

# Fraud in Tennessee

## Internal Control Tips for Financial Managers – Case Studies

### *TGFOA – SPRING CONFERENCE*

---

Kevin B. Huffman, CPA, CGFM, CFE

Deputy Chief Investigator

Division of Investigations





*"These new regulations will fundamentally change the way we get around them."*

◆ Who does it impact?

# Fraud in Tennessee

---



# Fraud in Tennessee

---

## ◆ *What we do:*

- Investigate matters of fraud, waste, and abuse in governments or agencies receiving government funding.

## ■ How are we notified?

Audits, hotline calls, fraud reporting forms, other agencies, CPA contracted auditors, tips

# Fraud in Tennessee

---

- ◆ *What we typically see...*
  
- ◆ Lack of qualified competent staff
  - Lack of management oversight.
  - Lack of internal controls.
  - "...I trust my people."

# Fraud in Tennessee

---

- ◆ *Who steals in our governments?*
  - Fraud Triangle – Rationalization; Opportunity; Pressure
  - 10/10/80 Rule

# Fraud in Tennessee

---

- ◆ What you should take away from this presentation:
  - Recognizing your risks
  - Think about some additional internal controls
  - Trust, but also verify



I'm not allowed  
on the couch.

# Fraud in Tennessee

---

- ◆ Recognizing your risks:
  - According to Federal Law Enforcement:
    - ◆ Employee theft is one of the fastest growing crimes.
    - ◆ Ten times the value of street crimes (\$40 billion each year).
    - ◆ Nearly one-third of all employees commit some degree of theft.

# Fraud in Tennessee

---

- ◆ Recognizing your risks -
- ◆ Employee theft takes many forms:
  - Voiding receipts; adjusting accounts = stealing cash
  - Fabricating invoices; fictitious payees = stealing thru disbursements
  - Use of gov't equipment for personal use
  - Theft of time; “borrowing funds”

# Fraud in Tennessee

---

- ◆ Recognizing your risks:
  - If entity doesn't put the proper controls in place, it's not a matter of "if" something will happen...but "when."
  - Fraud has a common thread – it happens regardless of the size of your entity.
  - Once you lose the public (taxpayer) trust, it's difficult to get it back.

# Fraud in Tennessee

---

◆ Recognizing your risks:

◆ Things we routinely hear –

“I trust my people...wouldn't hire them if I didn't.”

“I've been here for years and there has never been a problem.”

“We don't handle much money.”



# Fraud in Tennessee

---

- ◆ Recognizing your risks:
  
- ◆ Once fraud occurs –
  - Taxpayers have a right to know.
  - Entire operation is scrutinized.
  - Report is public.

# Fraud in Tennessee

---

- ◆ Think about some additional internal controls:
  - Internal Controls = safeguards
  - #1 Control = Tone at the Top!
  - Government leader = #1 control

# Fraud in Tennessee

---

- ◆ *Think about some additional internal controls*
  
- ◆ Tone at the Top – some things to think about
  - Lead by example (many examples here)
    - ◆ Make expectations of employees clear.
    - ◆ Hold them accountable.
    - ◆ Theft of any amount; “fudging” on time; “borrowing” is never allowable/tolerated regardless of who the employee is.

# Fraud in Tennessee

---

- ◆ *Think about some additional internal controls*
  
- ◆ **Tone at the top (cont.)**
  - ◆ Hire qualified, experienced employees.
  - ◆ Find ways to improve employee morale.
  - ◆ Let employees know it's a TEAM effort.
  - ◆ Be approachable - Create an environment where employees feel comfortable coming to you at any time to voice concerns or issues.

# Fraud in Tennessee

---

◆ *Think about some additional internal controls*

◆ Famous quote from military general –

“The day my soldiers stop coming to me with their questions or problems is the day they think I either don’t care or can’t help them anymore...either way it’s a failure of my leadership.”

# Fraud in Tennessee

---

◆ Think about some additional internal controls

Do you know all the cash collection points in the organization? How often are deposits made?

What are your procedures? Do ALL your employees know the procedures?

Are they in writing?

Stick to them!

# Fraud in Tennessee

---

◆ Think about some additional internal controls

Keep cash on hand to a minimum (Do you know all the cash on hand amounts across the entity?)

Are there delays in deposits? Why are there delays? Should be made daily if possible...

Consider security cameras.

# Fraud in Tennessee

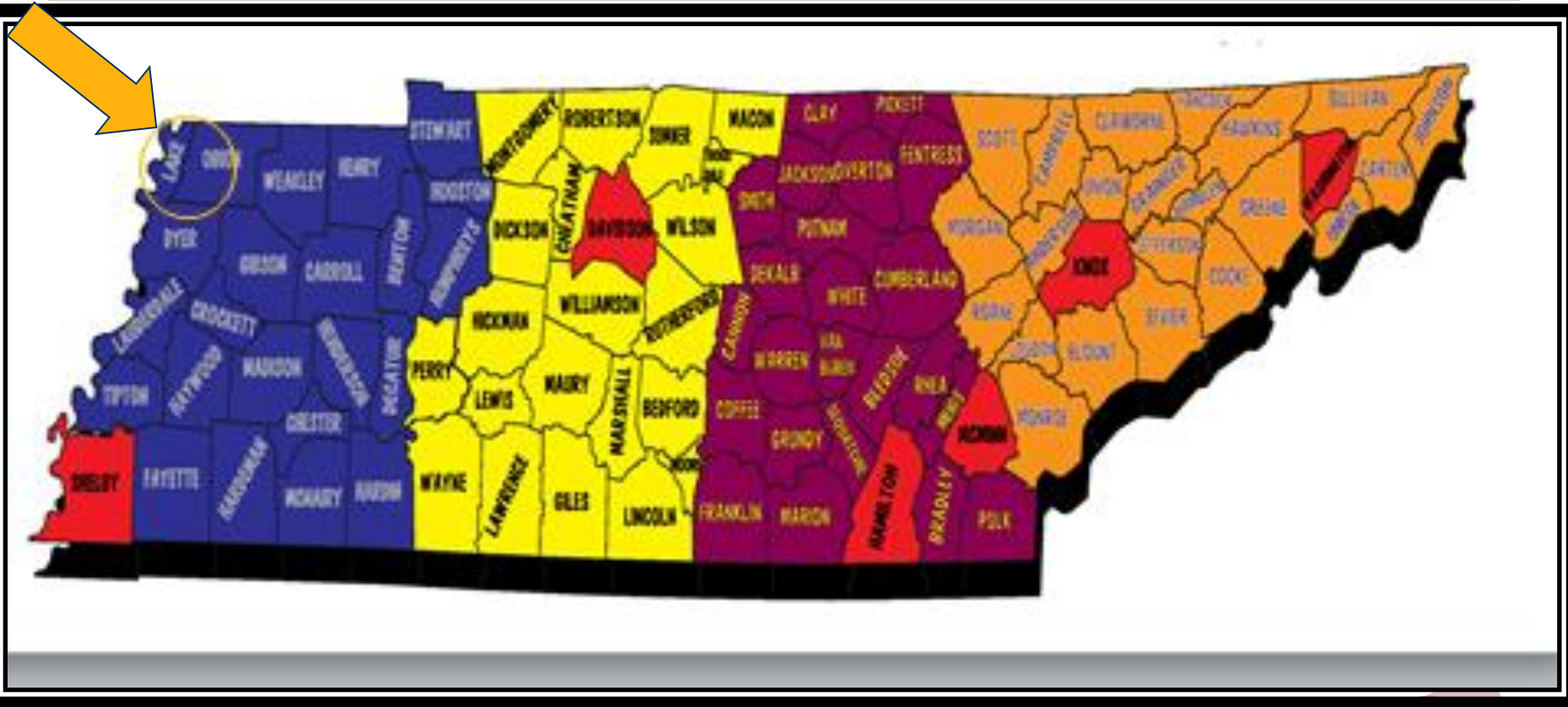
---

## ◆ Think about some additional internal controls

Let employees know it's a team effort to watch over operations of the office...

- Review what is signed.
- Require two signatures.
- Separate duties (have an employee outside the approval process review invoices).

# LAKE COUNTY, TENNESSEE ALTERED PAYEE SCHEME



# LAKE COUNTY GOVERNMENT

---

For the period October 18, 2005 to July 26, 2010

County Bookkeeper, Kim Keeling, issued 191 vendor checks totaling \$202,345.

Kim Keeling included her name on the front of the check and deposited the check into her personal account.



THIS DOCUMENT IS MADE OF 100% RECYCLED PAPER WITH AN ULTRAVIOLET FLUORESCENT WATERMARK

No. 024731

**PURCHASE POWER  
KIM KEELING-LAKE CO. EXEC.**

**Louis**

ENDORSE HERE:

*Kim Keeling*

DO NOT WRITE, STAMP OR SIGN BELOW THIS LINE  
RESERVED FOR FINANCIAL INSTITUTION USE

BOOK

BOOK 2 0000072300

WARNING: THIS DOCUMENT IS NOT VALID UNLESS IT IS SIGNED BY THE ISSUING OFFICE

# LAKE COUNTY GOVERNMENT

---

So....your question is...  
WHAT!?

...The disbursement included the name of a legitimate vendor...coded to various accounts...

...County Mayor and County Clerk both signed off.

# LAKE COUNTY GOVERNMENT

---

County Mayor advised he was not aware of her name on the check

- only looked at first line

188 of 191 times name was on the 2<sup>nd</sup> line.

No supporting documentation on file to support any of the 191 checks.

# LAKE COUNTY GOVERNMENT

---

County Clerk did question why the name was on the check:

***Believed explanation that name needed to be there in order to set up payment account.***

# LAKE COUNTY GOVERNMENT

---

- Lack of segregation of duties
  - Bookkeeper was involved in
    - Maintaining records
    - Receipting
    - Depositing
    - Posting
    - Disbursing Funds

# LAKE COUNTY GOVERNMENT

---

Kim Keeling -

Confessed and was indicted

Plead guilty

Served 5 year prison term



# Fraud in Tennessee

---

- ◆ Think about some additional internal controls

Establish separate cash drawers for each employee...

- ◆ Do not share passwords.
- ◆ Keep the office secure.
- ◆ Perform random “audits” in your office of employees cash drawers.
- ◆ Understand the accounting software you use.

# Fraud in Tennessee

---

- ◆ *Think about some additional internal controls*
  
- ◆ Make it inconvenient and difficult to commit fraud -
  - Routinely review voids or other adjustments to accounts.
  - Write-offs require management approval – employees involved in receipting s/n/b writing-off accounts.

# Fraud in Tennessee

---

- ◆ *Think about some additional internal controls*
- ◆ Official, prenumbered receipts should always be used.
- ◆ Preferably, an employee outside the receipting process should balance the day's transactions.
- ◆ More than one employee should verify the deposit amounts.

# Fraud in Tennessee

---

- ◆ *Think about some additional internal controls*
  
- ◆ Keep money contained in the office in which it was collected –
  - If it leaves the office and is taken to another location for deposit, receipts and signatures should be generated on the exchange.

# Fraud in Tennessee

---

*Think about some additional internal controls*

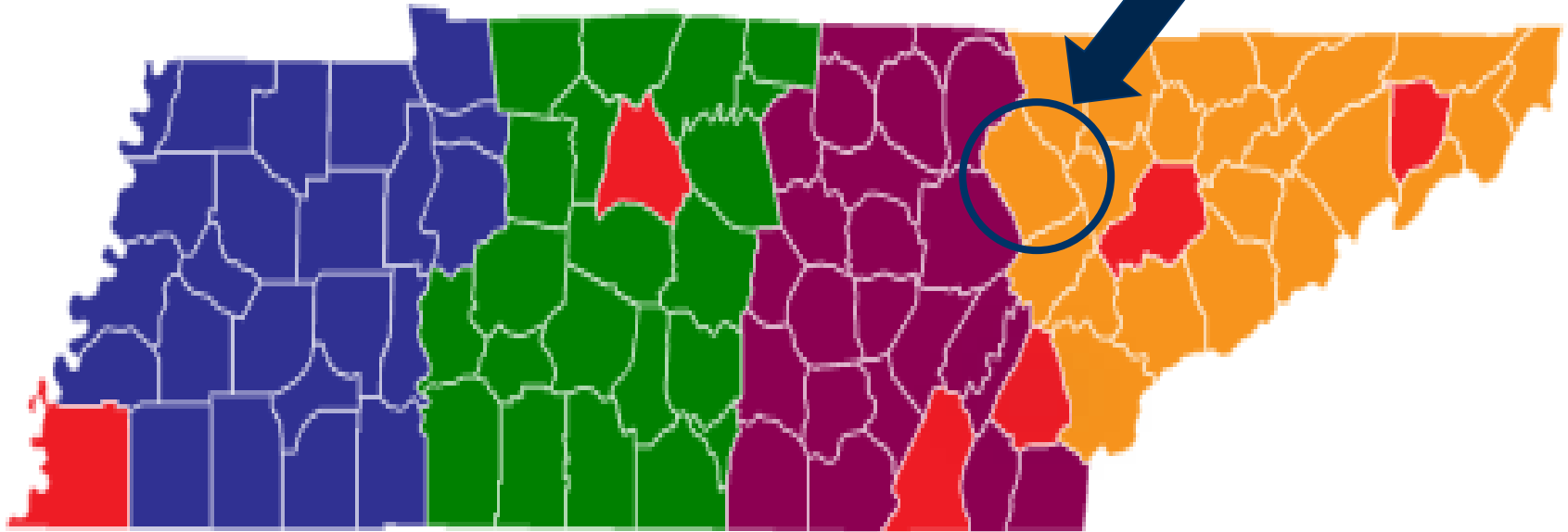
- ◆ Rotate duties in your office.
- ◆ Never a good idea to share keys, cash drawers or deposit bags.
- ◆ Consider investing in locking money bags and cash drawers.
- ◆ Keep an inventory of valuable items in your office.

# Fraud in Tennessee

---

- ◆ *Think about some additional internal controls.*
  
- ◆ Be mindful of loop holes in your operations.
  - Continuously monitor your employees and other operations under your control.
  - Tighten up as needed.

# MORGAN COUNTY, TENNESSEE



# MORGAN COUNTY CLERK

---

Received notification of irregularities from Department of Revenue.

Due to past audit deficiencies, we went to the office and performed a cash count.

Cash Count determined \$54,611.33 of receipts had not been deposited.



# MORGAN COUNTY CLERK

---

Receipts for approximately one month had not been deposited.

As many as 67 days lapsed between the time some funds were collected and deposited.

***County clerk was only one who made deposits.***

# MORGAN COUNTY CLERK

---

Contacted on December 15; agreed to meet with us on December 20.

County Clerk advised all deposits were ready and cash was taken out of the office for safekeeping.



# MORGAN COUNTY CLERK

---

December 22<sup>nd</sup> - Determined \$7,410.62 of cash was not deposited after “*search*” of office with investigator.

Checks comprising deposits from November 23 to December 2 discovered in drawer.

County Clerk claimed she was unaware these checks were in the drawer.



# MORGAN COUNTY CLERK

---

*“Let me go look for the missing cash.”*

*“All of it must be here....”*

***Confession –***

*“I sometimes use money of the office and forget to put it back.”*

# MORGAN COUNTY CLERK

---

- Day of Indictment:

*“I sometimes delay making bank deposits and use cash from current collections to deposit with checks from previous day’s collections.”*

# MORGAN COUNTY CLERK

---

## ◆ Other Findings –

- Bank Reconciliations not performed for year
- Personal checks cashed
- Funds were not adequately safeguarded

# MORGAN COUNTY CLERK

---

◆ “I made wrong decisions.”

“There are times I thought with my heart and not with my head.”

Charged with Official Misconduct and failure to comply with the three day deposit law.

# County Clerk Indicted by Grand Jury

## Charged with theft of county funds

By Judy Byrge

Tuesday, January 18, 2011 at 6:32 pm (Updated: January 18, 6:36 pm)

Morgan County Clerk Carol Conlon Hamby was indicted by the Morgan Grand Jury earlier today on charges of theft of more than \$1,000 and less than \$10,000 and failure to meet the law regarding the deposit of public funds.



Carol Conlon Hamby

District Attorney Russell Johnson said the auditors and a TBI Agent presented findings before the grand jury and true bills were returned. Hamby has already been booked in at the Morgan County Jail and released on her own recognizance per Criminal Court Judge Eugene Eblen.

Johnson said there is \$7,410.90 unaccounted for in the records of the Morgan County Clerk's Office and it has been determined that deposits in the Clerk's Office were not made within the three days required by law.

Hamby is scheduled to be arraigned in Morgan County Criminal Court on Monday before Judge Eblen.

We will have updates on this breaking news story as they become available both online and in next week's print edition of Morgan County News.

SHARE      

Popular

Related

- [Hamby's status hearing postponed](#)
- [Website to go subscription-based](#)
- [Suspect who shot at a deputy wanted](#)
- [Property for sale](#)
- [Daughter born](#)
- [Arrest Report](#)
- [Jail's medical budget shrinking fast](#)
- [Edwin Rudolph Heidel](#)

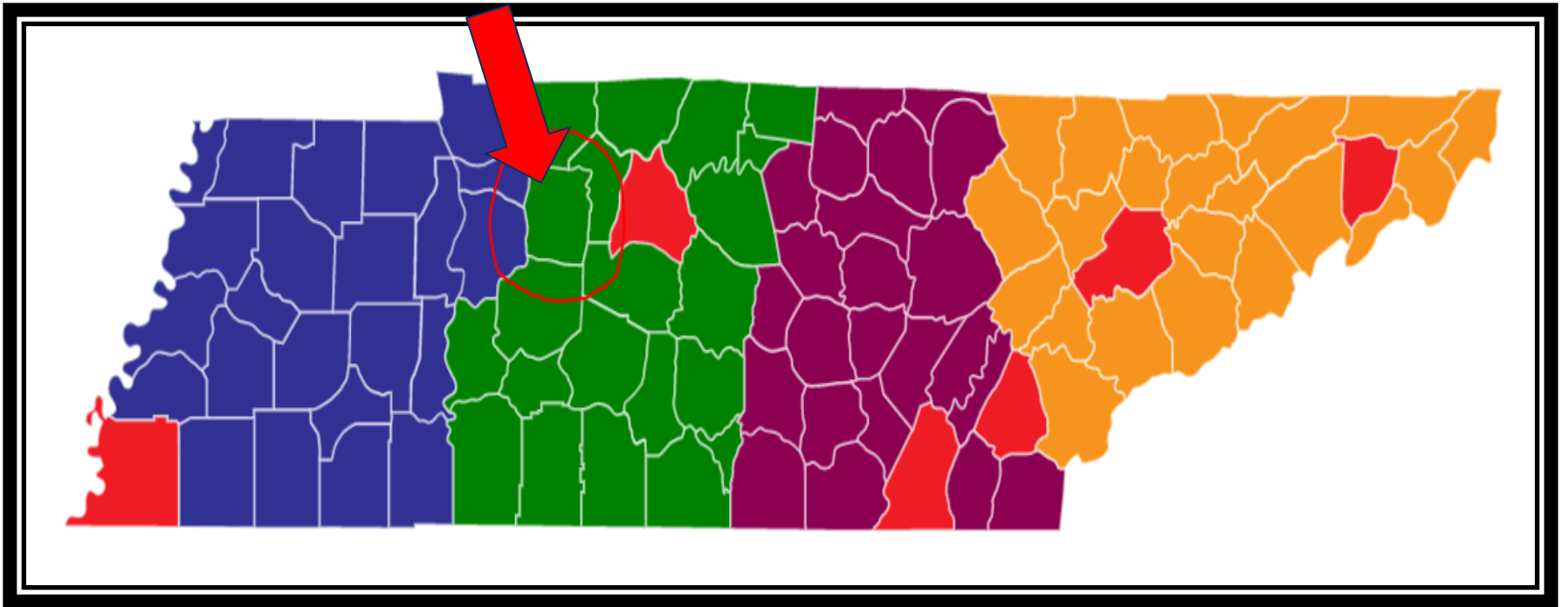


**[Congrats! You're a Florida Horoscope Winner!](#)**



# DICKSON COUNTY, TENNESSEE

---



# DICKSON COUNTY CLERK

---

- ◆ County clerk discovered altered motor vehicle and business tax transactions.
- ◆ Check substitution and lapping scheme.
- ◆ 231 altered/manipulated transactions for a shortage of \$13,193.83.

# DICKSON COUNTY CLERK

---

- ◆ Theft went undetected due to the failure of management to review the computer generated audit logs.
- ◆ Duties were not segregated adequately among the official and employees in the office.
- ◆ No controls over access to office. An employee was allowed unsupervised access to the office during non-business hours.



TRANSID DESCRIPTION

300406 Cash Amount changed from 84.00 to 35.12.  
 Check Amount changed from .00 to 48.88.  
 Check No. changed from Empty to 122.

300563 Cash Amount changed from 500.00 to .00.  
 Check Amount changed from 293.00 to 793.00.

300451 Cash Amount changed from 100.00 to .00.  
 Check Amount changed from .00 to 84.00.  
 Check No. changed from Empty to 534.

300520 Cash Amount changed from 84.00 to .00.  
 Check Amount changed from .00 to 84.00.  
 Check No. changed from Empty to 6324.

300644 Cash Amount changed from 100.00 to .00.  
 Check Amount changed from .00 to 84.00.  
 Check No. changed from Empty to 534.

SYS DATE/TIME	TRANSID	DESCRIPTIC
08/21/2009 07:27:28 AM	300406	Cash Amount
		Check Amount
		Check No. ch
08/24/2009 06:46:55 AM	300563	Cash Amount
		Check Amount
08/24/2009 06:47:54 AM	300451	Cash Amount
		Check Amount
		Check No. changed from Empty to 534.
08/24/2009 06:48:13 AM	300520	Cash Amount changed from 84.00 to .00.
		Check Amount changed from .00 to 84.00.
		Check No. changed from Empty to 6324.
08/24/2009 06:48:41 AM	300644	Cash Amount changed from 100.00 to .00.

SITE
02
02
02
02
02

F43076	4738486	1FMPU16L7YLA44688	DESIREE	WK09	02
121JKO	4738487	114FT37D2TJ001000	DESIREE	WK09	02



TRANS DATE BETWEEN: 2

SYS DATE/TIME	TRANSID	DESCRIPTION
08/21/2009 07:27:28 AM	300406	Cash Amount changed from 84.00 to 35.12. Check Amount changed from .00 to 48.88. Check No. changed from Empty to 122.
08/24/2009 06:46:55 AM	300563	Cash Amount changed from 500.00 to .00. Check Amount changed from 293.00 to 793.00.
08/24/2009 06:47:54 AM	300451	Cash Amount changed from 100.00 to .00. Check Amount changed from .00 to 84.00. Check No. changed from Empty to 534.
08/24/2009 06:48:13 AM	300520	Cash Amount changed from 84.00 to .00. Check Amount changed from .00 to 84.00. Check No. changed from Empty to 6324.
08/24/2009 06:48:41 AM	300644	Cash Amount changed from 100.00 to .00.

08/21/2009 07:27:28 AM	300406	
08/24/2009 06:46:55 AM	300563	
08/24/2009 06:47:54 AM	300451	
08/24/2009 06:48:13 AM	300520	
08/24/2009 06:48:41 AM	300644	
08/24/2009 06:49:48 AM	300643	
08/24/2009 08:18:57 AM	300570	

SITE  
02  
02  
02  
02

8/24/2009	Rest	Your Head	INN	785.68	785.68	(785.68)
324WLR	500.00	293.00	793.00	(500.00)	500.00	
574SLG	84.00		84.00	(84.00)	84.00	
F43076	84.00		84.00	(84.00)	84.00	
131JKQ	84.00		84.00	(84.00)	84.00	
539WWR	60.00		<u>60.00</u>	(33.68)	33.68	
			<u>1,890.68</u>			

**Check from Business Tax license was taken and substituted for the cash from the listed motor vehicle transactions.**



Number of	Transactions What happened
155	Motor Vehicle Transactions that were manipulated/alterd
7	Miscellaneous Transactions that were not entered into the system
8	Motor Vehicle Transactions that were deleted and should not have been
43	Business Tax transactions that were manipulated/alterd
14	Business Tax checks that were deposited, but transaction was never entered into the system
2	Missing money received to replace insufficient funds checks
2	Paperwork on transactions found but funds missing
231	

**For a total \$13,193.83 missing from office**

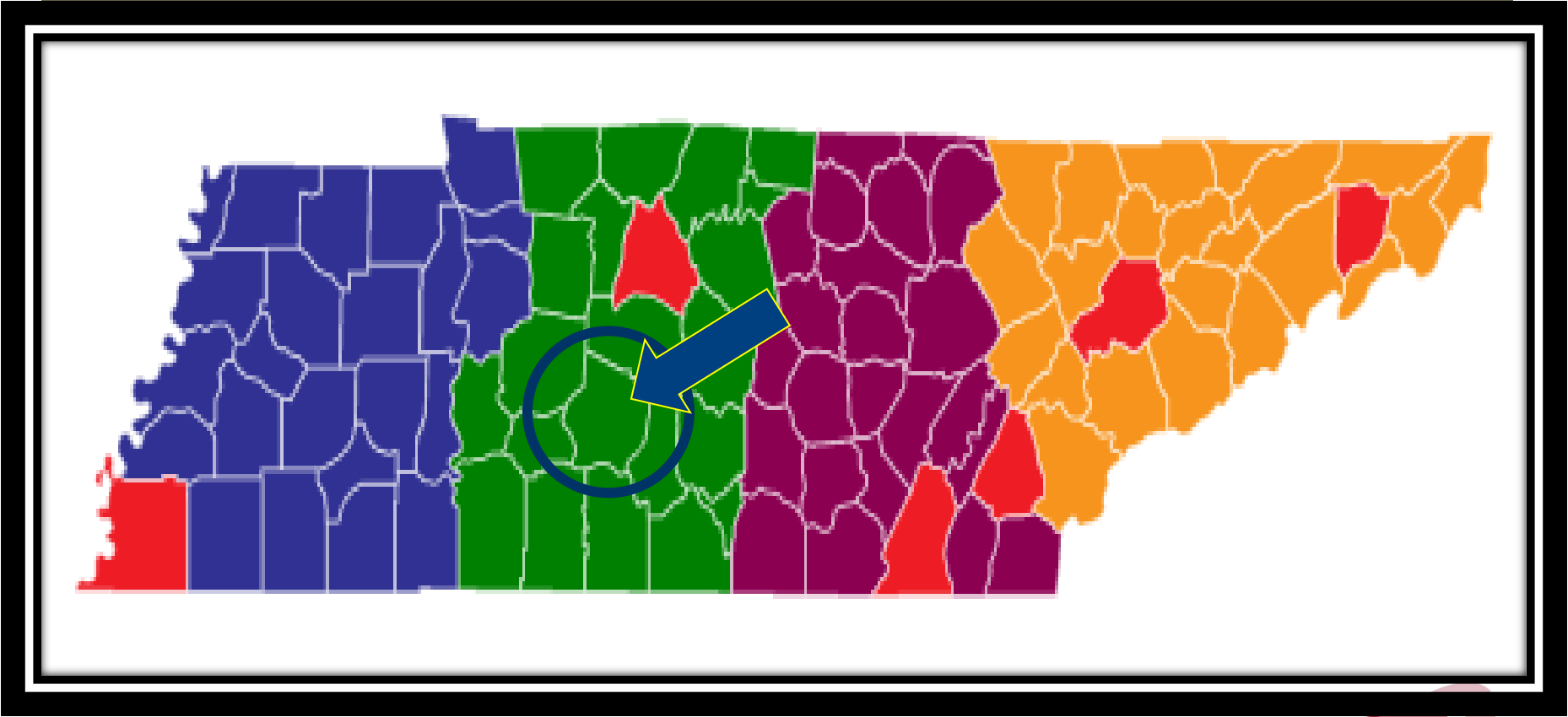
# DICKSON COUNTY CLERK

---

## ◆ JUDGEMENT:

THEFT (\$10,000-\$60,000): WAIVER, PLEA OF GUILTY. SENTENCED TO TDOC FOR 4 YEARS-SUSPENDED- COMMUNITY CORRECTIONS. RESTITUTION OF \$15,470.00 AND COSTS. INFAMOUS, RANGE ONE FELONY STANDARD OFFENDER. CLASS C. RESTITUTION TO BE PAID: \$322.29 A MONTH. JUDGMENT ORDER COST BILL.

# MAURY COUNTY, TENNESSEE



# Maury County, Tennessee (cont.)

## During Brainstorming it was noted...

### ◆ Red Flags

- > **Many voided transactions**
- > **One person stands out**
- > **Always a good reason**
- > **Divorce, kid moving out, health issues**

# Maury County, Tennessee (cont.)

## Wading through the transactions...

- ◆ 209095 lines of transactions
- ◆ 2310 deletions
- ◆ Was a deleted transaction re-entered?
- ◆ Searched by sticker, vin # & license plate
- ◆ Tried to verify documents found on and around suspect's desk
- ◆ Name, vin, sticker and license plate
- ◆ Reviewed documents sent to the Tennessee Department of Revenue

# Maury County, Tennessee (cont.)

## What Happened...

---

- ◆ At least 105 cash transactions deleted totaling \$10,070.14
- ◆ Actually repaid 30 transactions totaling \$3,205.42
- ◆ Documents found to be incomplete and/or forged
- ◆ Extra transactions to cover deletions

# Maury County, Tennessee (cont.)

- ◆ Traced voids to see if re-entered
- ◆ Traced to documents sent to Department of Revenue
- ◆ Interviewed co-workers
- ◆ Interviewed her – confession
  - > **Additional work to verify confession-\$10,070.14**
  - > **Forgery; Misrepresented information to state auditors**
  - > **Funds not deposited within 3 days of collection**
  - > **Duties were not adequately segregated**
  - > **Inventory records of vehicle plates and vehicle renewal tags were not accurate**
  - > **Employees were processing their personal motor vehicle transactions**

# Maury County, Tennessee (cont.)

## *MANAGEMENT SHOULD BE ASKING QUESTIONS*

---

- ◆ What happens to the payment, especially cash, when a transaction is deleted after the customer walks away?
- ◆ Are items/assets returned to inventory in the system when deleted?
- ◆ Have there been customer complaints?
- ◆ Any customers that say they purchased (product/service) in prior year, yet not showing in system?
- ◆ Is inventory hard to balance?
- ◆ Who makes a lot of mistakes?
- ◆ How do you handle shortages or overages?

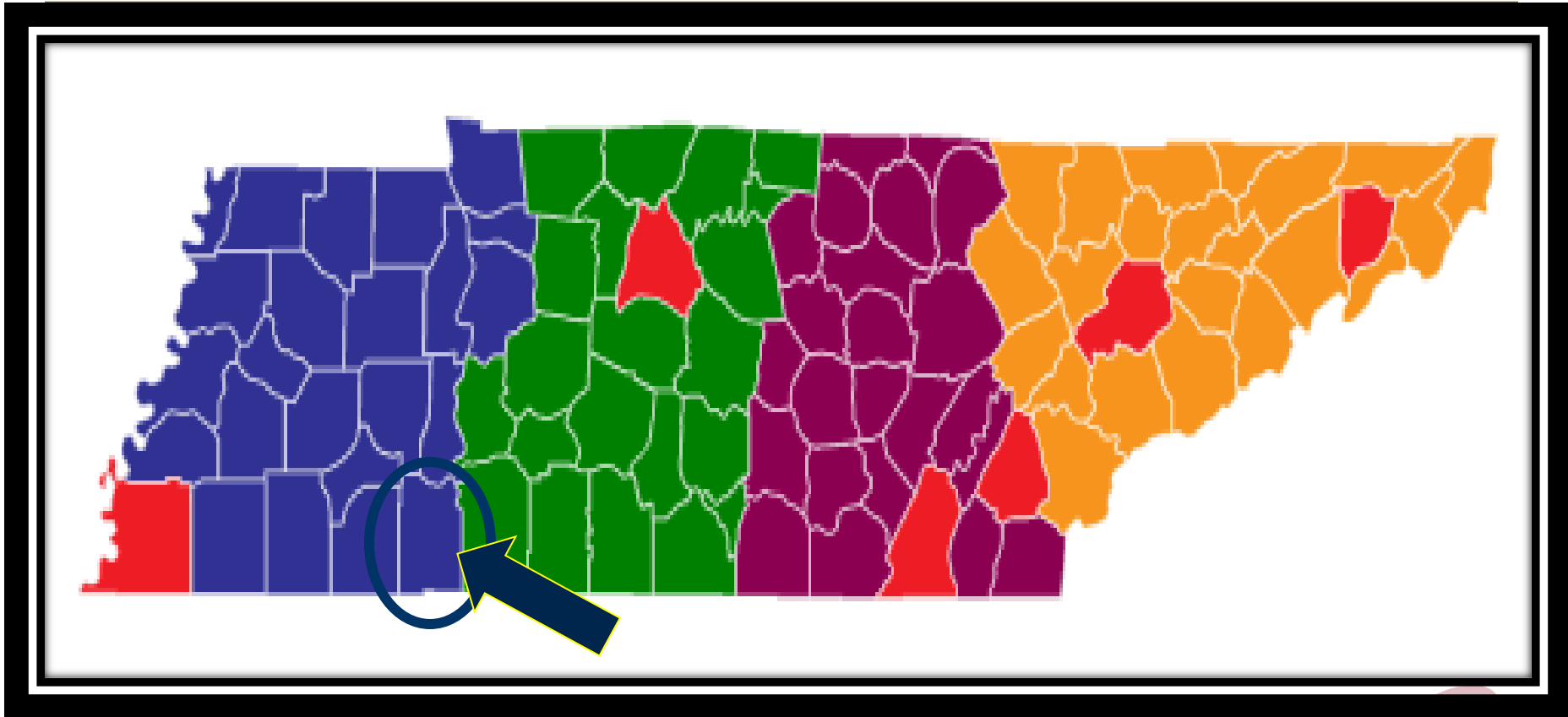
# Maury County, Tennessee (cont.)

## *WE LEARNED BY ASKING...*

---

- ◆ One clerk had the authority to delete, approved deletions for others, was the reviewer of the Audit Logs and covered for others during lunch
- ◆ In previous months, several customers had come in to renew and the system did not show them as having paid the prior year, but they had proof
- ◆ Payments (cash/check) and documentation of deleted and/or holding transactions were kept in a filing cabinet with no log
- ◆ Each clerk had a “overage” envelope in the filing cabinet-Cash Not Deposited
- ◆ A generic receipt book was in use
- ◆ Inventory was not accurate

# WAYNE COUNTY, TENNESSEE



# Wayne County Schools

---

- ◆ The investigative audit revealed a cash shortage of **\$319,134.58**
  - > The former grants coordinator and three former bookkeepers received unauthorized payroll and classified the payments to teacher salary account codes totaling **\$177,756.75**
  - > Unauthorized purchases of more than **\$77,176.69** in gift cards and related fees, as well as **\$58,483.64** in groceries and personal items on department's WalMart credit card
  - > The former General Purpose School Fund bookkeeper and the former School Federal Projects Fund bookkeeper received additional payroll checks totaling **\$5,717.50** that were marked as "void" in the accounting system

# Wayne County Schools (cont.)

## How This Occurred

---

- ◆ Lack of management oversight
- ◆ Functions of payroll were not adequately segregated
- ◆ Benefits not properly approved and reconciled with the employees' election forms and payroll withholdings
- ◆ GL payroll accounts were not reconciled with subsidiary payroll records monthly
- ◆ Payroll documentation was not approved, reviewed or reconciled with pay
- ◆ Inadequate controls over use of credit cards

# Wayne County Schools (cont.)

## How The Fraud Was Caught

---

- ◆ Questionable payroll payments
- ◆ Reviewed the credit card statements
- ◆ Reviewed insurance and health benefit documents
- ◆ Reconciled checks and verified voids
- ◆ Reviewed time sheets
- ◆ Interviews

# Wayne County Schools (cont.)

## Outcomes

---

- ◆ GPS Bookkeeper: Luna was charged with converting goods and gift cards purchased at Walmart stores, totaling approximately **\$135,000**, for the use of someone other than the school system.
  - > On 1/21/2015, **US District Court-Convicted, Sentenced to 3 years probation, Restitution of \$135,660.33, and forfeiture of property to cover payment**
- ◆ FPS Bookkeeper: Indictment charging Long, 34, with one count of Theft over **\$10,000**.
  - > On 9/22/2016, **Tennessee 22<sup>nd</sup> Judicial District Court-Convicted, Sentenced to 3 years probation and Restitution of \$17,195, Class C Felony**
- ◆ Stopped the theft, pointed out the deficiencies so they can be corrected

# Wayne County Schools (cont.)

## IMPROVE YOUR CHANCES OF DETECTING FRAUD

- ◆ Assume that anyone can commit fraud
- ◆ Go beyond documents to verify what is recorded really exists
- ◆ Look at details
- ◆ Think about ways someone could steal...

# Fraud in Tennessee

---

◆ Trust, but also verify

If on a Board (cont...)

◆ Hold management accountable –

■ If there are 3,000 customers and bills are \$150 a month, revenue should be approximately \$450,000...

◆ Require answers...question reports and audits.

Review budgets closely and ask questions!



# Fraud in Tennessee

---

- ◆ *Trust, but also verify*
  
- ◆ If you're a gov't leader on a Board –
  - Know your mission – how do you want it carried out?
  - Know the policies and procedures.
  - Require organizational ethics.

# Fraud in Tennessee

---

- ◆ *Trust, but also verify.*

Provide management oversight -

- ◆ Monthly reports – Review them and ***ask questions.***
- ◆ Annual audits – If you have findings, ask questions and correct them.

# Fraud in Tennessee

---

## ◆ Contact Information:

Kevin Huffman, CPA, CGFM, CFE

Desk – 615.401.7843

[Kevin.Huffman@cot.tn.gov](mailto:Kevin.Huffman@cot.tn.gov)

- ◆ To view an investigation online, go to: <http://www.comptroller.tn.gov/ia/>
- ◆ If you suspect fraud, waste or abuse of public money in Tennessee, call the Comptroller's toll-free hotline at 800.232.5454, or file a report online at: [www.comptroller.tn.gov/hotline](http://www.comptroller.tn.gov/hotline).

