

INVESTIGATIVE AUDIT REPORT

**MORRISTOWN-HAMBLEN HUMANE SOCIETY
JULY 1, 2009, THROUGH OCTOBER 31, 2011**



State of Tennessee

**Comptroller of the Treasury
Department of Audit
Division of Investigations
Financial & Compliance Unit**



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DIVISION OF INVESTIGATIONS
FINANCIAL AND COMPLIANCE UNIT**

Justin P. Wilson
Comptroller of the Treasury

**JAMES K. POLK STATE OFFICE BUILDING, SUITE 1600
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7907
FAX (615) 532-4499**

May 22, 2013

Officers and Members of the Board of Directors
Morristown-Hamblen Humane Society
300 Dice Street
Morristown, TN 37813

Ladies and Gentlemen:

Our office initiated an investigation of the Morristown-Hamblen Humane Society following a request by the Hamblen County Mayor in connection with the discovery of altered receipts which were not deposited. Our investigation identified at least \$51,130 in animal adoption and related fees and donations which were not deposited into the facility's bank accounts. In addition to the missing funds, we also discovered deficiencies related to the accounting of collections, the loan of facility funds to an employee, and the failure of the facility to have an annual audit performed. The period covered in the investigation was July 1, 2009, through October 31, 2011; however, the scope of the investigation was expanded where necessary.

Presented in this report are the findings resulting from our 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 black ink, appearing to read "Kevin Huffman".

Kevin B. Huffman, CPA, CFE, CGFM
Investigative Audit Manager
Division of Investigations
Financial and Compliance Unit

KBH/RAD

THIS PAGE LEFT BLANK INTENTIONALLY.

**INVESTIGATIVE AUDIT OF SELECTED RECORDS OF THE
MORRISTOWN-HAMBLLEN HUMANE SOCIETY
FOR THE PERIOD JULY 1, 2009, THROUGH OCTOBER 31, 2011**

BACKGROUND

Our office initiated an investigation of the Morristown-Hamblen Humane Society (MHHS) following a request by the Hamblen County Mayor in connection with the discovery of altered receipts which were not deposited. Our investigation identified at least \$51,130 in animal adoption and related fees and donations which were not deposited into the facility's bank accounts. In addition to the missing funds, we also discovered deficiencies related to the accounting of collections, the loan of facility funds to an employee, and the failure of the facility to have an annual audit performed. The period covered in the investigation was July 1, 2009, through October 31, 2011; however, the scope of the investigation was expanded where necessary.

MHHS provides county-wide enforcement of animal control ordinances, operates an animal shelter, and conducts cruelty investigations. MHHS was formed in 1972 as a not-for-profit corporation and is supported by animal adoption fees, private donations, volunteers, and funding from the City of Morristown and the Hamblen County Government. MHHS is governed by a board of up to 18 members and a director who oversees the operations of the facility. For the fiscal year ended June 30, 2012, we were notified by county officials that Hamblen County provided funding of \$127,400 to MHHS and the City of Morristown provided funding of \$133,532, representing approximately 72 percent of the facility's budget. Currently, MHHS houses an average of 75 to 80 animals a day.

INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES
FINDINGS AND RECOMMENDATIONS

Findings, recommendations, and management's responses resulting from internal control deficiencies identified in our investigation are presented below. These findings and recommendations have been reviewed with management to provide an opportunity for their response.

1. **FINDING:** **Missing collections of at least \$51,130 existed at October 31, 2011**

We identified at least \$51,130 in animal adoption and related fees and private donations which were not deposited into bank accounts of MHHS. The following table provides the details of these collections.

Summary of Missing Collections Animal Adoption and Related Fees and Private Donations	
Description	Amount
A. Backdated receipts not traced to deposits	\$50,675
B. Checks swapped for cash without a corresponding receipt	355
C. Checks swapped for cash by voiding or altering receipts	<u>100</u>
Total Missing Collections	<u>\$51,130</u>

- A. MHHS computerized their accounting system on or about July 20, 2009. On or about August 22, 2011, an employee of MHHS was looking up a receipt on the computer system for a collection that had been made to make sure the collection had not been recorded in the system twice. During this review the employee noted the date on the receipt had been changed (backdated) to a date years prior to the computer system being installed. The director was notified and three additional backdated receipts were discovered in the system that did not trace to a deposit. The effect of the backdated receipt was that the backdated receipt would not show up in the daily collections of the computerized accounting system, which was used to reconcile to the amount deposited.

For the period under investigation, we accounted for all deposits in the bank accounts of MHHS by reconciling receipts in the accounting system to specific deposits. In our analysis, we noted the dates on certain receipts had been backdated. The backdating of receipts in the accounting system resulted in receipts not being posted on the daily deposit record. The date these receipts were actually prepared was obtained by a separate query we performed. **(Refer to Exhibit 1.)** The query reflected the actual receipt date for those receipts that had been backdated. In our analysis, we discovered 610 receipts in the amount of \$50,675 issued during the period of our investigation that had been backdated and not deposited into an MHHS bank account. In all but three instances, the receipts had been issued for cash collections.

A former employee responsible for gathering collections from the cash drawer, matching those collections with receipts, and delivering the money to the bookkeeper for deposit, was questioned by MHHS management on September 26, 2011. This employee admitted to backdating one receipt to “borrow” \$120. This employee returned the \$120 and was terminated. We attempted to question this former employee on two occasions during the course of our investigation, but the former employee declined to meet with us.

- B. Checks in the amount of \$355 were included in deposits for which no corresponding receipt was found. These checks were apparently swapped for cash in the same amount from other receipts.
- C. We noted three receipts altered or voided to indicate no collection had been made. Checks totaling \$100 were swapped for cash on these transactions.

MANAGEMENT'S RESPONSE:

Gean Ann Sing, Chair:

This is a matter that I do not take lightly. Once initial concerns were identified, I turned to Hamblen County Commissioner and Humane Society Board Member Nancy Phillips for guidance. Ms. Phillips immediately presented these concerns to Bill Brittain, Hamblen County Mayor. This is when we were notified by Mayor Brittain that he would file certain documentation with the Comptroller's Office.

The humane society has been entrusted by Hamblen County, the City of Morristown, and its citizens to provide animal control and shelter services. I regret the events presented in this finding transpired. The humane society now utilizes more than one employee for the receipting, preparing the deposit, and taking the deposit to the bookkeeper for deposit. In addition, all checks listed on the deposit slip are compared to the actual checks.

Bill Brittain, County Mayor:

I would like to take this opportunity to express my appreciation for the work that you have performed in completing the investigation of the Morristown-Hamblen Humane Society. As you know, upon this matter being brought to my attention I immediately submitted supporting documentation to the Comptroller's Office. Additionally, I contacted representatives from the City of Morristown to make them aware of the situation. I am extremely disturbed that an entity that is primarily funded by public funds would find itself in such a situation.

Upon notification that this report is becoming public, I will share it with county commission. I will recommend to the commission that any future funding to the humane society be contingent upon the humane society submitting audited financial statements. Additionally, I will require that the humane society submit to me a detailed plan of action on how the deficiencies identified in Finding 2 were resolved. Internal controls must be implemented to ensure that public funds are properly safeguarded.

Because of this situation, and other various matters, I have recently formed a committee to review the manner that Hamblen County provides animal control services to its citizens. I have championed this committee to objectively look at all possibilities and the various funding scenarios that would best serve the citizens of Hamblen County and the City of Morristown.

2. **FINDING:** Deficiencies were noted in the accounting system related to animal adoption collections

We noted the following deficiencies:

- A. Animal adoption and related fees and private donations collected by employees and provided to the bookkeeper for deposit did not always include a list of receipts which made up each day's collection.
- B. The accounting system did require employees to account for receipts in sequential order. Instead, the system allowed employees to alter the date of the collection on the receipt after the collection had been made.
- C. Some collections were not deposited intact; (i.e., funds collected during a specific period of time were not deposited together), and deposits were often made only once a week.
- D. Employees were allowed to cash personal checks through the cash drawer.
- E. MHHS management loaned \$500 to a former employee. This loan was to be repaid by payroll withholdings. Records of MHHS did not provide an explanation for this loan. There was no documentation for the MHHS board's approval of this loan. The individual is no longer employed at MHHS, and a balance of \$200 remains unpaid.
- F. Seventy-one refunds were issued for backdated and/or altered receipts. Management of MHHS did not adequately review these refunds to determine their propriety.

RECOMMENDATION:

Accounting and Financial Reporting for Not-For-Profit Recipients of Grant Funds in Tennessee, page 2-1, states that the accounting system should meet five objectives essential to the collection, maintenance, and fair presentation of financial data, including Objective 4:

Establish controls that provide management with reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are recorded properly and executed in accordance with management's authorization.

In establishing these controls, management should consider the following:

The accounting system should be designed to prepare a sequential list of all transactions by transaction type. Internal Controls in the accounting system should be established by management that would eliminate altering of a receipt after the receipt has been issued. Sound business practices dictate that all collections be deposited promptly and intact to enhance internal controls. MHHS should establish procedures for the regular review of

disbursements to make sure those disbursements are properly authorized and made for a valid purpose of the organization. Management should take efforts to recover the unpaid balance of the loan.

MANAGEMENT'S RESPONSE:

Gean Ann Sing, Chair:

I concur with these deficiencies. Internal controls have been implemented to ensure that assets are properly safeguarded against loss. A list of receipts is being prepared and remitted with each day's deposit. All receipts are being deposited intact. Employees are no longer allowed to cash personal checks through the cash drawer. The loan was not approved by the board. An agreement is in place with the employee to repay this loan. Refunds are being reviewed and approved by the director.

3. **FINDING:** **Failure to perform an annual audit**

MHHS did not contract with an accounting firm to perform an annual audit of the financial operations. The board did engage an accountant to prepare a compilation of the financial statements. In the absence of an annual audit, the MHHS did not have a periodic review of the internal controls and the accounting system.

RECOMMENDATION:

The board of directors should authorize an annual audit of MHHS financial operations which includes a review of the internal controls and accounting system to provide reasonable assurance that assets are properly safeguarded and all transactions are executed, properly recorded, and authorized by management.

MANAGEMENT'S RESPONSE:

Gean Ann Sing, Chair:

I concur. The board will obtain an audit of its financial statements for the year ending June 30, 2013, and each year going forward to ensure that the financial are properly presented.

THIS PAGE LEFT BLANK INTENTIONALLY.

Exhibit 1

Review of Customer Receipt #15052

Receipt # 15052 to Customer

Redemption Form

Morristown-Hamblen Humane Society
300 Dice Street
Morristown, TN 37813
423-581-1494

Owner's Details

Owner's Name: [Redacted]
Address: [Redacted]
Home Phone: [Redacted] Work Phone: [Redacted]
Mobile Phone: [Redacted] Fax: [Redacted]
Email: [Redacted]

Person ID: 10661
Receipt #: 15052
Receipt Date: 6/11/2011

Animal Details:

Animal ID	Type	Breed	Mixed	Color(1)	Color(2)	Gender
1 15233	Dog	Coonhound, Walker	Yes	Black	White	Female

Shelter Tag # License # Primary Microchip Brand Primary Microchip # Secondary Microchip Brand Secondary Microchip #

Payment Details:

Payment Method: Cash

Qty	Fee	Amount
1	Boarding Fee	\$40.00
1	Rabies Vaccination Deposit	\$13.00
Amount Paid		\$53.00

Receipt Date: 6/11/2011

Our query of Receipt # 15052 obtained from this customer was dated 6/11/2011 – the same date it was prepared in the computer system.

Altered Receipt #15052 in MHHS Records

Redemption Form

Morristown-Hamblen Humane Society
300 Dice Street
Morristown, TN 37813
423-581-1494

Owner's Details

Person Name: [Redacted]
Person Address: [Redacted]
Home Phone: [Redacted]

Person ID: 10661
Receipt #: 15052
Receipt Date: 1/11/2001

Animal Details:

Animal ID	Type	Breed	Mixed	Color(1)	Color(2)	Gender
1 15233	Dog	Coonhound, Walker	Yes	Black	White	Female

Shelter Tag # License # Primary Microchip Brand Primary Microchip # Secondary Microchip Brand Secondary Microchip #

Redeem Details:

Item	Amount
Boarding (4 day(s)): Boarding Fee	\$40.00
Rabies Coupon Fees	\$13.00

Payment Details:

Payment Method: Cash

Qty	Fee	Amount
1	Boarding Fee	\$40.00
1	Rabies Vaccination Deposit	\$13.00
Amount Paid		\$53.00
Amount Owing		\$0.00

Receipt Date: 1/11/2001

Receipt # 15052 in the MHHS computer system was backdated to 1/11/2001 - more than eight years before the computer system was installed.