

INVESTIGATIVE AUDIT REPORT

CHESTER COUNTY SOIL CONSERVATION DISTRICT

January 1, 2007, through September 30, 2011



State of Tennessee

**Comptroller of the Treasury
Department of Audit
Division of Investigations**



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DIVISION OF INVESTIGATIONS**

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Comptroller of the Treasury

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April 16, 2013

Members of the Board of Supervisors
Chester County Soil Conservation District
133 East Main Street
Henderson, TN 38340

Gentlemen:

The Division of Investigations conducted an investigative audit of selected records of the Chester County Soil Conservation District which focused on the period January 1, 2007, through September 30, 2011. However, when warranted, this scope was expanded.

Presented in this report are the findings resulting from this investigative audit. Copies of this report are being forwarded to Governor Bill Haslam, the State Attorney General, the District Attorney General, certain state legislators, and various other interested parties. A copy is available for public inspection in our office and may be viewed at <http://www.comptroller.tn.gov/ia/>.

Sincerely,

A handwritten signature in cursive script that reads "L. Rene Brison".

L. Rene Brison, CPA, CFE, Assistant Director
Division of Investigations

LRB/RAD

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**INVESTIGATIVE AUDIT OF SELECTED RECORDS OF THE
CHESTER COUNTY SOIL CONSERVATION DISTRICT
FOR THE PERIOD JANUARY 1, 2007, THROUGH SEPTEMBER 30, 2011**

CASE SUMMARY

The Comptroller's Division of Investigations performed an investigative audit of selected records of the Chester County Soil Conservation District (CCSCD). The audit focused primarily on the period January 1, 2007, through September 30, 2011. However, when warranted, this scope was expanded. Our investigative audit revealed the following:

- Over a period of more than four years, former CCSCD secretary Stacey Clark misappropriated at least \$47,460 from the district by issuing unauthorized checks payable to herself or to cash.
- To conceal her misappropriation of district funds, Ms. Clark used a computer to create at least 28 false bank statements, on which she omitted and/or altered fraudulent checks.
- Ms. Clark forged a district supervisor's name on two check stubs as well as in the memo line of one check to deceptively indicate his authorization of those expenditures.
- The CCSCD Board of Supervisors failed to require adequate segregation of duties.
- The CCSCD Board of Supervisors did not review bank statements or require more than one signature on checks.

In interviews with investigative auditors, Ms. Clark admitted she wrote checks for her personal gain and created false bank statements to conceal the misappropriation.

BACKGROUND

Soil conservation districts are governmental entities specifically created under state statutes in the interest of the public health, safety and welfare, for the purposes of controlling soil erosion, improving water quality, and promoting stewardship of natural resources. As such, CCSCD derived the vast majority of its funding from taxpayer dollars flowing from the Tennessee Department of Agriculture, as well as Chester County, which paid the salary of the district's secretary. Accordingly, all funds should have been spent in furtherance of the district's public purposes.

The district had one administrative employee, a secretary, who was paid by Chester County. As noted in the Investigative Findings section of this report, Comptroller investigators identified numerous CCSCD transactions for the personal benefit of the district secretary. As a result, some public resources received by CCSCD were not available to fund the purposes for which CCSCD was created.

INVESTIGATIVE FINDINGS

Presented below are the findings resulting from our investigative audit of the Chester County Soil Conservation District (CCSCD). We reviewed these findings with the local district attorney general. On February 19, 2013, the Chester County Grand Jury indicted Stacey Clark on one count of theft over \$10,000, one count of forgery, and one count of tampering with or fabricating evidence.

1. **FINDING: Former secretary misappropriated at least \$47,460 from CCSCD by transacting and retaining for her personal benefit unauthorized district checks written to herself or to "Cash"**

During the period March 12, 2007, through September 16, 2011, former CCSCD secretary Stacey Clark issued at least 100 checks totaling \$47,460 to herself or to cash, transacted the checks and retained the proceeds for her personal benefit. (Refer to Exhibit 1 for an example.) Ms. Clark admitted to investigators that she issued CCSCD checks payable to herself or to cash for her personal gain. Because Ms. Clark was responsible for collecting money, writing receipts, making bank deposits, preparing and signing checks, receiving bank statements, and preparing accounting records, she was able to perpetrate this scheme for years without detection.

Exhibit 1

CHESTER COUNTY SOIL CONSERVATION DISTRICT
133 E MAIN ST.
HENDERSON, TN. 38340

TELLER #33

DATE 2/18/09

1642

87-2317843

PAY TO THE ORDER OF Cash CB+T \$1,473.35

one thousand four hundred seventy-three and 35/100 DOLLARS

FIRST STATE BANK
P.O. BOX 236
HENDERSON, TENNESSEE 38340

FOR TDA (Stewart) Stacey Clark

⑈00 164 21⑈

Information in memo line indicates legitimate program expenditure.

Signature and bank information indicate Ms. Clark cashed this check.

⑈⑈⑈⑈⑈⑈1,473.35 ONUS CHECK

Account No.: 2/18/2009 12:44 033 0050 FS912551

Cust Name: STACEY CLARK

Stacey Clark

2. **FINDING:** Former secretary created false bank statements and forged a district official's name to conceal fraudulent checks

The investigative audit revealed that former CCSCD secretary Stacey Clark created at least 28 false bank statements, omitting or altering fraudulent checks to conceal her misappropriation of money from CCSCD. (Refer to Exhibits 2 through 5.) Ms. Clark also apparently forged one district official's name on two check stubs as well as on the memo line of one fraudulent check, falsely indicating the official's approval of the fraudulent expenditures. (Refer to Exhibits 6 through 8.)

Actual June 2009 Bank Statement-Page 1

001

CHESTER CO SOIL CONSERVATION
133 E MAIN ST
HENDERSON, TN 38340

Page Number 1 of 2
Date: 06-30-09
Account Number:
Enclosures 5

Regular Business

ACCOUNT NO.

Summary of Activity Since Your Last Statement

BALANCE FORWARD FROM 05/29/09.....	1,776.17
0 DEPOSITS/CREDITS.....	.00 +
5 WITHDRAWALS/DEBITS.....	1,626.11 -
0 BANK CHARGES.....	.00 -
ENDING BALANCE AS OF 06/30/09.....	150.06

Checks in Serial Number Order

Date	Check No	Amount	Date	Check No	Amount	Date	Check No	Amount
6/24	1513	298.57	6/02	1636*	157.53	6/15	1638	23.75
6/26	1514	267.72	6/12	1637	878.54			

(* indicates a break in check number sequence)

Transaction Detail

Date	Description	Amount
CHECKS PAID/DEBITS/CHARGES		
6/02	1636 Cashed Check	157.53
6/12	1637 Cashed Check	878.54
6/15	1638 Cashed Check	23.75
6/24	1513 Cashed Check	298.57
6/26	1514 Cashed Check	267.72

Daily Balance

Date	Amount	Date	Amount	Date	Amount
5/29	1,776.17	6/12	740.10	6/24	417.78
6/02	1,618.64	6/15	716.35	6/26	150.06

Falsified June 2009 Bank Statement-Page 1



CHESTER CO SOIL CONSERVATION
133 E MAIN ST
HENDERSON, TN 38340

Regular Business Account No.

Summary of Activity Since Your Last Statement

Balance Forward From 05/29/09.....	10,196.63
0 Deposits/Credits.....	.00
1 Withdrawals/Debits.....	14.18
Ending Balance as of 06/30/09.....	10,182.45

Details have been altered and decimals are not properly aligned.

Checks in Serial Number Order

Date	Check No	Amount	Date	Check No	Amount
6/24	1514	14.18			

(*indicates a break in check number sequence)

Check 1514 has been altered and checks 1513, 1636, 1637, and 1638 have been omitted.

Transaction Detail

Date	Description	Amount
	Deposits/Credits	.00

All Transaction Detail has been removed.

Checks paid/debits/charges

Daily Balance

Date	Amount	Date	Amount	Date	Amount
5/29	10,196.63	6/24	10,182.45	6/30	10,182.45

All Daily Balance detail has been altered or removed.

Actual Bank Statement-Page 2



Account: |
Page: 2 of 2

CHESTER COUNTY SOIL CONSERVATION DISTRICT
1513
DATE 6/25/09
PAY TO THE ORDER OF Lash \$298.57
two hundred ninety eight & 57/100
FIRST STATE BANK
FOR Lee Smith (son) Lacey Clark
#DD1513#

06/24/2009 1513 \$298.57

CHESTER COUNTY SOIL CONSERVATION DISTRICT
1514
DATE 6/26/09
PAY TO THE ORDER OF Lash \$267.72
two hundred sixty seven & 72/100
FIRST STATE BANK
FOR 237.02 To/150" Coops Lacey Clark
#DD1514#

06/26/2009 1514 \$267.72

CHESTER COUNTY SOIL CONSERVATION DISTRICT
1636
DATE 6/1/09
PAY TO THE ORDER OF Lacey Clark \$157.53
one hundred fifty seven & 53/100
FIRST STATE BANK
FOR proceeding military & consals Lacey Clark
#DD1636#

06/02/2009 1636 \$157.53

CHESTER COUNTY SOIL CONSERVATION DISTRICT
1637
DATE 6/12/09
PAY TO THE ORDER OF Lash \$878.54
eight hundred seventy eight & 54/100
FIRST STATE BANK
FOR TDA (Thomas) Lacey Clark
#DD1637#

06/12/2009 1637 \$878.54

CHESTER COUNTY SOIL CONSERVATION DISTRICT
1638
DATE 6/15/09
PAY TO THE ORDER OF Lacey Clark \$23.75
twenty three & 75/100
FIRST STATE BANK
FOR mailing & mail for meeting Lacey Clark
#DD1638#

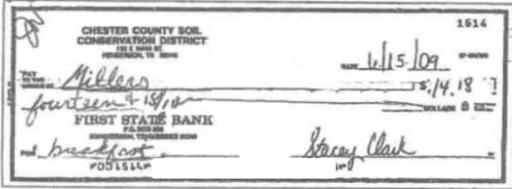
06/15/2009 1638 \$23.75

Exhibit 5

Falsified Bank Statement-Page 2



Account:
Page: 2 of 2

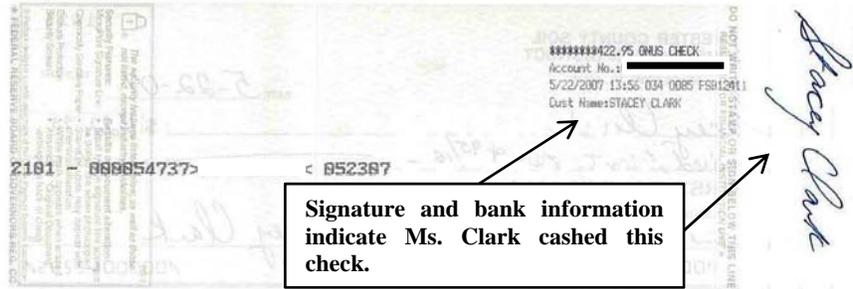


The date, payee, amount, and purpose of check 1514 have all been altered.

Checks 1513, 1636, 1637, and 1638 have all been omitted.

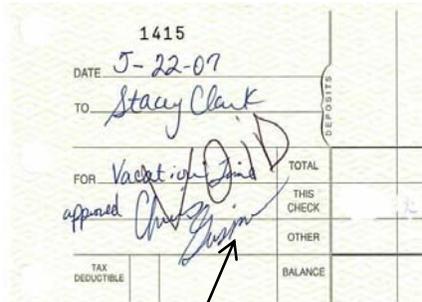
Exhibit 6

Per former district chair, this is not his signature.



Signature and bank information indicate Ms. Clark cashed this check.

Exhibit 7



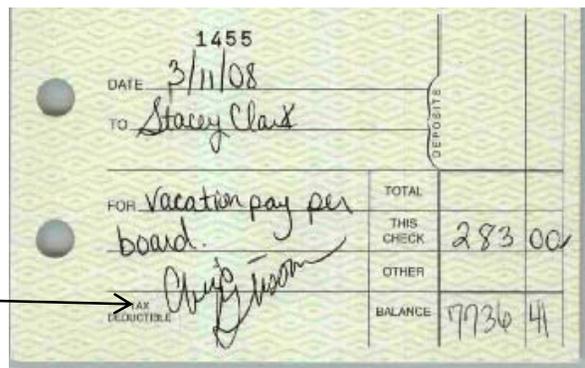
Per former district chair, this is not his signature.



Ms. Clark admitted that this voided check was from a business she used to own and that she attached it to voided CCSCD check stub 1415 in an attempt to conceal her actions.

Exhibit 8

Per former district chair, this is not his signature.



INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES
FINDINGS AND RECOMMENDATIONS

Presented below are findings and recommendations related to internal control and compliance deficiencies noted during the investigative audit that we believe warrant the attention of Chester County Soil Conservation District officials.

1. **FINDING:** **CCSCD supervisors failed to segregate financial duties or provide adequate oversight of financial operations**

CCSCD supervisors failed to segregate incompatible financial duties or to ensure mitigating internal controls, such as board review of bank statements and imaged checks, were established and followed. The former secretary was primarily responsible for opening the mail, as well as receiving, receipting, and depositing CCSCD collections. Also, the former secretary was the sole signature on all checks written on the account during the period examined, until her departure from CCSCD. Although minutes of meetings of the CCSCD Board of Supervisors clearly indicated that the board considered and approved some disbursements, supervisors acknowledged that they did not review bank statements or imaged checks and related documentation to ensure that district funds were used for their intended purpose. Supervisors also stated they were not aware of the numerous checks written to the former secretary.

The former secretary's complete control over all financial transactions contributed to her ability to perpetrate and conceal her misappropriation of district money, allowing it to continue without detection for over four years.

Accounting and Financial Reporting for Not-For-Profit Recipients of Grant Funds in Tennessee, Section 6-9, identifies the following effective internal controls:

To the extent possible, the following duties are not performed by the same person: approving requisitions, preparing purchase orders, receiving goods or services, approving payment, preparing checks, signing checks, and preparing the bank reconciliation.

Bank reconciliations are reviewed by someone independent of other cash functions.

RECOMMENDATION:

To help ensure that all district funds are accounted for and used in accordance with the district's purposes and that errors or irregularities are detected promptly, members of the board of supervisors should require an adequate system of internal controls so that no employee has control over a complete transaction. Board supervisors should provide increased supervision and review of financial transactions, such as reviewing bank statements and imaged checks and performing monthly bank reconciliations.

MANAGEMENT’S RESPONSE:

Members of the Board of Supervisors:

We concur. We have increased scrutiny of financial transactions by a monthly review of bank statements, imaged checks, and verification of reconciliation of bank statement with records. Checks and balances are achieved by having all checks signed by two designated supervisors, bank statement mailed to and reviewed by an additional supervisor, and then bank statement reconciled by district secretary.

2. **FINDING:** **Supporting documentation not available for most disbursements**

The board of supervisors failed to ensure that records adequately documenting disbursements were obtained and filed. While the grantor agency provided documentation for many of the legitimate disbursements, supporting documentation located at the district office was almost nonexistent. Because records were inadequate and checks and related supporting documents were not reviewed by CCSCD board members, as noted in Finding 1 of this section, the misappropriation by the former secretary was not detected promptly by CCSCD officials.

Accounting and Financial Reporting for Not-For-Profit Recipients of Grant Funds in Tennessee, Section 5-1, requires adequate records be maintained, including supporting documentation such as prenumbered receipts, canceled checks, invoices, and contracts which support the books of account.

RECOMMENDATION:

To better control disbursements and document that they are for a valid purpose, CCSCD supervisors should ensure the secretary obtains and files adequate supporting documentation for every disbursement. The documentation should be reviewed and approved by at least one designated board member.

MANAGEMENT’S RESPONSE:

Members of the Board of Supervisors:

We concur. The district secretary provides supporting documentation for each disbursement and maintains an up-to-date balance which is reconciled and reviewed at monthly board meetings. Receipts, invoices, canceled checks, and contracts are maintained to coincide with bank balance recordkeeping system.

District Secretary:

Response is the same as that of the board of supervisors.

3. **FINDING: District checks did not require multiple authorizing signatures**

Members of the CCSCD board did not require at least two approved signatures authorizing district checks to be transacted. Ms. Clark was the sole signature on all the checks issued during the scope of our investigative audit. As a result, Ms. Clark was able to prepare and sign checks on the CCSCD bank account without authorization from, or review by, any other district official, allowing her to perpetrate her check misappropriation scheme without detection for over four years.

Accounting and Financial Reporting for Not-For-Profit Recipients of Grant Funds in Tennessee, Section 6-8, requires that all checks be signed by two authorized individuals, and states the checks should not be signed before they are completed.

RECOMMENDATION:

To help ensure all district disbursements are for a district purpose, members of the board of supervisors should require two approved signatures on all district checks. Prior to signing a check, each check signer should review related adequate supporting documentation.

MANAGEMENT'S RESPONSE:

Members of the Board of Supervisors:

We concur. All district checks are approved and signed by two designated board members after being completed by district secretary.

4. **FINDING: Sufficient accounting records not prepared and maintained**

District officials did not require and ensure that sufficient accounting records were maintained to document the financial transactions of the district. The former secretary did not prepare and maintain a cash receipts journal, a cash disbursements journal, a general ledger, or any other required formal record of transactions. In fact, other than some bank records, check stubs, and other documents supporting disbursements, the only record located at the district was an incomplete book of hand-prepared receipts. The receipts were generic, were not prenumbered, and the form of remittance (cash or check) was not noted on any of the receipts. Because formal accounting records were not prepared, the district did not have a comprehensive record of district transactions and could not readily determine the amount of collections received, money spent, or its financial position. In addition, we could not determine whether all collections received during the scope of our investigative audit were deposited.

Accounting and Financial Reporting for Not-For-Profit Recipients of Grant Funds in Tennessee, Section 5-1, states:

You will need to maintain four types of records: (1) written policies and procedures such as personnel policies, travel policies, and purchasing policies; (2) supporting documentation such as prenumbered receipts, canceled checks, time sheets, invoices, and contracts, which support the books of account; (3) budgets with supporting documentation such as budget requests and approval notifications; and (4) formal books of account such as journals and general ledgers.

Section 6-3, requires that internal controls be sufficient to ensure that all collections are promptly recorded and deposited.

RECOMMENDATION:

To help ensure the district maintains accounting records sufficient to document the financial transactions of the district, CCSCD supervisors should require the district secretary or other designee to prepare and maintain these records. The records should be reviewed periodically by at least one designated board member.

MANAGEMENT'S RESPONSE:

Members of the Board of Supervisors:

We concur. We are maintaining records including policies and procedures, supporting documentation, budgets including requests and notifications of approval, and formal books of the account. These records per district/county procedures will be periodically reviewed by designated board members.

District Secretary:

Response is the same as that of the board of supervisors.