23813	106.16	8-26-05	38698	592.00
8-16-04	33847	70.00	5-17-06	40365	80.00
2-20-04	30903	70.00	8-21-06	41143	90.00
7-26-04	33530	352.00	6-28-05	36150	575.00
11-15-04	34604	70.00	8-21-06	41182	80.00
7-19-02	25609	592.00	7-29-02	25691	472.00
2-19-04	30806	70.00	11-20-02	27967	560.00
11-13-02	27833	76.00	9-11-02	26081	472.00
2-19-04	30810	70.00	8-15-03	29660	408.00
8-16-04	33870	70.00	7-15-04	33519	592.00
11-15-04	34578	85.60	1-12-04	30506	416.00
8-16-04	33873	70.00	11-13-02	27856	70.00
11-15-04	34581	70.00	8-22-03	29672	264.00
7-26-04	33531	352.00	2-19-04	30826	94.00
8-12-04	33705	368.00	6-4-04	33149	464.00
9-16-04	34096	304.00	6-30-04	33378	304.00
7-24-00	21350	544.00	7-15-04	33518	344.00
4-23-02	23640	576.00	7-26-04	33529	304.00
6-24-02	25408	304.00	8-16-04	33895	119.80
10-5-04	34149	456.00	8-31-04	33963	32.00
11-10-04	34448	288.00	10-19-04	34284	72.00
6-25-04	33354	488.00	10-29-04	34398	192.00
11-10-04	34447	104.00	11-10-04	34451	640.00
7-22-05	38451	208.00	11-15-04	34600	45.00
11-10-04	34450	592.00	6-16-05	36050	500.00
8-26-05	38699	544.00	9-24-04	34128	312.00
5-8-02	23769	592.00	10-19-04	34285	336.00
9-10-03	29762	416.00	10-19-04	34283	320.00
8-12-04	33698	368.00	8-16-04	33781	336.00
6-30-04	33375	104.00	11-15-04	34529	290.00
5-3-02	23760	344.00	5-14-04	33019	352.00
5-8-02	23770	212.00	5-17-06	40367	60.00
7-28-03	29424	368.00	8-21-06	41150	90.00
12-15-03	30368	272.00	5-23-02	24046	70.00

Warrant Date	Warrant Number	Amount	Warrant Date	Warrant Number	Amount
8-23-02	25984	\$ 82.00	7-7-99	18524	\$ 210.00
11-13-02	27805	70.00	8-17-99	18825	40.00
1-26-04	30542	592.00	9-14-99	19007	125.00
2-19-04	30782	70.00	7-28-03	29423	128.00
8-16-04	33832	75.76	2-11-04	30638	520.00
11-15-04	34669	75.12	11-4-02	27634	416.00
5-17-06	40350	80.00	6-25-03	29281	376.00
5-23-02	24042	70.00	6-28-05	36147	575.00
8-23-02	25979	70.00	8-9-05	38495	512.00
11-13-02	27800	70.00			
2-20-04	30885	70.00	Total Cash Shortage		<u>\$ 27,170.93</u>
8-16-04	33824	80.00			
11-15-04	34667	70.00			
5-15-02	23808	130.48			
8-23-02	26022	70.00			
11-8-02	27659	184.96			
2-12-04	30968	133.04			
8-16-04	33903	70.00			
11-15-04	34681	82.20			
5-15-06	40281	192.56			
8-10-06	41048	174.00			
2-5-04	30576	384.00			
8-26-05	38700	272.00			
10-18-00	22130	304.00			
8-1-04	(1)	95.25			
11-15-04	34598	78.80			
12-15-04	34880	368.00			
11-15-00	22479	70.00			

(1) information not available

The following internal control weaknesses contributed to the cash shortage: 1) the administrator of elections, as senior management, over-rode the county's disbursement system for payments to election workers by not properly documenting invoices, 2) several individuals knowingly allowed the administrator of elections to falsely use their name to obtain a payment from the county when in fact the individual knew they had not earned any income, and 3) the Office of County Mayor did not adequately review the documentation submitted by the administrator of elections to ensure its accuracy.

**27. Marion County - Halletown Volunteer Fire Department**

On April 6, 2010, the district attorney general for the Twelfth Judicial District requested that we assist the Tennessee Bureau of Investigation (TBI) in conducting an investigation into the fiscal management of the Halletown Volunteer Fire Department (HVFD). The district attorney general had concerns that certain funds donated by Marion County to the HVFD had been diverted by the fire department's secretary/treasurer, Mr. B.J. Henegar, for his personal use. The finding and recommendation, as a result of our investigation, is presented below. We reviewed this finding and recommendation with the county mayor and Mr. Henegar to provide an opportunity for their response. We also reviewed this finding and recommendation with the current fire chief of the HVFD and the district attorney general. The written response of Marion County Mayor David Kirk is paraphrased in this report.

**BACKGROUND**

We issued a special investigative report on the Marion County Election Office (MCEO) dated August 25, 2010 (see a separate report for details concerning the special investigation of the MCEO at [www.tn.gov/comptroller](http://www.tn.gov/comptroller)), and during that investigation we noted five warrants issued by the MCEO that had been endorsed and deposited into the bank account of the HVFD. The former MCEO administrator's husband is Mr. Henegar, the secretary/treasurer for the HVFD. As a result of our questions about these five warrants deposited to the HVFD and a request by the Twelfth Judicial District Attorney General, an investigation was conducted of the HVFD.

The scope of our investigation was to determine whether funds donated by Marion County and citizens to the HVFD had been diverted by Mr. Henegar for his personal use. Section 5-9-101(23), Tennessee Code Annotated, authorizes county legislative bodies to appropriate funds to nonprofit volunteer fire departments. Marion County annually appropriates funds to the county's volunteer fire departments based on households served. The HVFD is the largest volunteer fire department in Marion County and receives the largest annual contribution. We reviewed all disbursements from HVFD bank accounts for the period January 1, 2005 through April 12, 2010, examined personal bank records of Mr. Henegar, and conducted interviews.

**Finding:**

A cash shortage of at least \$94,823.91 existed in the Halletown Volunteer Fire Department (HVFD). This cash shortage resulted from checks written on HVFD bank accounts to pay personal expenses of Mr. B.J. Henegar, the secretary/treasurer (\$92,620.25), together with \$2,203.66 cash withheld from bank deposits of private donations and a county contribution. Mr. Henegar remitted personal funds totaling \$7,800 to the HVFD, leaving a cash shortage balance of \$87,023.91 at April 12, 2010.

On September 15, 2010, our office and the TBI interviewed Mr. Henegar. During that interview, he advised us that he had borrowed funds from the HVFD. He stated that he had some records of the payments made for personal use, had lost a lot of the records that had been on the computer, but had no idea how much he had borrowed.

Based on our investigative work, admissions made by Mr. Henegar, and our interview with the current fire chief, we concluded the following:

- A. Mr. Henegar maintained three bank accounts in the name of the HVFD (Citizens Tri-County Bank, First Volunteer Bank, Franklin County United Bank). All three bank accounts had the names of Mr. Henegar and his wife (the former Marion County administrator of elections) listed as being authorized users. Mr. Henegar advised us that no one other than himself, his wife, and the former fire chief's wife knew about the bank account maintained at First Volunteer Bank, which was funded by donations and transfers from the HVFD's primary bank account at Citizens Tri-County Bank. None of these bank accounts required two signatures on checks issued on the accounts. Only the signature of Mr. Henegar was required.
- B. Mr. Henegar issued several checks payable to the bank for cash purportedly to pay the volunteer firemen in cash instead of issuing each fireman a check. We could not determine whether all of this cash was disbursed to the firemen.
- C. Mr. Henegar issued checks from each of the HVFD accounts to pay \$92,620.25 of personal expenses such as credit cards, utilities, computer equipment, food purchases, and cellular phone services. Included in the \$92,620.25 were payments to his wife purportedly for radio repairs (\$14,039.55) and to a bank to make a loan payment (\$259.10) for his son. Exhibit A lists each individual check that was misappropriated, summarizes the checks by vendor and bank, and what percentage of all the checks paid by the banks that were misappropriated.
- D. In at least four instances, Mr. Henegar improperly received cash back from bank deposits made from private donations and Marion County's annual contribution. This amount has been included in the cash shortage.

Deposit Date	Bank	Cash Back From Deposit
12-27-2006	First Volunteer Bank	\$ 43.66
3-11-2009	Citizens Tri-County Bank	200.00
8-3-2009	Citizens Tri-County Bank *	1,900.00
1-28-2010	Citizens Tri-County Bank	60.00
Total		<u>\$ 2,203.66</u>

\* This \$1,900 was cash received back from the deposit of Marion County's annual contribution totaling \$35,179.84.

- E. Donations were solicited annually for the HVFD by Mr. Henegar and his wife; however, no records of the donations appear to have been maintained. Therefore, we could not determine if all funds donated by individuals were properly remitted to the HVFD.
- F. On at least two occasions the HVFD borrowed funds from two volunteer fire department members. The fire department subsequently issued checks to repay these individuals. These loans were obtained during the same time period funds appear to have been misappropriated by Mr. Henegar.
- G. There were 59 checks totaling \$19,134.48 issued by the HVFD purportedly for various department expenses; however, there is insufficient documentation to determine the legitimacy of these disbursements. Included in the 59 checks were 28 checks totaling \$3,147.12 issued to Charter Communications for cable television services that Mr. Henegar admitted to us included both his personal service and the HVFD service; however, we did not have documentation to separate the expenses. Since we were unable to determine the legitimacy of these 59 payments, we have not included these payments (\$19,134.48) as part of the cash shortage.
- H. Duties were not segregated in the fiscal management of the HVFD. Mr. Henegar had total control over receipts and disbursements with no review from other parties. This lack of segregation of duties is the result of a lack of management oversight and poor management decisions by those parties over the volunteer fire department operations and is a significant deficiency in internal controls that increases the risk of unauthorized transactions.

It should be noted that in April 2010, Mr. Henegar resigned his position and advised the county mayor and the current fire chief that he had borrowed roughly \$12,000 from the fire department. As of April 12, 2010, Mr. Henegar has remitted \$7,800 to

the HVFD. On October 4, 2010, Mr. Billy Joe Henegar was indicted by the Marion County grand jury on theft over \$60,000.

**28. Marshall County - Ambulance Service Department**

The audit of Marshall County for the 2007-08 year reported a cash shortage of \$49,950 at the Ambulance Service Department. The ambulance service director sold a used ambulance on the internet auction site [www.govdeals.com](http://www.govdeals.com) to Mr. Daniel Stewart from North Carolina for \$49,950. Mr. Stewart presented a forged bank letter of credit, paid with a business check, and took delivery of the ambulance at 3:00 a.m. on October 19, 2007. The shift captain on duty at the ambulance service accepted the check from Mr. Stewart and turned over the title to the ambulance per prearranged discussions with the ambulance service director and Mr. Stewart. This check was deposited with the county trustee the next day; however, the check was subsequently returned by the bank for insufficient funds. In the meantime, Mr. Stewart sold the ambulance to Amelia Ambulance Leasing, LLC, in Amelia, Virginia. Mr. Stewart was indicted on January 20, 2008, and convicted on two counts of theft of property – \$10,000 to \$60,000, one count of forgery – \$10,000 to \$60,000, and one count of worthless checks – \$10,000 to \$60,000. Mr. Stewart was sentenced to six years in the Tennessee Department of Corrections and ordered to pay restitution of \$49,950. As of the date of this report, restitution has not been received. The county attorney has advised county officials that conflicting state laws prohibit the county from obtaining the ambulance from the third-party purchaser. County officials advised that the county is unable to receive an insurance recovery because the county issued a good title to the purchaser and therefore this cash shortage has been written off.

**29. Maury County - Maury Regional Hospital**

The contracted audit of Maury County for the 2008-09 year reported a cash shortage of \$25,140 at the Maury Regional Hospital. On April 30, 2008, representatives from the Maury Regional Hospital informed their internal auditors that they suspected a theft involving cafeteria cash and manipulation of cafeteria records. The internal audit department of the hospital performed an examination of the cafeteria cash and check receipts for the period July 1, 2007, through February 25, 2009. This examination disclosed a cash shortage of \$25,140. As a result of the investigation, an employee was terminated on February 28, 2009, and another employee was terminated on March 1, 2009. Both former employees were indicted by the Maury County Grand Jury on May 22, 2009, for one count of theft of property between \$10,000 and \$60,000. The case is pending.

**30. McMinn County - Office of Circuit, General Sessions, and Probate Courts Clerk**

The contracted audit of McMinn County for the 2008-09 year reported a cash shortage of \$15,484 in the Office of Circuit, General Sessions, and Probate Courts Clerk. On August 14, 2009, the clerk of the Office of the Circuit, General Sessions, and Probate Courts notified the Tennessee Comptroller of the Treasury that she

had discovered discrepancies in the receipts and deposits involving the General Sessions Court. The contract auditors were asked to extend their audit procedures to investigate the discrepancies. They determined that a cash shortage of \$15,484 existed in the office for the period from November 6, 2006 to July 10, 2009. This shortage resulted from the misappropriation of cash collections and improper entries made to official records to conceal the theft. Tina Snyder, the employee responsible for collecting and recording the filing and other court fees in the General Sessions Court, was terminated on July 22, 2009 and was indicted by the Grand Jury on November 17, 2009.

**31. McNairy County - Office of Circuit Court Clerk**

The audit of McNairy County for the 2007-08 year reported a cash shortage of \$13,528.19 from eight bank deposits in the Office of Circuit Court Clerk. A former office employee, Dana Siegler, admitted taking the funds and has restored the \$13,528.19 in missing funds to the office. On June 20, 2008, Ms. Seigler pled guilty in Circuit Court to official misconduct. She was sentenced to two years in state prison and immediately granted probation. In addition, she was ordered to pay \$4,405 for restitution to the county for audit expenses. As of June 30, 2009, Ms. Seigler had not made any payments on the restitution for the audit expenses.

**32. Monroe County - Office of Sheriff**

The audit of Monroe County for the 2008-09 year reported a cash shortage of \$30,646.08 in the Office of Sheriff as of October 22, 2008. This cash shortage resulted from the failure to account properly for all collections resulting from operations of the commissary. Due to internal control weaknesses, we were unable to determine if all collections were reflected on the system's accounting reports. Consequently, the actual cash shortage could be larger than the amount reported. The county's insurance company paid the county \$20,646.08 in May 2009 (the cash shortage less a \$10,000 deductible). On January 15, 2010, the former commissary bookkeeper was indicted by the county's grand jury for theft over \$10,000. The case is still pending.

**33. Monroe County - Office of Sheriff**

A cash shortage of \$10,651.30 existed in the Sheriff's Office as of June 30, 2010. Commissary collections for several days between February 11, 2010 and April 19, 2010, had not been deposited to the office bank account or otherwise accounted for properly.

Although, internal control policies of the office required employees to reconcile daily receipt batches with bank deposits and to reconcile bank statements with accounting records, we found no evidence that receipts were being reconciled with deposits. Also, we found that reconciliations of bank statements were incomplete. The June 2010 bank reconciliation reflected an unexplained difference, which upon further investigation by our office was determined to include the difference caused by not depositing the aforementioned collections.

As a result of these control procedures not being performed, the cash shortage remained undetected by the Sheriff's Office and was not discovered until our audit was performed in late September 2010. The following table details the unaccounted receipts:

Receipt Sequence		Receipt Dates	Amount Collected
Beginning Receipt No.	Ending Receipt No.		
9614		2-11-10	\$ 25.00
10135	10209	3-4-10	1,802.00
10569	10649	3-22-10	2,348.00
10828	10850	3-31-10	665.20
10978	11051	4-9-10	1,806.00
11052	11129	4-12-10	2,532.00
11130	11136	4-14-10	96.45
11137	-	4-13-10	50.00
11138	11202	4-15-10	1,522.00
11203	-	4-19-10	30.00
		Total Undeposited	\$ 10,876.65
		Net Deposit Overages	(225.35)
		Total Cash Shortage	\$ 10,651.30

**34. Morgan County - Office of County Clerk**

A special report dated February 10, 2011, on the Morgan County Clerk for the period July 1, 2009 through December 22, 2010 reported a cash shortage of \$54,611.33 at December 14, 2010.

The Tennessee Department of Revenue informed our office of certain allegations concerning customer payments made at the Morgan County Clerk's Office. Several customers making payments for services to the clerk's office complained that their checks were taking up to three months to clear their personal bank accounts. Based on this allegation, our office conducted a special investigation with the assistance of the Tennessee Bureau of Investigation of the Morgan County Clerk's Office for the period July 1, 2009 through December 22, 2010. This investigation included a cash count, a review of the office's accounting records compared with receipt logs, a review of the bank deposit detail in the deposit books, bank records, and interviews.

Our investigation disclosed a cash shortage of \$54,611.33 at December 14, 2010. Subsequently, the county clerk deposited \$47,200.71, leaving an unpaid cash shortage of \$7,410.62 at December 22, 2010.

On December 14, 2010, we counted the cash in the office to determine if the amount of cash and checks on hand agreed with the amounts that should be on hand as reflected on the accounting records. The results of this procedure determined that office collections from November 6, 2010 through December 2, 2010, totaling \$54,611.33, had not been deposited to the county clerk's official bank account and should have been on hand; however, these funds were not presented to us for count.

We noted that the county clerk had significant delays in depositing daily collections to her official bank account. Office records reflected as many as 67 days lapsed between the date some funds were collected and the date the funds were deposited. Section 5-8-207, Tennessee Code Annotated, requires county officials to deposit public funds to the office bank account within three days of collecting funds. Also, sound business practice dictates that all collections be deposited on a daily basis to minimize the risk of fraud and abuse. The delay in depositing funds allows large amounts of cash and checks to accumulate in the office.

Details of the \$54,611.33 cash shortage from collections that had not been deposited are listed in Table 1 below:

TABLE 1

Date of Collection	Cash	Checks and Money Orders	Cash Shortage - Collections Not Deposited
11/6/2010	\$ 536.50	\$ 335.75	\$ 872.25
11/8/2010	2,014.64	506.30	2,520.94
11/9/2010	921.75	2,235.60	3,157.35
11/10/2010	894.19	1,133.38	2,027.57
11/12/2010	2,086.88	2,358.05	4,444.93
11/13/2010	498.25	428.75	927.00
11/15/2010	1,159.25	1,695.35	2,854.60
11/16/2010	660.32	1,213.75	1,874.07
11/17/2010	453.80	1,045.75	1,499.55
11/18/2010	952.13	786.00	1,738.13
11/19/2010	1,068.13	1,895.75	2,963.88
11/20/2010	684.51	5,180.02	5,864.53
11/22/2010	1,604.67	971.20	2,575.87
11/23/2010	610.56	953.30	1,563.86
11/24/2010	690.69	2,851.16	3,541.85
11/29/2010	1,896.66	3,728.90	5,625.56
11/30/2010	2,190.88	1,876.50	4,067.38
12/1/2010	1,281.38	2,215.90	3,497.28
12/2/2010	1,919.98	1,074.75	2,994.73
Total	<u>\$ 22,125.17</u>	<u>\$ 32,486.16</u>	<u>\$ 54,611.33</u>

Our investigation determined that County Clerk Carol Hamby was responsible for making deposits and had been on medical leave since December 6, 2010. Office employees stated the missing deposits should be in the clerk's locked office, but they did not have a key to her office. We contacted Ms. Hamby on December 15, 2010, and she agreed to meet with us on December 20, 2010. At that meeting, Ms. Hamby advised us that all of the deposits had been prepared but had not yet been taken to the bank. When asked about the collections for the specific days noted in Table 1 above, the clerk stated she had taken all of the cash out of her office for safe keeping when she left for medical leave, rather than taking the cash to the bank. It should be noted, all deposits were made daily while Ms. Hamby was on medical leave, and no discrepancies were noted with those deposits.

On December 22, 2010, we determined that deposits totaling \$30,771.49 had been made by Ms. Hamby on December 20, 2010. Ms. Hamby informed us she had trouble getting a couple of the deposits to work out (see Table 2), but that all of the deposits had been made. With the help of Ms. Hamby, we searched her personal

office for the missing funds. During this search, she opened a drawer in her desk, and we noticed what appeared to be customer checks. Ms. Hamby informed us this particular drawer contained only personal items, and she closed the drawer; however, we asked to take a closer look at the contents. The drawer contained the customer checks comprising six deposits from November 23, 2010 to December 2, 2010; however, the cash needed to complete those deposits was missing. On December 22, 2010, we instructed Ms. Hamby to make a deposit of the checks found in her desk drawer along with other loose change discovered during the search. Upon discovery of the missing checks, Ms. Hamby initially advised us she must not have brought back all of the cash when she returned to the office and asked if she could try to locate another money bag. She later advised us all of the cash she could locate had been returned to the office.

The following table details the deposits made by the official, and the unpaid cash shortage identified by our investigation.

TABLE 2

Date of Collection	Cash Shortage - Collections			Deposits 12/22/10	Amount Not Deposited	
	Not Deposited	Deposits 12/20/10	Deposits 12/22/10			
11/6/2010	\$ 872.25	\$ 872.25	\$ 0.00	\$ 0.00		
11/8/2010	2,520.94	2,520.94	0.00	0.00		
11/9/2010	3,157.35	3,157.35	0.00	0.00		
11/10/2010	2,027.57	2,027.57	0.00	0.00		
11/12/2010	4,444.93	0.00	3,444.93	1,000.00		1
11/13/2010	927.00	927.00	0.00	0.00		
11/15/2010	2,854.60	2,854.60	0.00	0.00		
11/16/2010	1,874.07	1,874.07	0.00	0.00		
11/17/2010	1,499.55	1,499.55	0.00	0.00		
11/18/2010	1,738.13	1,738.13	0.00	0.00		
11/19/2010	2,963.88	4,859.63	0.00	(1,895.75)		2
11/20/2010	5,864.53	5,864.53	0.00	0.00		
11/22/2010	2,575.87	2,575.87	0.00	0.00		
11/23/2010	1,563.86	0.00	953.30	610.56	x	✓
11/24/2010	3,541.85	0.00	3,051.16	490.69	x	✓
11/29/2010	5,625.56	0.00	3,728.90	1,896.66	x	✓
11/30/2010	4,067.38	0.00	1,876.50	2,190.88	x	✓
12/1/2010	3,497.28	0.00	2,215.90	1,281.38	x	✓
12/2/2010	2,994.73	0.00	1,098.25	1,896.48	x	✓
Total	\$ 54,611.33	\$ 30,771.49	\$ 16,368.94	\$ 7,470.90		
Miscellaneous errors/cash in office				(60.28)		3
Total unpaid cash shortage				<u>\$ 7,410.62</u>		

- 1 Error in deposit - Less cash deposited for day than collected  
2 Error in deposit - More cash deposited for day than collected  
3 Miscellaneous cash in office deposited  
✓ Cash missing from deposits 11/23/2010 to 12/2/2010  
x Checks discovered in clerk's desk drawer by auditor

On December 22, 2010, Ms. Hamby advised the Tennessee Bureau of Investigation and a member of our staff that she would sometimes cash personal checks from cash of the office, and on occasion, take cash and forget to write a personal check to reimburse the office. She speculated this was the reason for the missing funds. On January 18, 2011, Ms. Hamby also admitted to us that she delayed making the

bank deposits and used cash from current collections to deposit with checks and money orders received from previous day's collections.

In summary, our investigation revealed a cash shortage of \$54,611.33 at December 14, 2010. After we began asking questions about the missing funds, the clerk deposited \$47,200.71, leaving an unpaid cash shortage of \$7,410.62 at December 22, 2010.

On January 24, 2011, County Clerk Carol Hamby was arraigned on charges of theft, official misconduct, and failure to follow the three day deposit law. On February 18, 2011, the Criminal Court of Morgan County accepted a plea of guilty to charges of official misconduct and violation of the three day deposit law. The charge of theft was dismissed. The court also accepted a memorandum of understanding to defer entry of judgment of guilty if terms and conditions of that memorandum are met. Among the conditions specified was the requirement that Ms. Hamby pay the remaining cash shortage, the cost of the extended audit (\$11,562), and court costs. Also, on February 18, 2011, Ms. Hamby resigned as Morgan County Clerk and submitted payment of \$6,500 to be applied toward the agreed obligations.

**35. Polk County - School Department**

The audit of Polk County for the 2007-08 year reported a cash shortage of \$12,499.19 in the School Department. This cash shortage resulted from cash collections for land owned and leased by the School Department (\$12,000) and various other cash collections (\$499.19) that had not been deposited with the county trustee. On July 2, 2008, Sharon Laycock was indicted by the Polk County Grand Jury for unlawfully and knowingly exercising control over property over the value of \$1,000 and less than \$10,000. On September 3, 2009, Ms. Laycock was found not guilty. On February 8, 2010, the Board of Education voted to write-off this cash shortage.

**36. Polk County - School Department**

The audit of Polk County for the 2007-08 year reported a cash shortage of \$1,047.45 in the School Department resulting from a School Department maintenance employee using a department owned welding machine and materials associated with welding for his personal benefit. The employee entered into a plea agreement on March 23, 2009, that required the maintenance employee to pay restitution of \$1,047.45 for the personal use of the School Department's equipment and materials. However, as of June 30, 2010, no payments have been received.

**37. Putnam County - Park View Elementary School Cafeteria**

Our office received allegations concerning missing bank deposits at the Park View Elementary School Cafeteria. Since cafeteria operations in Putnam County are reviewed by a contracted certified public accountant (CPA), our office contacted the CPA and requested an investigation of these allegations. The investigation for the

period August 10, 2010, through September 24, 2010, concluded that between August 18, 2010, and September 24, 2010, collections of cash totaling \$3,281.38 and checks totaling \$3,283.60 had not been deposited to the cafeteria fund resulting in a cash shortage totaling \$6,564.98. Also, it was noted that other collections were not being deposited to the bank account within three days as required by Section 5-8-207, Tennessee Code Annotated.

The CPA conducted various interviews with the director of schools, school finance director, food service supervisor, cafeteria manager, cafeteria cashier, and two other school employees. Also, bank statements, deposit slips, and bank security tapes were reviewed. On October 18, 2010, an envelope with some of the missing checks totaling \$3,000.40 was delivered through interoffice mail to Park View Elementary School. Therefore, as of October 19, 2010, funds still missing were \$283.20 in checks and \$3,281.38 in cash totaling \$3,564.58. The late and missing deposits are noted in the tables as follow:

Late Deposits

Collection Date	Deposit Date	Amount
8-10-10	9-7-10	\$ 310.35
8-11-10	9-7-10	126.93
8-12-10	9-7-10	253.13
8-13-10	9-7-10	195.41
8-16-10	9-7-10	339.92
8-17-10	9-7-10	<u>300.05</u>
Total Late Deposits		<u><u>\$ 1,525.79</u></u>

Missing Deposits

Collection Date	Amount
8-18-10	\$ 220.00
8-20-10	312.40
8-23-10	230.45
8-24-10	257.95
8-25-10	297.40
8-26-10	233.58
8-27-10	263.80
8-30-10	158.28
8-31-10	232.43
9-1-10	347.30
9-3-10	193.60
9-8-10	359.37
9-9-10	324.41
9-10-10	291.86
9-13-10	287.88
9-14-10	501.72
9-15-10	143.31
9-16-10	246.56
9-17-10	158.04
9-20-10	237.09
9-21-10	441.13
9-22-10	222.42
9-23-10	360.67
9-24-10	<u>243.33</u>
Total Missing Deposits/Cash shortage 9-24-10	\$ 6,564.98
Checks Returned, 10-18-10	<u>(3,000.40)</u>
Cash Shortage, 10-19-10	<u><u>\$ 3,564.58</u></u>

The results from the CPA's review have been forwarded to the district attorney general.

**38. Robertson County - Sanitation Department**

On July 14, 2010, the Sanitation Department brought their July 8, 2010, collections to the Finance Department. Since the Finance Department employee assigned the responsibility of counting collections was out of the office, the collections were placed in a locked filing cabinet to be counted later that day. When the Finance Department employee counted the collections, it was determined that receipts exceeded collections by \$200. Officials could not determine who was responsible for the \$200 cash shortage because all Sanitation Department employees use the same cash drawer, and the cash was not immediately counted by the Finance Department

in the presence of the Sanitation Department employee. The director of the Sanitation Department replaced the missing \$200 from personal funds on July 30, 2010. This shortage was the result of a lack of management oversight to mitigate risks related to safeguarding assets. This finding has been discussed with the district attorney general.

**39. Rutherford County - Offices of County Mayor and Sheriff**

An individual was hired by the Rutherford County Sheriff's Department on June 5, 2006, and effective July 1, 2006, this employee and her three children were enrolled in the county's insurance plan. On November 7, 2006, this employee filed a benefits enrollment/change form with Rutherford County adding a step-daughter and husband to the insurance plan effective January 1, 2007. However, the husband was actually her fiancée. They were not married until August 8, 2008. From January 1, 2007 through August 8, 2008, the employee filed medical, dental, comprehensive benefits, and pharmacy claims for persons falsely claimed to be her step-daughter and husband, and she received insurance benefits totaling \$14,551.56 for these ineligible persons. Therefore, the employee knowingly filed and received insurance benefits on ineligible persons 19 months prior to the persons becoming eligible participants.

In August 2008, when the employee updated her personnel file for a change to her married name, county insurance personnel became aware of the ineligible charges. On November 24, 2008, the employee signed a promissory note with Rutherford County for \$14,551.56 due and payable in 26 consecutive bi-monthly installments of \$100 each without interest. On December 22, 2009, the employee signed a second promissory note with Rutherford County for \$11,951.56 due and payable in 58 consecutive bi-monthly installments of \$200 each and one installment of \$351.56 without interest. These note payments are being withheld from the employee's bi-monthly payroll checks by the Rutherford County Finance Office. As of June 30, 2010, \$9,351.56 remains outstanding on this note.

After county officials and the employee had already agreed to a restitution arrangement, the county's personnel director presented the above information to the district attorney general for his consideration. Based upon the district attorney general's review of the information presented to him and discussions with the county mayor, the district attorney agreed to the restitution agreement in-lieu-of prosecution.

**40. Rutherford County - Office of Circuit, General Sessions, and Juvenile Courts Clerk**

On October 19, 2010, Circuit, General Sessions, and Juvenile Courts Clerk, Laura Bohling, notified our office of missing cash collections she had discovered in the Office of General Sessions Court. We met with the clerk on October 27, 2010, and she advised us that she had terminated the employment of a deputy clerk on October 15, 2010, for various violations of office policy. When she went through the

former employee's desk, she discovered various documents that had not been properly recorded or fees collected.

On November 1, 2010, the former employee confessed to us about diverting office funds for her personal use. In each if the instances where the deputy diverted funds for her personal use, she did not issue a receipt for the funds and withdrew a like amount of funds. Details of the missing \$745.85 are as follows:

- A. In August 2010, the former employee filed a motion for a customer without receipting the applicable \$25 filing fee.
- B. In September 2010, the former employee processed the paperwork associated with a driver's license reinstatement, collected the \$270.85 fee for fines and costs, but did not receipt the money into the accounting records.
- C. There were three expungements totaling \$450 that had been processed into the court records; however, the \$450 was not receipted or deposited.

This finding has been discussed with the district attorney general.

**41. Sequatchie County - Office of Sheriff**

The audit of Sequatchie County for the 2006-07 year reported a cash shortage of \$8,669 in the commissary operation at the Sheriff's Department. This cash shortage resulted from commissary receipts not being deposited to the official bank account or otherwise accounted for properly. On December 18, 2008, a former employee entered into a pretrial diversion agreement on charges related to this cash shortage and has agreed to pay restitution of \$8,551.26. The difference of \$117.74 (\$8,669-\$8,551.26) between the original shortage amount and the agreed to restitution amount was written-off. The county received restitution of \$608 during 2009-10 leaving a balance of \$7,943.26.

**42. Sequatchie County - Office of Sheriff**

The audit of Sequatchie County for the 2007-08 year reported a cash shortage of \$2,011.81 in inmate funds (personal funds taken from a person at the time of his arrest) at the Sheriff's Department. This cash shortage resulted from receipted funds not being deposited to the official bank account or being accounted for otherwise. Employees of the Sheriff's Department made contributions of \$1,197 to apply toward the cash shortage leaving a balance of \$814.81 at June 30, 2010.

**43. Sequatchie County - Office of County Clerk**

The audit of Sequatchie County for the 2007-08 year reported a cash shortage of \$4,248.51 in the Office of County Clerk. This shortage resulted from several motor vehicle title application transactions that had been altered by an employee of the

office. The county's insurance carrier has paid \$3,248.51 toward the shortage reducing the outstanding shortage amount to \$1,000 on June 30, 2009. On January 26, 2009, the Sequatchie County Grand Jury indicted a former office employee for theft of property of \$4,248.51. This former employee entered into a plea agreement on April 27, 2009. The first \$1,000 received in restitution collected thereafter will be remitted to the county for the deductible, and any restitution collected thereafter will be remitted to the bonding company. Restitution of \$490 had been received as of June 30, 2010.

**44. Sequatchie County - School Department**

The audit of Sequatchie County for the 2008-09 year reported a cash shortage of \$31,710 in the School Department. On January 25, 2010, School Department officials notified auditors that a payroll discrepancy had been discovered. During the period July 1, 2006, through January 21, 2010, the payroll bookkeeper had issued checks totaling \$31,710 to herself in excess of her allowable compensation. The payroll bookkeeper resigned her position on January 21, 2010. On May 24, 2010, the Sequatchie County Grand Jury indicted the former bookkeeper on one count of theft of property of at least \$10,000 but less than \$60,000 and one count of official misconduct. The county's insurance carrier has paid \$30,670 toward the shortage reducing the outstanding shortage to \$1,040 on June 30, 2010.

**45. Sevier County - Office of General Sessions Court Clerk**

The county's 2004-05 audit report reflected a cash shortage of \$16,643.47 in the Office of General Sessions Courts Clerk. This cash shortage resulted from the office personnel's failure to deposit or otherwise account for certain receipts and other deposit items that were not receipted. A former employee was indicted for theft involving this cash shortage and was granted pretrial diversion in June 2008. As part of this pretrial diversion agreement, the former employee agreed to pay restitution to the county of \$15,372.22. As of June 30, 2010, this person had made payments of \$3,451.50, leaving an outstanding shortage of \$11,920.72. On July 20, 2010, the former employee paid the remainder of the agreed restitution.

**46. Sevier County - Office of County Clerk**

Due to discrepancies discovered with bank deposits during our annual audit of the Office of County Clerk for the year ended June 30, 2010, we extended our procedures to include transactions through August 31, 2010. Our extended procedures identified a cash shortage of \$94,645.50 comprised of the following:

	<u>Cash Shortage</u>
Cash that the clerk admitted to removing from the office for personal use	\$ 92,334.29
Numerous unidentified shortages in daily cash drawer checkouts between July 1, 2009 and August 16, 2010	<u>2,311.21</u>
Total	<u><u>\$ 94,645.50</u></u>

Our examination found serious delays in depositing daily collections into the office bank account. By delaying deposits, large amounts of cash and checks/money orders were allowed to accumulate in the office. Records reflected that as many as 29 days elapsed between the date some funds were collected and the date the funds were deposited. Section 5-8-207, Tennessee Code Annotated, requires county officials to deposit public funds into the office bank account within three days of collection. Sound business practices dictate that all collections should be deposited daily to minimize the risk of fraud and abuse.

On August 23, 2010, we performed a cash count in the office to determine if the amount of cash on hand agreed with amounts reflected in the records. The results of our cash count revealed collections for the days listed in the following table had not been deposited and were not originally presented for cash count.

<u>Date of Collections</u>	<u>Cash</u>	<u>Checks and Money Orders</u>	<u>Total</u>
7-26-10	\$ 11,255.81	\$ 15,190.04	\$ 26,445.85
7-27-10	8,345.45	15,397.73	23,743.18
7-28-10	7,375.01	9,442.36	16,817.37
7-29-10	5,937.34	27,794.34	33,731.68
7-30-10	15,837.11	20,221.22	36,058.33
8-2-10	15,304.75	16,651.93	31,956.68
8-3-10	10,231.44	13,628.90	23,860.34
8-4-10	6,353.33	12,210.40	18,563.73
8-5-10	closed for elections		
8-6-10	<u>11,694.05</u>	<u>18,752.17</u>	<u>30,446.22</u>
Total	<u><u>\$ 92,334.29</u></u>	<u><u>\$ 149,289.09</u></u>	<u><u>\$ 241,623.38</u></u>

When asked about the collections for the above-noted days, the clerk presented the checks and money orders (\$149,289.09) for our count; however, the clerk could not produce the cash from those collections (\$92,334.29). Therefore the \$92,334.29 is

included in the total cash shortage. The clerk later provided us a statement that he had used this cash for his personal use.

It appears a cash shortage existed during much of the period examined and that the clerk concealed the shortage by delaying deposits and using cash from current collections to deposit with checks and money orders from previous days collections. Although the clerk overrode existing internal control procedures to misappropriate the collections, other office personnel should have known of the existence of an excessive number of deposits in transit when reconciling bank statements at the end of each month.

The remainder of the cash shortage totaling \$2,311.21 resulted from numerous daily checkout differences between amounts collected and amounts deposited throughout the period examined. The clerk liquidated the \$2,311.21 cash shortage by depositing personal funds into the office on August 16, 2010. The clerk liquidated the remainder of the cash shortage by depositing personal funds on August 25, 2010 (\$48,750.72) and August 26, 2010 (\$43,583.57).

County Clerk Joe Keener, II, resigned his position on August 30, 2010. This finding has been reviewed with the county mayor and the district attorney general.

**47. Smith County - Highway Department**

The audit of Smith County for the 2008-09 year reported a cash shortage of \$4,084.54 in the Highway Department. On October 8, 2009, Highway Department employees discovered that tools and miscellaneous items totaling \$4,084.54 were stolen from several highway trucks parked near the shop building. The keys to highway vehicles were in the ignition with the doors unlocked; however, no vehicles were stolen. The City of Gordonsville Police Department investigated the theft. On November 23, 2009, the department's insurance carrier paid the department \$3,584.54, which is less a \$500 deductible that has been written off.

**48. Smith County - Highway Department**

On March 15, 2010, Highway Department employees discovered that a 2002 Dodge truck valued at \$7,800 and miscellaneous items totaling \$3,130 were stolen from department property. Locks had been cut on the gate to the property and on toolboxes on several trucks parked near the shop building. Accounting standards provide that internal controls be designed to safeguard assets. The Highway Department did not have written procedures directing employees how to secure the vehicles left overnight; however, in November 2010, the department implemented written procedures. The City of Gordonsville Police Department investigated the theft. In April and May 2010, the department's insurance carrier made two payments to the department totaling \$10,430, which is less a \$500 deductible that has been written off.

**49. Stewart County - Office of Sheriff**

In the fall of 2009, the sheriff suspected a dispatcher of theft and contacted the Tennessee Bureau of Investigation to perform an investigation. It was determined that the dispatcher had taken sexual offender registry fees of \$150 that had been paid to the Sheriff's Department in December 2008. The dispatcher pled guilty to official misconduct charges on September 21, 2010, and was ordered to pay restitution of \$150 to the county. However, as of the date of the audit report, the defendant has not paid the restitution. We were not informed of this theft until February 2010. Section 8-4-503, Tennessee Code Annotated (TCA), requires that "a public official with knowledge based upon available information, which reasonably causes the public official to believe that unlawful conduct has occurred, shall report the information in a reasonable amount of time to the Office of the Comptroller of the Treasury." Section 8-4-502, TCA, defines a reasonable amount of time to make this report as not exceeding five working days.

**50. Sullivan County - Office of Clerk and Master**

In March 2010, an attorney filed a case in the Bristol Office, paid \$203.50 in cash for the court costs, but did not obtain a receipt at that time. A few days later, the attorney returned to the office to obtain his receipt; however, no record of the case or a receipt could be found. Subsequently, a deputy clerk of the office brought the missing funds to the clerk and master. The clerk and master immediately filed the case, issued a receipt, and terminated the deputy clerk's employment. The clerk and master performed a review of all cases filed within a two to three month period prior to this incident and found no other discrepancies. The clerk and master did not file a Fraud Reporting Form with the Comptroller's Office in accordance with Section 8-4-501, Tennessee Code Annotated. This statute provides that this Fraud Reporting Form be filed within five working days from the time the official has knowledge to believe that unlawful conduct has occurred. The clerk and master filed the Fraud Reporting Form on July 12, 2010.

**51. Sumner County - School Department**

The audit of Sumner County for the 2006-07 year reported a cash shortage of \$2,022.70 as a result of food service personnel observing that collections for September 4, 2007, at the Station Camp High School Cafeteria were not deposited into the bank account or otherwise accounted for. We have discussed this shortage with the district attorney general, and a police investigation has been conducted that did not turn up any suspects. Therefore, the School Department does not expect to recover these funds so these funds have been written off.

**52. Sumner County - Ambulance Service**

The audit of Sumner County for the 2008-09 year reported a cash shortage of \$180 at the Ambulance Service. On May 6, 2009, an employee noticed a cash receipt totaling \$180 dated April 8, 2009, that had not been properly accounted for properly. An internal investigation by the Ambulance Service disclosed that the funds had not

been deposited. On November 4, 2009, the ambulance service director notified auditors of the cash shortage. Since no individual has been identified in this investigation the amount has been written off.

**53. Sumner County - Office of Sheriff**

The audit of Sumner County for the 2008-09 year reported a cash shortage of \$40 at the Sheriff's Department as of June 30, 2009. On April 27, 2009, Sheriff Department employees discovered that collections totaling \$40 for animal control were missing, and the next day the sheriff notified auditors about the shortage. The Sheriff's Department performed an internal investigation, but could not determine who was responsible for the shortage. This shortage occurred because collections for animal control were not adequately safeguarded. Collections were placed into a bank bag and kept in a desk drawer where numerous employees, visitors, and inmates had access to the desk and/or bank bag. Since no individual has been identified in this investigation the amount has been written off.

**54. Sumner County - School Department**

On June 4, 2010, the School Department's internal auditor informed us that an employee had purchased personal items with school funds. A review of the records revealed questionable purchases of at least \$657.84. At the beginning of each school year, the daycare programs are issued a \$1,000 gift card to purchase food and supplies as needed for the program. Receipts for these purchases are to be remitted to the school principal and once reviewed; the principal will submit these receipts to the Board of Education's Finance Department to receive a reimbursement check to reload the gift card. During the 2009-10 year, several reimbursement requests were submitted with a note that some of the receipts had been lost. The internal auditor requested copies of these missing receipts from Wal-Mart and noted numerous purchases that appeared to be for personal purposes such as groceries, cigarettes, electronic equipment, and other miscellaneous items. On June 7, 2010, the internal auditor questioned the daycare director about the purchases, and the director advised the internal auditor that she had purchased personal items with school funds. The School Department terminated the employment of the daycare director on June 8, 2010, and requested an investigation be performed by the City of White House Police Department. On October 27, 2010, the former daycare director was indicted on one count of theft of property over \$500. On January 14, 2011, the former employee pled guilty to one count of theft of property over \$500. The former employee was sentenced to one year probation and ordered to pay restitution to the Sumner County School Board totaling \$657.84.

**55. Tipton County - Office of County Executive**

The audit of Tipton County for the 2007-08 year reported a cash shortage of \$4,324.95 in the county's General Fund. An investigation by the Tennessee Bureau of Investigation and the Tipton County Sheriff's Department revealed that a litter control officer used a county fuel card to purchase gasoline for his personal vehicles. On May 4, 2009, the defendant pled guilty to theft charges and received judicial

diversion and was ordered to pay restitution of \$4,324.95 within 20 months. As of June 30, 2010, the former employee had paid restitution of \$332, leaving an outstanding cash shortage of \$3,992.95.

**56. Tipton County - School Department**

On August 6, 2010, the Tipton County director of schools informed us the School Department had conducted an internal investigation of the School-Age Child Care Program (SACCP). Their investigation was initiated from allegations a part-time student employee who worked at Crestview Elementary School had been paid for work the student had not performed. Their internal investigation confirmed this student had been paid for work during the same time period the student participated in an after-school sports activity during the months of August, September, and October 2009. The School Department's investigation noted the student had been paid approximately \$825 for work not performed during this period; however, our investigation determined the amount to be \$884.50. The county-wide supervisor for the SACCP admitted to falsifying the payroll records from Crestview Elementary School five times to indicate the student had performed work while the student was participating in an after-school sports activity.

Our investigation also discovered the student received payments for work not performed in the SACCP at Brighton Elementary School. These payments totaled \$4,857.50, which covered 24 pay periods from May 15, 2008, through May 15, 2009. The SACCP supervisor and the student both admitted to us in written statements that the student never worked at Brighton Elementary School. The SACCP supervisor admitted to falsifying the payroll records sent to the business office.

Our examination of payroll records disclosed the student had been improperly paid \$5,742.00 for 29 payroll payments, 24 payments from Brighton Elementary School totaling \$4,857.50 and five payments from Crestview Elementary School totaling \$884.50. It should be noted the School Department's business office withheld the student's final two paychecks totaling \$663.56 for the periods ending July 31, 2010, and August 13, 2010, after learning of the prior payroll irregularities. This left a cash shortage balance of \$5,078.44 (\$5,742.00 less \$663.56).

Our investigation also discovered the SACCP supervisor had hired an individual on August 19, 2002, for employment in the SACCP at Munford Elementary School. We interviewed the site supervisor and other employees who were at this location during the time this individual was purportedly to have been employed. These employees stated the individual worked there part-time for a few weeks in the beginning; however, they also stated the individual was rarely there during most of this time period, and when she was there she came in late and left early. The SACCP supervisor admitted to us she had falsely reported the individual's work time to the business office. The SACCP supervisor stated the individual may have worked there approximately two months in the beginning; however, we could not determine the reliability of the payroll records. Payroll records in the business office disclosed the individual had received 80 payroll checks from September 13, 2002, through January 31, 2006, totaling \$22,278.75. The individual

admitted to us in a written statement these were improper payments, which had been submitted by the SACCP supervisor to the business office. Due to the written admissions of both the SACCP supervisor and the individual and the lack of reliable documentation, the entire payroll of \$22,278.75 is questioned.

In summary the cash shortage consists of the following:

Brighton Elementary School - 24 payments	\$ 4,857.50
Crestview Elementary School - 5 payments	884.50
Less: credit for 2 payroll checks withheld	(663.56)
Munford Elementary School - 80 payments	<u>22,278.75</u>
 Total Cash Shortage	 <u>\$ 27,357.19</u>

The SACCP supervisor retired from the school system on June 30, 2010. In October 2010, the supervisor paid the School Department \$27,357.19 to liquidate the cash shortage, and in November 2010, the supervisor was indicted by the Tipton County Grand Jury.

**57. Unicoi County - Office of General Sessions Court Clerk**

The audit of Unicoi County for the 2005-06 year reported a cash shortage of \$21,431 as of June 30, 2006, and an additional \$791 cash shortage in 2006-07 for a total cash shortage of \$22,222 as of June 30, 2007 in the Office of General Sessions Court Clerk. During the 2008-09 year, the county received a check totaling \$9,331 in settlement of a claim filed with the former clerk’s bonding company for the period ended August 31, 2006. A different bonding company insured the county beginning September 1, 2006. A claim was filed with that company for the remaining balance of the shortage (\$12,891); however, that claim was denied. On March 23, 2009, the County Commission voted to discontinue any litigation against the bonding company for nonpayment of the claim; however, the County Commission did not formally write-off the remaining cash shortage. Therefore, the unpaid balance of \$12,891 is reflected as a cash shortage in the financial statements of this report at June 30, 2010.

**58. Unicoi County - School Department**

A special report dated June 28, 2010, on the Unicoi County School Department for the period July 1, 2009 through May 25, 2010 reported a cash shortage of \$20,967.36.

On May 6, 2010, while performing interim audit procedures, we noted a lack of documentation to support a disbursement to a vendor. We requested the School Department’s Director of Finance, Ms. Angie Williams, provide us with

documentation to support the disbursement in question. Ms. Williams told us that the disbursement was for personal expenses and that there were other such inappropriate payments. We immediately went back and tested disbursement records for the year July 1, 2008 through June 30, 2009; however, we found no evidence of personal expenses being paid for that period. Since the misappropriation was perpetrated by management (the director of finance), we extended certain audit procedures to test every component of the department's accounting functions from July 1, 2009 through May 25, 2010, in search of additional personal expenses paid with School Department funds. This investigation included a review of other vendor accounts, payroll, sale of surplus property, receipting, billing, and accounting policies and procedures. Based on our extended procedures, a cash shortage of \$20,967.36 was determined to exist. This cash shortage resulted from the disbursement of School Department funds for personal expenses of Ms. Williams totaling \$20,417.36 plus \$550 from her failure to pay the School Department for a laptop computer built for her by the Vocational Department.

The following table details the cash shortage identified by our investigation. Payees listed as Beneficial and HSBC are members of the HSBC Group, a large financial services corporation, which Ms. Williams used to finance her personal purchases.

Vendor	Date	Warrant Number	Amount
Beneficial	9-22-09	66260	\$ 4,454.39
HSBC	10-5-09	66432	2,021.00
HSBC	10-26-09	66732	1,463.64
Beneficial	11-4-09	66844	2,580.56
HSBC	11-17-09	67096	464.65
Beneficial	12-7-09	67349	2,358.28
N/A	12-10-09	(1)	275.00
N/A	12-10-09	(1)	275.00
Beneficial	2-16-10	68167	2,358.28
Beneficial	3-16-10	68472	2,358.28
HSBC	5-3-10	69009	<u>2,358.28</u>
Total Cash Shortage			<u>\$ 20,967.36</u>

(1) - Sale of a laptop computer that Ms. Williams had the Vocational Department build for her. We could not find any documentation of payment being made by Ms. Williams. The sale was separated into two invoices.

The director of schools suspended the finance director, Ms. Angie Williams, on May 7, 2010. Ms. Williams resigned her position as director of finance on

May 25, 2010, and she liquidated the cash shortage of \$20,967.36 with personal funds on May 27, 2010.

A lack of management oversight and certain internal control deficiencies contributed to the opportunity for the cash shortage to occur and not be detected by School Department employees.

The former director of finance pled guilty to theft over \$10,000 on January 6, 2011, and was sentenced to 90 days confinement, ten years probation, and payment of restitution of \$8,790 for the additional cost of the audit.

**59. Williamson County - Recreation Department**

The audit of Williamson County for the 2005-06 year reported a cash shortage of at least \$45,037.43, as of June 30, 2006, at the Fairview Recreational Center. This cash shortage resulted from collections that were not deposited or otherwise accounted for. On September 10, 2007, a former supervisor at the Fairview Recreational Center was indicted by the Williamson County Grand Jury for theft in excess of \$10,000. On October 6, 2008, the defendant pled guilty and was sentenced to four years probation and ordered to pay restitution to Williamson County. On October 7, 2008, the defendant signed a promissory note with Williamson County. The promissory note states that the debtor shall pay the principal amount in full no later than 48 months from November 1, 2008. As of June 30, 2010, this individual had paid restitution totaling \$4,661.50, leaving an outstanding cash shortage of \$40,375.93.

**60. Williamson County - Office of County Clerk**

The audit of Williamson County for the 2008-09 year reported a cash shortage of \$3,386.18 in the Office of County Clerk. In December 2008, the county clerk discovered that collections from a title application transaction totaling \$1,877.68 had been diverted for an employee's personal use. On December 29, 2008, the employee admitted to fraudulently substituting funds to cover the diversion of funds, and the county clerk terminated the employee for mishandling the funds. Subsequently, the county clerk's bookkeeper and auditors reviewed the audit logs for the period July 1, 2007, through the employee's termination in December 2008, and discovered two additional title applications totaling \$1,508.50 had been stolen. Therefore, the amount of funds diverted from the office totaled \$3,386.18 (\$1,877.68 plus \$1,508.50). On April 13, 2009, the Williamson County Grand Jury indicted the former employee on two counts of theft over \$1,000, one count of theft over \$500, and one count of forgery. On November 10, 2009, the defendant pled guilty to one count of theft over \$1,000 and one count of forgery, was sentenced to two years probation, and ordered to pay restitution of \$3,386.18 to Williamson County. As of June 30, 2010, no restitution had been paid, leaving the outstanding cash shortage of \$3,386.18.

**61. Williamson County - Animal Control Department**

A special report dated July 26, 2010, on the Williamson County Animal Control Department for the period May 17, 2005 through March 31, 2010 reported a cash shortage of \$106,446.17.

On March 25, 2010, representatives from the Office of Accounts and Budgets informed us that the December 11, 2009, deposit totaling \$356 from the WCACD was missing and they suspected irregularities existed at the WCACD. On March 26, 2010, Ms. Kerraina Jensen, bookkeeper at the WCACD submitted her resignation to be effective April 1, 2010; however, the county terminated her employment on March 30, 2010. We conducted a special investigation with the assistance of a criminal investigator with the Office of District Attorney General for the period May 17, 2005, through March 31, 2010. This investigation included a reconciliation of receipts issued by the WCACD with deposits delivered to the Office of Accounts and Budgets. Our investigation discovered that receipts of at least \$106,446.17 were not deposited with the county or otherwise accounted for properly. This shortage was accomplished by manipulating receipts and deposits. Many times receipts that were issued for cash transactions were never deposited with the county. On May 19, 2010, Ms. Kerraina Jensen gave a written confession to us and the criminal investigator to diverting department funds for her personal use. The cash shortage (\$106,446.17) could be larger because we did not include amounts for 548 voided transactions totaling \$27,419.52 due to a lack of documentation, and receipts issued by the WCACD prior to May 17, 2005, were discarded by Ms. Jensen and were not available for our review.

Several weaknesses contributed to the opportunity for the cash shortage to occur and not be detected currently by management. The Office of Accounts and Budgets neither accounted for all receipts issued by the WCACD nor reviewed the make-up of deposits from the WCACD to ensure that the proper breakdown of cash, checks, and credit card payments in each deposit reconciled with the applicable receipts. Management at the WCACD did not adequately segregate duties among employees related to the accounting system nor provide sufficient management oversight of its employees.

The following table details by fiscal year the cash shortage identified by our investigation.

Year Ended June 30	Cash Shortage
2005	\$ 2,743.00
2006	24,725.11
2007	26,850.17
2008	25,509.05
2009	16,615.68
2010	<u>10,003.16</u>
Total	<u>\$ 106,446.17</u>

On November 15, 2010, Ms. Kerraina Jensen pled guilty to theft over \$60,000 and was sentenced to eight years confinement, which was suspended to eight years probation and payment of restitution of \$106,446.17.

**Division of County Audit**  
**Explanations of Other Thefts in County Offices/Departments (1)**  
**As Reported in Annual Financial Reports for the Year Ended June 30, 2010, and**  
**Certain Special Reports**

**1. Giles County – Emergency Management Office**

Finding 10.02 - The theft of a laptop computer and tires from the Giles County Emergency Management Office was reported to the state Comptroller's Office on January 12, 2010. The computer and tires were valued at \$1,200 and \$300, respectively and were allegedly stolen by a former employee of the office. A police report has been filed with the Giles County Sheriff's Department, and the matter is still under investigation.

**2. Macon County – Highway Department**

Finding 10.05 - On March 29, 2010, Highway Department employees discovered that a 1997 Dodge truck, 14 gallons of gasoline, 18 gallons of diesel fuel, and approximately 30 pieces of equipment were stolen from department property. The property has a chain link fence and gate adjacent to the road. Locks were cut on the gate, and the metal siding on the shop was peeled back to gain access to the truck and equipment. The keys to the truck had been left in the ignition. The lock was cut to turn on the fuel pumps. The truck was later found and returned to the Highway Department; however, the equipment and fuel were not found. Accounting standards provide that internal controls be designed to safeguard assets. The Macon County Sheriff's Office is investigating the theft. The Highway Department is in the process of filing a claim with their insurance carrier.

**3. Sullivan County – Highway Department**

It should be noted that prior to beginning our audit work, Highway Commissioner Allan Pope and section foreman David Campbell were indicted by the Sullivan County Grand Jury on August 24, 2010, related to violations of the Uniform Road Law. The indictments stem from the alleged use of highway equipment to benefit private individuals while performing a series of projects in Blountville, Bluff City, and Piney Flats from November 2006 to March 2010. The Highway Commissioner, Allan Pope, was indicted on one count of theft over \$10,000, four counts of theft over \$1,000, one count of official misconduct, and one count of private use of county equipment. Section foreman David Campbell was indicted on one count of theft over \$10,000, four counts of theft over \$1,000, two counts of official misconduct, and one count of private use of highway equipment. On November 5, 2010, Allan Pope was convicted of official misconduct and removed from office. As of the date of this report, the employee is awaiting trial.

**Footnotes:**

- (1) These findings are the result of other thefts or misappropriations of county assets. These findings were not listed on the Schedule of Cash Shortages, Exhibit A.