

STATE OF TENNESSEE

**SPECIAL REPORT ON THE
MORGAN COUNTY SOIL CONSERVATION
DISTRICT**

**FOR THE PERIOD JULY 1, 2007
THROUGH OCTOBER 28, 2011**



Division of Local Government Audit



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MORGAN COUNTY SOIL CONSERVATION DISTRICT
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May 29, 2012

To the Morgan County Soil Conservation Board of Directors,
Morgan County Executive, and the Morgan County
Board of County Commissioners
Morgan County, Tennessee

On October 26, 2011, the State of Tennessee, Department of Agriculture provided information to our office of suspected misappropriation of state funds at the Morgan County Soil Conservation District. As a result of this information, and with the assistance of the Tennessee Bureau of Investigation, we conducted a special investigation to include transactions of the Morgan County Soil Conservation District from July 1, 2007 through October 28, 2011. Our investigation identified a cash shortage of at least \$53,412.78 at October 28, 2011.

We reviewed the findings resulting from this special investigation with the Morgan County Soil Conservation Board and the district attorney general. These findings, with our recommendations and management's responses, are presented in this report.

Sincerely,

A handwritten signature in black ink that reads "Jim Arnette".

Jim Arnette, Director
Division of Local Government Audit

cc: Honorable Russell Johnson, District Attorney General
Honorable Julius Johnson, Commissioner, Department of Agriculture

SPECIAL REPORT ON THE MORGAN COUNTY SOIL CONSERVATION DISTRICT

For the Period July 1, 2007 through October 28, 2011

Our findings and recommendations, along with management's responses, as a result of our special investigation, are presented below. We reviewed these findings and recommendations with the Morgan County Soil Conservation District Board of Directors to provide an opportunity for their response. We have also reviewed this report with the district attorney general.

BACKGROUND

The Morgan County Soil Conservation District (district) is managed by a five-member Board of Directors. Three directors are elected to their positions by Morgan County landowners, and two directors are appointed by the State of Tennessee Soil Conservation Committee. The district receives state and county 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 district provides grants to Morgan County farmers who complete certain conservation projects on their land. The 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 government sources and from the sale of trees are deposited into a single checking account. The signatories on this account are the chairman and the treasurer of the district's Board of Directors.

FINDING 12.01 THE BOARD OF DIRECTORS DID NOT ASSUME OVERSIGHT RESPONSIBILITY

The Board of Directors of the Morgan County Soil Conservation District did not assume oversight responsibility for district operations. The minutes of the Board of Directors infrequently reflected discussions of the district's financial operations, purchases or acquisitions, and personnel policies. Sound business practices dictate that the Board of Directors should, to the extent possible, exercise greater oversight of the district's fiscal operations. Such oversight should include requiring the submission of original monthly bank statements and reconciliations with the department's financial reports.

RECOMMENDATION

The Board of Directors should meet regularly to approve and review the districts' financial operations, purchases or acquisitions, and personnel policies. The board treasurer should examine all bank statements, reconcile checks issued with checks negotiated, and reconcile bank statements with the financial reports.

MANAGEMENT'S RESPONSE – MORGAN COUNTY SOIL CONSERVATION DISTRICT

We agree that we did not assume enough oversight into our employee's activities, and we placed too much trust in our employees. We will start signing all checks with two signatures from the Board of Directors.

FINDING 12.02 THE SOIL CONSERVATION DISTRICT HAD A CASH SHORTAGE OF AT LEAST \$53,412.78

On October 26, 2011, as a result of the bank alerting the district that their bank account was overdrawn, our office was contacted by the State of Tennessee Department of Agriculture, who provided information regarding possible misappropriation of state funds by the administrative secretary for the Morgan County Soil Conservation District. The allegations involved missing funds from the district's bank account. During the period July 1, 2007 through October 28, 2011, we compared receipts with deposits and reviewed payroll and non-payroll expenditures. During our investigation, the chairman of the board advised us that since at least 2008, his signature had been forged on checks and timesheets that were on file. According to the chairman of the district's Board of Directors, the administrative secretary took care of all daily operations, including mail processing, filing, and bookkeeping.

On October 20, 2011, the Board of Directors placed the administrative secretary on unpaid administrative leave pending the results of our investigation.

On January 30, 2012, the administrative secretary advised the Tennessee Bureau of Investigation that she had taken funds from the Morgan County Soil Conservation District for her personal use and forged the chairman of the board's signature.

The cash shortage of at least \$53,412.78 resulted from the following:

- A. From September 2010 through October 2011, seven checks totaling \$26,958.47 were disbursed from the district's checking account payable to various relatives of the administrative secretary. The secretary forged the endorsement on these seven checks and deposited the checks into her personal bank account. In October 2011, one of the seven checks totaling \$7,100 was returned by the bank for insufficient funds; therefore, the net of \$19,858.47 was obtained improperly.

Also, during this period, the administrative secretary used a kiting scheme to remove monies from the office. Kiting occurs when a check is drawn against uncollected or insufficient funds with the intent of creating a false balance in the bank account by taking advantage of the time lapse required for processing. The administrative secretary deposited checks totaling \$32,000 into the bank account. These checks were purportedly payable from several of her family members, which temporarily increased the bank balance; however, these deposited checks were subsequently returned for insufficient funds.

- B. From December 2007 to October 2011, we questioned the validity of numerous vendor checks totaling \$11,309.03 and payroll checks totaling \$11,840.17 that were paid to the administrative secretary without supporting documentation. The administrative secretary was responsible for preparing all checks in the office and would record fictitious entries in the accounting records in an attempt to conceal the true purpose of the disbursements.

A contributing factor that allowed these disbursements to go undetected was that the chairman of the Board of Directors, who was responsible for approving the timesheets, did not actually approve them. He advised us that his signature had been forged on the timesheets. Furthermore, numerous timesheets were not on file.

- C. During the period examined, we noted that disbursements totaling \$736.21 had no supporting documentation, and we could not ascertain whether these disbursements were related to the Soil Conservation District. These disbursements were to Darnell's Market, UPS, Dollar General, Morgan Farm Market, and Roane Newspaper. Failure to require adequate documentation for purchases increases the risk of fraud and abuse from unauthorized purchases.
- D. From December 2007 to October 2011, the administrative secretary did not deposit receipts totaling \$2,046.40; however, she later deposited \$1,585.70 in funds which were not receipted. In addition, our investigation revealed significant delays in depositing daily collections into the district's bank account. Office records reflected that as many as 45 days lapsed between the date some funds were collected and the date the funds were deposited. Section 9-4-301, *Tennessee Code Annotated*, provides that it is the duty of every department, institution, office, and agency of the state government collecting or receiving state funds, to deposit them immediately into the treasury or to the account of the state treasurer in a bank designated as a state depository or to the appropriate departmental account. The delay in depositing funds allows large amounts of cash and checks to accumulate in the office. Also, as a result of missing receipt books, we were unable to ascertain if all collections at the district office were properly receipted and deposited.
- E. From May 2011 to October 2011, our review of bank statements indicated that due to insufficient funds, the district incurred service charges totaling \$522.50.

The following table details the shortage:

A. - Checks to family members	\$	26,958.47
B. - Vendor checks to the administrative secretary	\$	11,309.03
C. - Payroll checks to the administrative secretary	\$	11,840.17
D. - Undocumented checks	\$	736.21
E. - Receipts not deposited	\$	2,046.40
F. - Bank charges	\$	522.50
 Total cash shortage, October 28, 2011	 \$	 <u>53,412.78</u>
Less: cash not receipted but deposited 4/4/11	\$	(1,585.70)
Less: check returned - insufficient funds 10/13/11	\$	(7,100.00)
 Remaining Cash Shortage, October 28, 2011	 \$	 <u>44,727.08</u>

RECOMMENDATION

The Board of Directors should take immediate steps to collect the remaining \$44,727.08 cash shortage. Funds should be adequately safeguarded, and all funds should be receipted and deposited into the office bank account as required by state statute. Any variances in daily deposits compared with collections should be investigated and corrected promptly. Properly approved timesheets should be on file for employees.

MANAGEMENT'S RESPONSE – MORGAN COUNTY SOIL CONSERVATION DISTRICT

We now make deposits within three days, and we have changed our policy on timesheets. Copies will be on file in the office.

FINDING 12.03 DEFICIENCIES WERE NOTED IN THE ADMINISTRATION OF THE SOIL CONSERVATION DISTRICT

We reviewed various records, assessed the controls of the district, and determined the following weaknesses, which were the result of management's decisions that could result in a loss of funds and property:

- A. The district did not accurately perform reconciliations of bank statements with the accounting records on a current basis. The administrative secretary would present monthly reconciliations to the Board of Directors with incomplete or altered information.
- B. Duties were not segregated adequately within the office. The employee responsible for maintaining accounting records was also involved in payroll, disbursements, receipting, and bank deposits. Accounting standards provide that internal controls be designed to provide reasonable assurance in the reliability in financial reporting and of the effectiveness and efficiency of operations.
- C. Some timesheets were not on file or signed by the chairman of the board as evidence of review and approval. If the chairman of the board does not review and approve timesheets, improper payments could result. On March 11, 2010, the Board of Directors adopted a policy requiring the administrative secretary to submit her timesheets to the chairman of the board for his approval. The chairman of the board later admitted that he never followed-up on approving timesheets and stated his signature was forged on the timesheets that were on file.
- D. The district did not issue official receipts for all collections. Instead, the office used generic receipts. We were unable to obtain a receipt book for several days of the period tested. Therefore, we were unable to determine if all monies received at the office were properly receipted and deposited with the district.

RECOMMENDATION

The Board of Director's treasurer should examine all bank statements, reconcile checks issued with checks negotiated, and reconcile bank statements with financial reports. The district should segregate duties to the extent possible using available resources. The chairman of the board should comply with district policy and sign employees' timesheets as evidence of review and approval. Adequate records should be maintained, and official prenumbered receipts should be issued for all collections. Copies of all receipts should be on file and available for audit inspection.

MANAGEMENT'S RESPONSE – MORGAN COUNTY SOIL CONSERVATION DISTRICT

The secretary/treasurer for the Soil Conservation District has now taken the responsibility of managing the financial records in regard to the district's checking account. He reconciles the bank statements and balances the accounts. We now have a new account with internet access to the district's account. We have new receipt books with pre-numbered and pre-addressed letterhead to insure accurate auditing procedures.

We have made improvements and corrected the items in your findings as best as possible, and these improvements will stay in place as long as the present Board of Directors serve in their respected positions.