
STATE OF TENNESSEE

SPECIAL REPORT ON THE MORGAN COUNTY CLERK

FOR THE PERIOD JULY 1, 2009
THROUGH DECEMBER 22, 2010



Division of County Audit



**SPECIAL REPORT ON THE
MORGAN COUNTY CLERK
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February 10, 2011

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

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 bank deposit details in the deposit books, bank records, and interviews. Our investigation disclosed a cash shortage of \$54,611.33 on December 14, 2010. Subsequently, the county clerk deposited \$47,200.71, leaving an unpaid cash shortage of \$7,410.62 at December 22, 2010.

We reviewed the findings resulting from this special investigation with the county clerk, the county mayor, and the district attorney general. These findings, together with our recommendations, and the response of the county clerk are presented in this report.

Sincerely,

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

Jim Arnette, Director
Division of County Audit

cc: Honorable Russell Johnson, District Attorney General
Ninth Judicial District

Mr. Melvin Jones, Jr., Director of Internal Audit & Consulting Services
Tennessee Department of Revenue

SPECIAL REPORT ON THE MORGAN COUNTY CLERK
For the Period July 1, 2009 through December 22, 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.

FINDING 10.01 **A CASH SHORTAGE OF \$54,611.33 EXISTED IN THE COUNTY CLERK'S OFFICE ON DECEMBER 14, 2010**
(Internal Control – Material Weakness Under Government Auditing Standards)

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	✓
11/24/2010	3,541.85	0.00	3,051.16	490.69	✓
11/29/2010	5,625.56	0.00	3,728.90	1,896.66	✓
11/30/2010	4,067.38	0.00	1,876.50	2,190.88	✓
12/1/2010	3,497.28	0.00	2,215.90	1,281.38	✓
12/2/2010	2,994.73	0.00	1,098.25	1,896.48	✓
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 \$ 7,410.62

- 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. As of the date of this report, Ms. Hamby is the Morgan County Clerk.

RECOMMENDATION

County officials should take immediate steps to collect the \$7,410.62 unpaid cash shortage. All collections should be deposited intact daily to minimize the opportunity for fraud and abuse. Any variances on daily checkouts compared with collections should be investigated and corrected promptly.

FINDING 10.02 THE OFFICE HAD ACCOUNTING DEFICIENCIES
(A. and B. – Internal Control – Significant Deficiency Under Government Auditing Standards; C. – Noncompliance Under Government Auditing Standards)

We noted the following accounting deficiencies in the County Clerk's Office:

- A. Bank statements were not reconciled with the accounting records on a current basis. We noted that the reconciliations for July 2009 through June 2010 had not been performed.
- B. During the year, the office cashed personal checks for employees from the office cash drawers. This practice weakens internal controls over collections by substituting non-business related checks for cash.
- C. Funds were not adequately safeguarded. The county clerk informed us that while on medical leave, she removed cash deposits from the office, rather than depositing the funds in the office bank account. Section 5-8-207, Tennessee Code Annotated, requires county officials to deposit public funds to the office bank account within three days of collection. The delay in depositing the funds increases the risk of fraud and misappropriation.

RECOMMENDATION

Bank statements should be reconciled with accounting records on a current basis. The practice of cashing personal checks from office funds should be discontinued. Funds should be adequately safeguarded, and all funds should be receipted and deposited into the office bank account within three business days as required by state statute.

MANAGEMENT'S RESPONSE PARAPHRASED – COUNTY CLERK CAROL HAMBY

I wanted to briefly respond to the findings of the most recent audit of the Morgan County Clerk's Office. My goal is to maintain transparent record keeping and to insure all individuals concerned that there is no fraud or misuse of taxpayer money.

The audit report reflects missing money. I will not comment in detail due to pending litigation. I will say that I regret that this has caused any bad feelings toward any public office. I have taken steps to make the necessary corrections.

I made wrong decisions that allowed me to be in this situation. I have worked my absolute best to insure the customers had great quality service. All money was submitted to the Tennessee Department of Revenue, the Tennessee Department of Safety, Tennessee Wildlife Resources Agency, and any other state agency. I focused heavily on some areas of my office and not heavily enough in others. I learned as much as I could as quick as I could. My goal is to always make things better. There are times I thought with my heart and not my brain. We all learn with age and experience. My general ledger is up to date, and paperwork is in order. All checks are recorded, and all monies are receipted. I tried to take every step necessary to provide the Comptroller's Office with any and all records that would help do the job.

AUDITOR'S COMMENT

A cash shortage totaling \$54,611.33 existed in the office at December 14, 2010. Subsequently, the clerk deposited \$47,200.71, leaving an unpaid cash shortage of \$7,410.62. Internal control weaknesses such as not reconciling bank accounts with the accounting records currently, cashing personal checks from office funds, and allegedly removing cash from the office instead of depositing the collections in the bank contributed to this cash shortage.