
STATE OF TENNESSEE

SPECIAL REPORT ON THE
MILLARD OAKLEY PUBLIC LIBRARY

FOR THE PERIOD JULY 1, 2008
THROUGH MARCH 26, 2012



Division of Local Government Audit



**SPECIAL REPORT ON THE
MILLARD OAKLEY PUBLIC LIBRARY
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June 4, 2012

To the Overton County Executive,
Overton County Board of County Commissioners,
and the Millard Oakley Public Library Board of Directors
Overton County, Tennessee

On March 2, 2012, our office was notified by the Overton County Executive of suspected irregularities at the Millard Oakley Public Library. As a result of this notification, our office conducted an investigation from July 1, 2008 through March 26, 2012. We reviewed bank deposits and disbursements from the library's checking account and identified a cash shortage of \$5,999.53 at March 2, 2012.

We reviewed the finding resulting from this special investigation with the county executive, Millard Oakley Public Library's Board of Directors, and the district attorney general. This finding, along with our recommendation and management's response, are presented in this report.

Sincerely,

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

Jim Arnette, Director
Division of Local Government Audit

cc: Honorable Randy York, District Attorney General

SPECIAL REPORT ON THE MILLARD OAKLEY PUBLIC LIBRARY

For the Period July 1, 2008 through March 26, 2012

Our finding and recommendation, along with management's response, as a result of our investigation, are presented below. We reviewed this finding and recommendation with the Overton County Executive and the Millard Oakley Public Library Board of Directors to provide an opportunity for their response. The Overton County Executive and the director of the library provided written responses, which are paraphrased in this report. We have also reviewed this report with the district attorney general.

FINDING 12.01 A CASH SHORTAGE OF \$5,999.53 EXISTED AT THE MILLARD OAKLEY PUBLIC LIBRARY ON MARCH 2, 2012

On March 2, 2012, the library director was notified by the bank that the library's bank account would soon be overdrawn. The library director questioned the deputy director who maintained this bank account for the library, and the deputy director resigned on March 2, 2012. The library director notified the Overton County Executive's Office who then informed our office of the suspected irregularities in the library's checking account.

We examined bank deposits and disbursements in the library's checking account from July 1, 2008 through March 26, 2012. Our procedures identified a cash shortage of \$5,999.53 at March 2, 2012. This cash shortage included electronic disbursements from the library's checking account for personal expenses of the deputy director totaling \$2,289.58. In addition to the personal expenses, the deputy director also collected cash and checks on behalf of a nonprofit organization, Friends of the Library; however, instead of turning the collections over to the Friends of the Library, the deputy director deposited these funds into the library's checking account in an apparent attempt to balance the library's books by replacing the cash taken from the library with the nonprofit's funds. This substitution scheme totaled \$3,709.95.

The library did not issue receipts for all collections. Instead, the library issued receipts manually only when a customer requested a receipt. Since receipts were not always issued, we could not determine whether all collections for the library and on behalf of the Friends of the Library had been accounted for properly. In addition, the library did not maintain any records indicating the breakdown of cash and checks received. We were advised that beginning May 2009, the deputy director was exclusively responsible for making bank deposits, preparing monthly collection reports, and issuing monthly checks to the Overton County Trustee.

From May 2009 through February 2012, collections were not deposited to the bank account on a current basis, which allowed cash and checks to accumulate. Prior to May 2009, an analysis of cash and check deposits indicated that cash deposited accounted for an average of 85 percent of each deposit; whereas subsequent to May 2009, cash deposited accounted for an average of 38 percent of each deposit. Deposits were taken to the bank approximately two to three times per month. Office records reflected that as many as 34 days lapsed between dates of deposits. Sound business practice dictates that all collections be deposited on a current 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.

Electronic payments made in February 2012 totaling \$532.30 were refunded by the bank. In addition, cash totaling \$1,700, and a personal check totaling \$57.28 were returned by the deputy director. This reduced the cash shortage balance to \$3,709.95 on March 26, 2012.

The following table details the cash shortage:

Month	Electronic Payments			Total
	DIRECTV	Verizon Wireless	HSBC Card Service	
September 2011	\$ 146.43	\$ 0	\$ 0	146.43
October 2011	0	375.23	0	375.23
November 2011	0	86.00	112.71	198.71
December 2011	0	203.98	368.40	572.38
January 2012	0	195.01	269.52	464.53
February 2012	0	0	532.30	532.30
Total Cash Shortage for Personal Expenses				\$ 2,289.58
Add: Friends of the Library Checks Substituted for Library Funds				<u>3,709.95</u>
Total Cash Shortage				\$ 5,999.53
Less: Funds Returned by Bank				(532.30)
Less: Cash and Check from the Deputy Director				<u>(1,757.28)</u>
Balance of Cash Shortage, March 26, 2012				<u><u>\$ 3,709.95</u></u>

RECOMMENDATION

County officials should take immediate steps to collect the remaining \$3,709.95 cash shortage. Official prenumbered receipts should be issued for all collections as required by Section 9-2-103, *Tennessee Code Annotated (TCA)*. All collections should be deposited within three days of collection as required by Section 5-8-207, *TCA*. Library funds should not be used for personal expenses, and the nonprofit's collections should not be comingled with the library's funds.

MANAGEMENT'S RESPONSE – CYNTHIA CARMACK, DIRECTOR, MILLARD OAKLEY PUBLIC LIBRARY

In response to the finding and recommendation, the Overton County Public Library Board and library director have implemented the following changes:

1. Collections are accounted for and documented daily.
2. Funds are deposited within three days of collection.

3. A feature has been added to our funds log to report whether collections are paid with cash or check.
4. A cost effective method of offering an official pre-numbered receipt for all collections is being investigated and will be implemented as soon as possible.
5. The financial duties of the Overton County Library have been segregated so no one person has control over the majority of these responsibilities.
6. A separate receipt book owned by Friends of the Overton County Library is maintained at the library and written receipts are required when library staff collect any monies on their behalf. These funds are turned over to the Friends of the Library within three days of collection, and that organization issues a receipt to the library for each donation.
7. The Overton County Library and the Friends of the Overton County Library are working together to ensure that all memberships and memorials made during this time period are accounted for properly.

MANAGEMENT'S RESPONSE – RON CYRUS OVERTON COUNTY EXECUTIVE

I concur with the finding. My office receives time sheets from the director of the library for us to process payroll; however, I do not sign the time sheets as evidence of approval since that responsibility should be under the chairman of the library board. Accountability for the financial operations of the library and deposits such as book fines and Friends of the Library donations is solely under the supervision of the director of the library. I would recommend that this matter be turned over to the local district attorney general to recover the lost funding.