



STATE OF TENNESSEE

**SPECIAL REPORT ON THE
DICKSON COUNTY CLERK**

**FOR THE PERIOD JANUARY 1, 2009
THROUGH SEPTEMBER 30, 2009**



Division of County Audit



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DICKSON COUNTY CLERK
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STATE OF TENNESSEE
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DIVISION OF COUNTY AUDIT

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March 8, 2010

To the Dickson County Mayor, County Clerk, and
Dickson County Board of County Commissioners
Dickson County, Tennessee

Dickson County Clerk Phil Simons discovered that several motor vehicle title application transactions and business tax license payments had been manipulated and/or altered by an employee of the office. Mr. Simons contacted the Office of District Attorney General who then contacted us and the Tennessee Bureau of Investigation. We conducted a special investigation of various transactions in the office for the period January 1, 2009 through September 30, 2009. This investigation included a review of bank records, accounting records, documentation related to motor vehicle, business tax, business license, and miscellaneous transactions. We also performed an evaluation of office policies and procedures. A finding and recommendation, together with management's response, are presented in this report.

Sincerely,

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

Jim Arnette, Director
Division of County Audit

cc: Honorable Dan M. Alsobrooks, District Attorney General
Mr. Melvin Jones, Jr., Director of Internal Audit and Consulting Services, Tennessee
Department of Revenue

**SPECIAL REPORT ON THE
DICKSON COUNTY CLERK
For the Period January 1, 2009, through September 30, 2009**

A finding and recommendation, as a result of our special investigation, are presented below. We reviewed this finding and recommendation with management to provide an opportunity for their response. The written response from management is included in this report.

**FINDING 10.01 A CASH SHORTAGE OF \$13,193.83 EXISTED IN THE OFFICE
AS OF SEPTEMBER 30, 2009
(Noncompliance Under Government Auditing Standards)**

In September 2009, County Clerk Phil Simons discovered that several motor vehicle title application transactions and business tax license payments had been manipulated and/or altered by an employee of the office. The county clerk contacted the Office of District Attorney General who then contacted us and the Tennessee Bureau of Investigation. We conducted a special investigation for the period January 1, 2009, through September 30, 2009. This investigation included a review of audit logs (computer records that show changes made to posted transactions), records of individual transactions, bank statements, and daily deposit records. Our investigation discovered numerous individual transactions had been manipulated and/or altered. Of the numerous transactions that had been manipulated and/or altered, 231 of these transactions totaling \$13,193.83 had not been accounted for as of September 30, 2009. These funds had been diverted from the office for the personal use of an employee. The employee's employment with the County Clerk's Office was terminated on September 29, 2009.

The employee used two schemes to manipulate and/or alter transactions to remove monies from the office. The first scheme involved substitution (see Items A.,B., and C. below). Substitution occurs when a transaction is recorded and paid for with cash, and another transaction is paid with a check and/or credit card but is not recorded in the records. The employee removes the cash and substitutes the check and/or credit card payment for the payment that was made in cash. The second scheme involved lapping (see Items D.,E.,F., and G. below). Lapping occurs when you receive cash for a transaction but you do not record that transaction; then you use that cash to cover a previous transaction that you had stolen the cash from and had not recorded, but you are now recording.

Scheme 1 - Substitution:

- A. Several business tax licenses were paid by check; however, the transactions were not recorded in the accounting system. The checks received for these business licenses were then substituted for cash that had been received from motor vehicle transactions that had been recorded, subsequently voided, or had the amount of the transaction reduced.

- B. Several business tax licenses were paid by check and recorded in the accounting system; however, the transactions were subsequently voided in the accounting system. The checks received for these business tax licenses were then substituted for cash that had been received from motor vehicle transactions that had been recorded, subsequently voided, or had the amount of the transaction reduced.
- C. Several miscellaneous transaction payments were never entered into the accounting system. The money orders and checks received from these miscellaneous transactions were substituted for cash collections received for motor vehicle transactions that were receipted and subsequently voided.

Scheme 2 - Lapping:

- D. Several business tax transactions that were originally diverted to substitute for cash stolen from other types of transactions were subsequently credited as being paid by funds that were diverted from their specific transaction.
- E. Several cash transactions were voided and the cash stolen. The cash was subsequently replaced by using one of two credit cards. One of the credit cards is owned by the suspected employee's father-in-law; however, the owner of the other credit card has not been determined.
- F. Several interest and penalty payment portions of business tax transactions were diverted to pay other unrelated transactions.
- G. Cash totaling \$203 was received to replace several checks that had been returned for insufficient funds; however, this cash was diverted and the returned checks were still outstanding.

The table below summarizes a description of the transactions manipulated and/or altered, which comprise the \$13,193.83 cash shortage as of September 30, 2009:

<u>Description</u>	<u>Number of Transactions</u>
Motor vehicle transactions that were manipulated/altered	155
Miscellaneous transactions that were not entered into the system	7
Motor vehicle transactions that were deleted	8
Business tax transactions that were manipulated/altered	43
Business tax checks that were deposited, but transactions were never entered into the system	14
Paperwork on transactions found but funds missing	2
Missing money received to replace insufficient funds checks	2
	<hr/>
Total	<u><u>231</u></u>

Our examination disclosed several internal control weaknesses that allowed the cash shortage to occur and go undetected for several months. Internal control weaknesses involve the lack of management tools designed to help management meet its responsibilities and achieve its objectives by providing a favorable control environment,

continuing assessment of risks, effective policies and procedures, effective communication of information, and ongoing monitoring. These internal control weaknesses are discussed below:

- A. The accounting records were manipulated and altered to show decreases in cash collections and increases in check collections. The diversion of funds went undetected because of the failure of management to review the computer generated audit logs. These audit logs show changes made by users. Management tried to review these logs for the three collection sites on a monthly basis rather than by each collection site on a daily basis. Had these audit logs been examined by collection site on a daily basis, management should have noticed that numerous changes were being made by one employee and that many of these changes occurred before and after normal office hours.
- B. Duties were not segregated adequately among the official and employees in the office. The official and employees responsible for maintaining the accounting records in the office were also involved in receipting, depositing, and/or disbursing funds.
- C. The county clerk did not adequately control access to the office. An employee was allowed unsupervised access to the office during non-business hours. Allowing employees to have unsupervised access to the office before or after business hours weakens internal controls and increases the risk of fraud and abuse.

On February 18, 2010, the Dickson County Grand Jury indicted Desiree Creech, a former employee of the County Clerk's Office, on one count of theft between \$10,000 and \$60,000. Judicial action on the case is pending.

RECOMMENDATION

The county clerk should ensure that the cash shortage of \$13,193.83 is liquidated and make the appropriate reports and remittances for the collections that have been diverted from the office for the personal use of the employee. Also, the county clerk should strengthen the internal controls of the office by adequately segregating the duties among employees and providing adequate supervision of employees. A review of the audit logs for each collection site should be performed on a daily basis by an employee not responsible for issuing receipts or remitting the collections. Employees should not have unsupervised access to this office after business hours.

MANAGEMENT'S RESPONSE – COUNTY ATTORNEY – TIMOTHY V. POTTER

Please be advised that our office represents Dickson County, Tennessee, which includes the Office of County Clerk. Our office has now had an opportunity to review draft finding 10.01 completed by the Office of Comptroller of the Treasury, Division of County Audit. Said draft finding 10.01 pertains to a cash shortage of \$13,193.83, which existed in the Office of the Dickson County Clerk as of September 30, 2009. Said draft finding 10.01 welcomed a written response by the relevant county official. Please accept this correspondence as a written response on behalf of Mr. Phil Simons, Dickson County Clerk.

It is our understanding that the pertinent cash shortage resulted solely from an alleged criminal embezzlement by an hourly employee of the Dickson County Clerk's Office. It is our further understanding that said cash shortage was reported promptly upon discovery by Mr. Phil Simons, Dickson County Clerk, to both the Dickson County Attorney's office and the District Attorney General's office.

The draft finding 10.01 outlines three (3) specific alleged internal control weaknesses. Each alleged internal control weakness will be responded to separately below.

Alleged Weakness A: Said alleged internal control weakness alleges that "the accounting records were manipulated and altered to show decreases in cash collections and increases in check collections. The diversion of funds went undetected because of the failure of management to review the computer generated audit logs. These audit logs show changes made by users. Management tried to review these logs at the three (3) collection sites together on a monthly basis rather than by collection site on a daily basis. Had these audit logs been examined by collection on a daily basis, management would have noticed that numerous changes were being made by one (1) employee and that many of these changes occurred before and after normal office hours."

Response: Prior to the finding of this special report, all site audit logs were reviewed at the end of each month on documentation reflecting all of the month's activities. In response to specific audit finding 10.01, the county clerk has now implemented additional internal controls providing for the review of audit logs at each separate site location on a daily basis.

Alleged Weakness B: Said alleged internal control weakness alleges that "duties were not segregated adequately among the official and employees in the office. The official and employees responsible for maintaining the accounting records in the office were also involved in receipting, depositing, and/or disbursing funds."

Response: Prior to the finding of this special report, the county clerk acknowledged that many site locations were staffed with only a few employees. As a result, employees often had overlapping job responsibilities. In response to audit finding 10.01, the county clerk has now implemented additional internal controls resulting in the segregation of responsibilities. The county clerk and the appointed chief deputy clerks at each site location are the only individuals now responsible for depositing and/or disbursing funds.

Alleged Weakness C: Said alleged internal control weakness alleges that "the county clerk did not adequately control access to his office. An employee was allowed unsupervised access to the office during non-business hours. Allowing employees to have unsupervised

access to an office before or after business hours seriously weakens internal controls over assets.”

Response: In response to audit finding 10.01, additional internal controls have been implemented. Specifically, the county clerk has instituted new instructions prohibiting any county clerk employee from having access to any county clerk site location during non-business hours. Efforts are also being made to insure that a specific responsible employee is present to open and close each site location. All efforts are continually ongoing to strengthen the internal controls of the County Clerk's Office. County Clerk Phil Simons, takes his responsibility as a steward of county funds very seriously. Although it is never possible to completely prevent intentional criminal acts by employees in any workplace, whether public or private, the county clerk understands that every effort can be made to recognize inconsistencies and report irregularities immediately.