



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DIVISION OF INVESTIGATIONS
FINANCIAL AND COMPLIANCE UNIT**

Justin P. Wilson
Comptroller of the Treasury

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August 28, 2013

Mr. Larry Foster, Director of Schools
Anderson County School System
101 South Main Street, Suite 500
Clinton, TN 37716

Dear Mr. Foster:

Our investigation of Anderson County School Department's After-School Program identified a cash shortage of at least \$280 as of October 9, 2013. This cash shortage resulted from internal control deficiencies at Grand Oaks Elementary School which included delays in the deposit of daily collections, access by all employees to cash stored in money bags, and the lack of official receipting of collections. This finding and recommendation has been reviewed with management and the district attorney general.

INVESTIGATIVE FINDING

1. **FINDING: Cash shortage of at least \$280 existed in the after-school program of Grand Oaks Elementary School**

On October 3, 2012, the Anderson County School Department's After-School Program Director discovered cash totaling \$170 missing from a money bag collected at Grand Oaks Elementary School. On October 31, 2012, an additional \$90 was discovered missing by school personnel. As a result of these discoveries, on November 30, 2012, the chief financial officer of the Anderson County School Department filed a Fraud Reporting Form with our office informing us of these cash shortages. Subsequently, our office conducted an investigation, and on October 9, 2012, we discovered an additional \$20 missing. Due to the fact that multiple school personnel had access to the cash and a lack of internal controls existed over cash collections, we were unable to determine who may have taken the funds.

There were two employees at the Grand Oaks Elementary After-School Program. Each employee receipted payments, posted payments to the student account ledger, and prepared daily receipt reports. On site money was then locked in a cabinet until transferred to the central office bookkeeper for deposit. Each employee had access to the key where the money was stored. In addition, receipts were not issued to after-school program employees when daily collections were delivered to the central office.

INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES **FINDING AND RECOMMENDATION**

1. **FINDING:** **Deficiencies noted in the operation of the after-school program**

The following internal control and compliance deficiencies in the after-school program provided the opportunity for these funds to be misappropriated:

- A. In some instances, our investigation revealed delays in depositing daily collections into the bank account. Office records reflected that as many as eight days lapsed between the date some funds were collected and the date these funds were deposited. Section 5-8-207, *Tennessee Code Annotated*, requires 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 daily 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.
- B. All employees had access to the money prior to it being deposited.
- C. The program did not issue official receipts for collections. Instead, the office used generic receipts. We were unable to obtain several receipts that were missing for several days of the period tested. Therefore, we were unable to determine if all money received at the office was properly receipted and deposited with the program.

Due to these internal control and compliance deficiencies, additional funds may be missing and not be detected by school officials.

RECOMMENDATION:

Officials should take steps to recover the \$280 cash shortage. All collections should be deposited within three days of collection as required by state statute. Official

prenumbered receipts should be issued for all collections and these receipts should be on file and available for audit inspection. Funds should be in a secured location not accessible to all employees.

MANAGEMENT'S RESPONSE:

Director of Schools:

Deficiencies involving the processing of parent fees were noted in the operation of the after-school program. In October 2012, a cash shortage of \$280 resulted from internal control deficiencies surrounding the receipt and processing of cash payments. The incidents highlighted vulnerability in the procedure for receipt and processing of cash fee payments for the after-school program. The most effective procedural change in order to ensure no loss of cash received was to discontinue accepting cash payments. Therefore, as of December 10, 2012, the after-school program no longer accepts cash payment for weekly fees. Payment is accepted by check or money order. Additionally, the after-school team leader retrained site personnel on the procedures for accepting, receipting, recording, and transmitting fee payments. Additional steps to improve the internal controls include timely transmission and deposit. These are detailed per the specific findings as follows.

The program tightened the procedure to only accept fee payment on two consecutive days each week. Collections are then transmitted to the program office for processing and deposit. Payment is now accepted by check or money order. The program no longer accepts cash payment.

By discontinuing receipt of cash, employees no longer have access to cash money. The structure of the after-school program includes seven sites at various locations. These sites necessarily operate during after school hours. This means that received payments cannot, for example, be secured in the school office. There remain two employees at each location with access to money prior to deposit. However, this money is now in the form of check or money order.

The recommendation that the program begin using official receipts was received on July 11, 2013. The program will purchase and begin using official receipts for the start of the 2013-14 school year.

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If you have any questions concerning the above, please contact me.

Sincerely,

A handwritten signature in black ink that reads "Kevin B. Huffman". The signature is written in a cursive style with a large, prominent "K" and "H".

Kevin B. Huffman, CPA, CFE, CGFM
Investigative Audit Manager
Division of Investigations
Financial and Compliance Unit

KBH/RAD

xc: Terry Frank, County Mayor
Members of the Anderson County School Board