

**Department of Agriculture**

**Theft of \$8,702.15 by the Administrative Secretary of  
the Henderson County Soil Conservation District**

**February 2000**

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February 2, 2000

The Honorable Don Sundquist, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and  
The Honorable Dan Wheeler, Commissioner  
Tennessee Department of Agriculture  
Ellington Agricultural Center  
Nashville, Tennessee 37204-0627

Ladies and Gentlemen:

Transmitted herewith is a special report on the misappropriation of \$8,702.15 from the Henderson County Soil Conservation District (Soil District), by the Soil District's former administrative secretary. The matter was reviewed by Division of State Audit staff.

Based on Ms. Stanford's statements to the Soil District's Executive Committee and preliminary findings of an inquiry made by Mr. John L. Roberts, Chairman of the Soil District's Board of Supervisors, an auditor conducted an interview with Ms. Stanford on August 17, 1999. That interview resulted in Ms. Stanford admitting to knowingly misappropriating at least \$8,656.02 in Soil District funds over a one-year period beginning approximately in January 1998. Ms. Stanford stated that she effectuated her misappropriation by writing Soil District checks naming herself as payee, signing the checks in her signatory capacity, and then negotiating the checks as the endorser. Based on presently available information, Ms. Stanford negotiated 27 such checks drawn on the Soil District's account, totaling \$8,702.15. The Soil District terminated Ms. Stanford's employment on August 26, 1999.

The Soil District receives both state and county funding to encourage and assist local farmers' efforts to curb erosion of soil resources. It also holds an annual tree sale to provide affordable saplings for farmers to plant in an effort to maintain healthy soil levels. Monies received from the government sources and the sale of trees are deposited into a single checking account at FirstBank, in Lexington, Tennessee. The signatories on that account were the treasurer of the Soil District's Board of Directors and Ms. Stanford—both of their signatures were required to make a Soil District check negotiable. However, in an effort to allow Ms. Stanford to more efficiently attend to her check-issuing and bill-paying responsibilities, the board allowed its treasurer to affix his signature to blank checks so that, in effect, only Ms. Stanford's signature would be necessary when a check had to be written.

February 2, 2000

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When several farmers complained that they had not received the checks they were promised by the Soil District, for completion of "best management practices" projects, Mr. Roberts immediately proceeded to obtain a current bank statement. His comparison of that statement to Ms. Stanford's report to the board, revealed a balance that was more than \$3,600 less than she had reported. The Soil District Board's Executive Committee held a special meeting to obtain an explanation for the discrepancy from Ms. Stanford. She, at first, stated that she could not offer an explanation, but soon after admitted to the theft of Soil District funds in the amount of \$3,660, the difference between what she had reported and what the actual balance was. The Executive Committee immediately placed Ms. Stanford on unpaid administrative leave pending the results of our review. Review of the activity records of the Soil District's account, for the period January 1997 through July 1999 revealed that improper checks totaling more than \$8,700 could be attributed to Ms. Stanford.

Ms. Stanford claims to have made several cash deposits to the Soil District's account in efforts to replace part of what she had taken. Mr. Roberts confirmed that two such deposits were made by Ms. Stanford on June 25, 1999. Those deposits totaled \$2,000. No other cash deposits could be conclusively attributed to Ms. Stanford, because they were in small dollar amounts consistent with regular account activity.

On September 29, 1999, our office submitted information regarding this matter to the Office of the District Attorney General, 26<sup>th</sup> Judicial District (Henderson County). This matter was then presented to a Henderson County Grand Jury on October 4, 1999. That Grand Jury handed down a True Bill (indictment) on a theft charge. In a December 3, 1999, court appearance, Ms. Stanford, represented by counsel, filed a motion requesting pre-trial diversion. A Probation Department investigation is currently underway to determine whether pre-trial diversion may be appropriately granted to Ms. Stanford.

Ms. Stanford has already agreed to make full restitution to the Soil District. Prior to the discovery of her misappropriation, Ms. Stanford had returned \$2,000 by cash deposits to the Soil District's bank account. That amount, combined with the \$387 paycheck that was withheld, resulted in a balance of \$6,315.15 left unpaid as of the date of her indictment. On October 7, 1999, she made a partial restitution payment of \$4,000 to the court, and on November 10, 1999, she paid the remaining \$2,315.15 as well as \$307 in court costs. The initial payment was deposited to the Soil District account on October 18, 1999, but the second payment had not been transferred from the court to the Soil District as of this date.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/jqi

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

**Special Report**  
**Department of Agriculture**  
**Theft of \$8,702.15 by the Administrative Secretary of**  
**the Henderson County Soil Conservation District**  
**February 2000**

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## **REVIEW OBJECTIVES**

The objective of our review was to determine whether Ms. Melody Stanford, Administrative Secretary, Henderson County Soil Conservation District (Soil District), had misappropriated funds from the Soil District's checking account and attempted to conceal her improper activity by falsifying financial records and official reports.

## **RESULTS OF THE REVIEW**

Presently available information indicates that Ms. Stanford knowingly misappropriated 27 checks drawn on the Soil District's account, totaling \$8,702.15, over a one-year period beginning approximately in January 1998. Ms. Stanford admitted to the theft of these funds and explained that she effectuated her misappropriation by writing Soil District checks naming herself as payee, signing the checks in her signatory capacity, negotiating the checks as the endorser, and falsifying the Soil District's check register and internal financial reports to conceal her activity.

Ms. Stanford provided the auditor with a signed agreement admitting to misappropriating "at least \$8,656.02" (a preliminary figure) of Soil District funds and authorizing the withholding of her final paycheck as partial restitution. Henderson County thereafter withheld her \$387 final paycheck. An allocation of emergency funds, by the Department of Agriculture, allowed the Soil District to continue operations in the absence of the missing funds. The Soil District terminated Ms. Stanford's employment on August 26, 1999.

On September 29, 1999, the Division of State Audit submitted information regarding this matter to the Office of the District Attorney General, 26<sup>th</sup> Judicial District (Henderson County). And on October 4, 1999, this matter was presented to a Henderson County Grand Jury.

After being indicted by the Grand Jury, Ms. Stanford made two restitution payments, totaling the full amount in controversy, to the court. Prior to the discovery of her misappropriation, Ms. Stanford had returned \$2,000 by cash deposits to the Soil District's bank account. That amount, combined with the \$387 paycheck that was withheld, resulted in a balance of \$6,315.15 left unpaid as of the date of her indictment. On October 7, 1999, Ms. Stanford made a partial restitution payment of \$4,000 to the court, and on November 10, 1999, she paid the remaining \$2,315.15 as well as \$307 in court costs. The initial payment was deposited to the Soil District account on October 18, 1999, but the second payment had not been transferred from the court to the Soil District as of February 1, 2000.

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***Audit Highlights* is a summary of the special report. To obtain the complete special report, please contact  
Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 741-3697**

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February 2000**

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February 2000**

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**INTRODUCTION**

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**ORIGIN OF THE REVIEW**

On August 16, 1999, the Division of State Audit was contacted by Department of Agriculture staff who provided information regarding possible misappropriation of state funds by Ms. Melody Stanford, an administrative secretary for the Henderson County Soil Conservation District (Soil District). The allegations involved repeated instances of the embezzlement of funds from the Soil District's bank account over the immediately preceding 16-month period. Because those acts resulted in the misappropriation of monies belonging to an institution that is primarily supported by state funds, the Division of State Audit investigated the matter pursuant to *Tennessee Code Annotated*, Sections 8-4-110 and 8-4-207.

**OBJECTIVE OF THE REVIEW**

The objective of our review was to determine whether Ms. Melody Stanford, administrative secretary for the Soil District, had misappropriated funds from the Soil District's checking account and attempted to conceal her improper activity by falsifying financial records and official reports.

**SCOPE OF THE REVIEW**

Division of State Audit staff, in conjunction with Soil District staff, reviewed relevant Soil District bank account records, check registers, and financial statements. The auditor also conducted an interview with Ms. Stanford to discuss the matter.

**BACKGROUND**

The Henderson County Soil Conservation District is organized under the authority of the Tennessee Soil and Water Conservation District Act of 1939. Its main office is located in Lexington, Tennessee. The Soil District was established in July 1951 and includes the entire 616 square miles within the boundaries of Henderson County. The work of the Soil District is directed by a Board of Supervisors. Of the five supervisors on that board, three are elected to their positions by Henderson County landowners and two are appointed by the State Soil Conservation Committee. All of the supervisors serve three-year terms and receive no compensation. The Soil District also receives assistance from a four-person Advisory Board and receives technical assistance from the United States Department of Agriculture's Natural Resources Conservation Service.

The Soil District receives county and state funding to encourage and assist local farmers' efforts to curb erosion of soil and other natural resources. In its efforts to fulfill its mission, the Soil



District provides grants to Henderson County farmers who complete certain conservation projects on their land, or utilize certain farming methods, known as “best management practices.” The Soil District also holds an annual tree sale to provide affordable saplings for farmers to plant in an effort to maintain healthy soil levels. Monies received from the government sources and the sale of trees are deposited in a single checking account, and the signatories on that account were the treasurer of the Soil District’s Board of Supervisors and Ms. Stanford—both of their signatures were required to make a Soil District check negotiable.

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## DETAILS OF THE REVIEW

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After the Division of State Audit was contacted by Department of Agriculture, on August 16, 1999, the auditor determined that sufficient information existed to indicate that Ms. Melody Stanford misappropriated \$8,702.15 from the Soil District’s checking account. [See Exhibit A]. As noted above, the signatories on that account were the treasurer of the Soil District’s Board of Directors, Mr. James Overman, and the Soil District’s administrative secretary, Ms. Stanford—both of their signatures were required to make a Soil District check negotiable. As a practical matter, however, Ms. Stanford had complete control of the Soil District’s finances. According to Mr. John L. Roberts, chairman of the Soil District’s Board of Directors, Ms. Stanford took care of all daily operations, including mail processing, filing, and book-keeping. In an effort to allow Ms. Stanford to more efficiently attend to her check-issuing and bill-paying responsibilities, the board allowed Mr. Overman to affix his signature to blank checks so that, in effect, only Ms. Stanford’s signature would be necessary when a check had to be written.

On August 3, 1999, a meeting of the Soil District’s Board of Directors took place. After that meeting, Mr. Gary Blackwood, USDA liaison to the Soil District, met with Mr. Roberts to explain that several farmers had complained that they had not received the checks they were promised for completion of “best management practices” projects. In an effort to determine if a problem existed, Mr. Roberts immediately proceeded to obtain a current bank statement. His comparison revealed a discrepancy between the balance shown on that statement and the balance Ms. Stanford reported at the August 3 board meeting. The actual balance was more than \$3,600 less than the balance she had reported to the board.

The following morning, August 4, 1999, the Soil District Board’s Executive Committee held a special meeting to obtain an explanation for the discrepancy from Ms. Stanford. At that time, according to Mr. Roberts, Ms. Stanford stated that she could not offer an explanation and could not provide the checkbook for the board to examine because the checkbook was at her home and she did not have a key for her house that day. The Executive Committee insisted that she produce the checkbook by one o’clock that afternoon. After that morning meeting, Mr. Roberts returned to the bank and obtained an activity report for the account. When later confronted with that activity report, by Mr. Roberts, Ms. Stanford produced the checkbook and admitted to the theft of Soil District funds in the amount of \$3,660, the difference between what she had reported and the actual balance. The Executive Committee immediately placed Ms. Stanford on unpaid administrative leave pending the results of an investigation.

Based on Ms. Stanford’s statements to the Soil District’s Executive Committee and a preliminary finding by Mr. Roberts, which indicated that the extent of the theft exceeded what Ms.

Stanford had acknowledged, a state auditor conducted an interview with Ms. Stanford on August 17, 1999. That interview resulted in Ms. Stanford signing an affidavit admitting to knowingly misappropriating \$8,656.02 in Soil District funds over a one-year period beginning approximately in January 1998 [Exhibit B]. That figure was a preliminary amount determined by Mr. Roberts' review. Ms. Stanford also provided the auditor with a signed agreement admitting to the misappropriation of "at least \$8,656.02" [Exhibit C] of Soil District funds and authorizing the withholding of her final paycheck as partial restitution. Ms. Stanford stated that she effectuated her misappropriation by writing Soil District checks naming herself as payee, signing the checks in her signatory capacity, and then negotiating the checks as the endorser. [See Exhibit D.] The auditor found that Ms. Stanford negotiated 27 such checks drawn on the Soil District's account, totaling \$8,702.15. [See Exhibit A.] Based on that finding, the Soil District terminated Ms. Stanford's employment on August 25, 1999.

Review of the activity records of the Soil District's account for the period January 1997 through July 1999 revealed no other improper checks that could be attributed to Ms. Stanford. Ms. Stanford claimed to have made several cash deposits to the Soil District's account in efforts to replace part of what she had taken. Mr. Roberts confirmed that two such deposits were made by Ms. Stanford on June 25, 1999. Those deposits, totaling \$2,000, were confirmed by the auditor. No other cash deposits could be conclusively attributed to Ms. Stanford because they were in small dollar amounts consistent with regular account activity.

After crediting the \$2,000 cash deposit, the net loss to the Henderson County Soil District amounts to \$6,702.15 [See Exhibit A.] Although Ms. Stanford's \$387 paycheck was withheld by the county, the county did not make those funds available to the Soil District. On August 20, 1999, Henderson County made a regularly budgeted payment of \$3,225 to the Soil District for operating expenses. The Soil District used \$2,779.88 of those funds to make the remaining payments to the farmers to whom payments were owed. On September 13, 1999, the Department of Agriculture deposited \$13,463.70 into the Soil District's account. Of those funds, \$1,734.91 was an emergency allotment that allowed the Soil District to pay the salary of its one paid employee in the absence of the missing funds. And on November 12, 1999, the Department of Agriculture deposited emergency funds totaling \$2,779.88 into the Soil District's account. That money was used to replace the operating expense funds used to pay the aforementioned farmers.

On September 29, 1999, the Division of State Audit submitted information regarding this matter to the Office of the District Attorney General, 26<sup>th</sup> Judicial District (Henderson County). This matter was then presented to a Henderson County Grand Jury on October 4, 1999. On that same day, the Grand Jury handed down a True Bill (indictment) on a theft charge. In a December 3, 1999, court appearance, Ms. Stanford, represented by counsel, filed a motion requesting pre-trial diversion. A Probation Department investigation is currently underway to determine whether pre-trial diversion may be appropriately granted to Ms. Stanford.

Ms. Stanford has agreed to make full restitution to the Soil District. Prior to the discovery of her misappropriation, Ms. Stanford had returned \$2,000 by cash deposits to the Soil District's bank account. That amount, combined with the \$387 paycheck that was withheld, resulted in a balance of \$6,315.15 left unpaid as of the date of her indictment. On October 7, 1999, she made a partial restitution payment of \$4,000 to the court, and on November 10, 1999, she paid the remaining \$2,315.15 as well as \$307 in court costs. The initial payment was deposited to the Soil District account on October 18, 1999, but the second payment had not been transferred from the court to the Soil District as of January 14, 2000.

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## RECOMMENDATIONS

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The review resulted in the following recommendations:

1. Department management should, to the extent possible, exercise greater oversight of the Soil District's fiscal operations. Such oversight should include requiring the submission of monthly bank reconciliations and financial reports to the department.
2. The Board of Supervisors' treasurer should examine all bank statements, reconcile checks issued with checks negotiated, and reconcile bank statements to financial reports
3. The Soil District Board of Directors should not allow circumvention of controls, such as the pre-signing of checks that require dual signatures.
4. The Soil District Board of Directors should consult with the Soil District's bank and explore alternative checking formats that might provide a better audit trail, such as carbon copies of the original checks.

# EXHIBIT A

## SCHEDULE OF ALL IMPROPER CHECKS WRITTEN AND NEGOTIATED BY MS. STANFORD

### All Improper Checks With Melody Stanford As Payee

Check			
No.	No.	Date	Amount
1	368	04/24/98	\$307.42
2	371	05/27/98	\$343.92
3	372	06/05/98	\$200.34
4	374	06/16/98	\$247.31
5	375	06/23/98	\$307.42
6	379	07/27/98	\$650.00
7	381	07/28/98	\$302.04
8	387	08/10/98	\$427.09
9	388	08/11/98	\$275.00
10	391	08/25/98	\$544.00
11	392	08/26/98	\$307.43
12	394	09/01/98	\$305.42
13	396	09/08/98	\$257.35
14	397	09/23/98	\$484.00
15	398	10/06/98	\$210.94
16	401	10/22/98	\$313.24
17	402	11/09/98	\$165.00
18	404	11/17/98	\$650.00
19	415	12/14/98	\$380.42
20	416	12/24/98	\$400.00
21	418	01/21/99	\$366.00
22	420	01/26/99	\$178.06
23	424	03/02/99	\$108.00
24	439	07/07/99	\$167.90
25	441	07/07/99	\$153.50
26	445	08/03/99	\$350.25
27	446	08/03/99	\$300.10
Total		\$8,702.15	Total of all improper checks with Ms. Stanford as Payee
-		\$2,000.00	Deposits made by Ms. Stanford to Soil District account
-		\$387.00	Paycheck withheld by county *

**\$6,315.15 DESIRED RESTITUTION TO SOIL DISTRICT**

- \$4,000.00 Paid as partial restitution to the criminal court on October 7, 1999 and returned to the Soil District on October 18, 1999
- \$2,315.15 Paid Balance of Restitution to the criminal court on November 10, 1999

**\$6,315.15 RESTITUTION PAID BY MELODY STANFORD**

\*Although withheld from Ms. Stanford, funds from this paycheck had not been passed to the Soil District as of 11-15-99. The County informed the Soil District that the money would be properly transferred to them at the next budget meeting.

EXHIBIT B

(PAGE 1 OF 2)

SWORN STATEMENT OF MELODY STANFORD, DATED 8/17/99, IN WHICH SHE ADMITS TO AND DESCRIBES HER MISAPPROPRIATION OF \$8656.02 IN SOIL DISTRICT FUNDS

State of Tennessee

STATE OF TENNESSEE

County of Henderson

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AFFIDAVIT

I, Melody Stanford, state that

I reside at 91 1/2 St. St. 412-31-0276

I wish to cooperate fully and pay back all amounts that I have improperly taken from the Henderson Co. Soil Conservation District. I admit for approx. 1 1/2 beginning Jan. 1998, I did on at least 31 occasions write checks to myself from the account of the Henderson Co. Soil Conservation District. I understand that writing these checks was an unauthorized taking of the District funds. I agree that the total amt. of checks is "\$8656.02". I used it to pay bills, buy groceries and activities with my son. The largest check I wrote to myself was for \$600-900. I attempted to disguise my activities by misnumbering the check register. I also hid my activities by providing fraudulent reports to the District of Directors. I understand

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STATE OF TENNESSEE

that my activities have delayed payments to participants of program. I also understand that my actions were wrong use of money provided by state & county sources. I did not keep a specific record of amounts taken but always had a general idea in my mind, and fully intended to give back the full amount to the District by the end of this month. I have at times made deposits from my own funds to the District account. I accumulated these funds by saving small amounts of my <sup>pay</sup> check. Other than checks to myself I didn't take any funds and no other person had knowledge of my activities.

I have read the foregoing statement consisting of 2 pages, each of which I have signed. I fully understand this statement and it is true, accurate and complete to the best of my knowledge and belief. I made the corrections shown and placed my initials opposite each.

I made this statement freely and voluntarily without any threats or rewards, or promises of reward having been made to me in return for it.

Melody Stafford  
(Signature of affiant)

Subscribed and sworn to before me this \_\_\_\_\_

day of \_\_\_\_\_, 19\_\_\_\_

at \_\_\_\_\_

\_\_\_\_\_  
(Signature)

\_\_\_\_\_

[Signature]  
(Signature of witness, if any)

[Signature]  
WITNESS

EXHIBIT C

AGREEMENT DATED 8/17/99 WHEREIN MS. STANFORD ADMITS TO THE MISAPPROPRIATION OF "AT LEAST \$8656.02," AND AGREES TO THE WITHHOLDING OF HER FINAL PAYCHECK

DISCLAIMER AGREEMENT AND RECEIPT

This agreement is by and between HENDERSON CO. SOIL CONSERVATION DISTRICT hereinafter referred to as "the agency," and MELODY STANFORD hereinafter referred to as "employee."

As a direct result of actions undertaken by the employee, the agency has suffered financial harm in the amount of at least \$8656.02. The agency hereby acknowledges receipt of, and the employee authorizes the agency to withhold the following payments to which he/she may be otherwise entitled: ANY SUMS DUE ME AS SALARY, WAGES, COMP TIME, SICK OR ANNUAL LEAVE, REIMBURSEMENTS OR OTHER COMPENSATION OF ANY KIND

The employee fully understands that release of his/her rights to the payments listed above in no way bars the agency from proceeding against employee by criminal prosecution, civil suit at law or in equity, or any other agency disciplinary action or proceedings. Employee hereby expressly renounces and disclaims any right or interest he/she may have to allege that the transfer of employee's rights to the payments listed above constitutes a release from criminal, civil, or agency responsibility, accountability or liability for the loss suffered by the agency.

Dated this 17 day of AUGUST, 1999

By: [Signature] (Agency Representative)

[Signature] (Employee's Signature)

(Witness)

Subscribed to and Sworn before me This \_\_\_ day of \_\_\_, 19\_\_

(Notary public)

My Commission Expires: [Signature]

EXHIBIT D

EXAMPLE OF A SOIL DISTRICT CHECK IMPROPERLY ISSUED AND NEGOTIATED BY MELODY STANFORD. NOTE THAT CHECK IS PAYABLE TO MS. STANFORD BUT IS ALLEGEDLY FOR THE PURPOSE OF RENTING A DRILL.

02-First Bank

7/7/99 DIN: 5-49-1820 Account:301418 Amount:\$ 167.90 Check #:439

HENDERSON COUNTY SOIL CONSERVATION DIST. 87-701443 439  
80-G S. BROAD  
LEXINGTON, TN 38351 7-6-1999

PAY TO THE ORDER OF Melody Stanford \$167.90  
One Hundred + Sixty Seven & 10/100 DOLLARS

011927430 13 070699 5400015521  
FirstBank  
LEXINGTON, TENNESSEE 38351

FOR Drill Rental Jessie Overman  
⑆08430703⑆ 301418 ⑆0439 Melody Stanford

⑆0840-0008-4⑆  
UPNB MEMPHIS TN  
011927430 13 070699 5400015521

⑆084000039⑆  
⑆084000039⑆

1616 73837  
Melody Stanford