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Superintendent and Members of the
Board of Education
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Superintendent and Members of the Board of Education:

We have completed our investigative audit of selected records of the Bon Lin Elementary School and the Rivercrest Elementary School Cafeteria Funds. These audits focused on the period August 1, 2008, through May 31, 2010. The audit was primarily limited to an examination of records related to collections. However, when necessary, this scope was expanded.

Legal Issue

Our office was initially asked to investigate a series of suspicious transactions discovered by the director of school nutrition that occurred at Bon Lin Elementary School Cafeteria during the year ended June 30, 2009. During the course of that investigation, the Shelby County Schools director of school nutrition and internal auditor assisted state auditors by identifying similar transactions at Rivercrest Elementary School Cafeteria. Although the lead cashier at each school was different, we established that the lead cashier at Bon Lin Elementary trained the lead cashier at Rivercrest Elementary. Based on this information, our office launched a second investigation of selected records of the Rivercrest Elementary School Cafeteria. Due to overlapping issues, both investigative audits are being reported together.

Bon Lin Elementary School Cafeteria

During the period August 1, 2008, through May 20, 2009, at least \$15,208 was added to student and teacher prepaid cafeteria accounts with no corresponding funds deposited into a school cafeteria bank account. Our investigative audit revealed that the cafeteria's former lead cashier¹ was solely responsible for collecting cafeteria funds, recording those collections, preparing the initial count of collections, and making all adjustments to student accounts.

¹The Bon Lin Elementary Cafeteria only used one cashier. However, her title position was "Lead Cashier."

Our audit identified several methods apparently used to divert cafeteria collections, including:

- **Cash collections diverted** – A list of collections for August 5 and August 6, 2008, in handwriting identified as that of the former lead cashier, included \$820 in cash collections. However, no cash collections were deposited for those days. Student accounts recorded as paying in cash for August 5 and August 6, 2008, were increased via a “back office adjustment.” In other words, the student’s account was increased by the amount of the cash collection; however, the increase was made by adjustment rather than being recorded as a collection. As a result, those collections did not appear on the daily report of collections and therefore, were not accounted for in the daily bank deposit.
- **Cash refunds diverted** – Our analysis of daily transactions and examination of individual accounts revealed that on at least 12 occasions, cash was removed from collections, recorded as refunded to the student, and then an equivalent amount was returned to the student’s account by an adjustment. We identified \$265 in cash refunds diverted in this manner.
- **Unrecorded collections made by check with corresponding adjustment to student account** – Our review detected checks collected for prepaid meals that were not recorded as revenue or collections in the school’s records. These unrecorded checks were deposited with recorded collections, and exchanged for cash which was not deposited into the cafeteria bank account. The student’s account was credited in the same amount as the unrecorded check by a “back office adjustment” procedure. In other words, the student’s account was increased by the amount of the check collection; however, the increase was made by adjustment rather than being recorded as a collection. As a result, those collections did not appear on the daily report of collections and therefore, were not accounted for in the daily bank deposit. Unrecorded checks matched with a corresponding “back office adjustment” totaled at least \$1,408.
- **Unrecorded collections made by check with no credit to student account** – We identified check payments made for prepaid meals which were not recorded in cafeteria collection records. Those checks were deposited and exchanged for an equivalent amount of cash. The diverted cash was not deposited into a cafeteria bank account. However, an analysis of student accounts revealed no corresponding credit to the account of the student for whom the payment was made. Unrecorded checks exchanged for cash without a corresponding credit to a student cafeteria account

totaled \$946. Included in that total were several checks diverted from noncafeteria activities, including a book fair and other fundraising collections.

- **Suspicious credit of student payments** – State and internal auditors identified \$506 in payments from Bon Lin students which were actually credited to the accounts of two daughters of the former lead cashier of Bon Lin Elementary. Auditors also identified \$376 in payments from Bon Lin students that were actually credited to the account of the son of the former lead cashier at Rivercrest Elementary School Cafeteria. The son attended neither Bon Lin Elementary School nor Rivercrest Elementary School, but instead he attended a Shelby County high school. As noted above, the former lead cashier of Bon Lin Elementary School Cafeteria and the former lead cashier of Rivercrest Elementary School Cafeteria had previously worked together. The former lead cashier of Rivercrest Elementary School Cafeteria admitted to state auditors that her son received meal credits when no payment had been made.

Rivercrest Elementary School Cafeteria

Our investigative audit revealed that during the period August 1, 2008, through January 31, 2010, recorded collections totaling at least \$1,235 were not properly deposited into the cafeteria's bank account. Auditors identified \$429 in adjustments to student's meal accounts that were actually collections of money that were never rung up through the cash register. Since only collections rung up through the cash register were deposited, these adjustments represented cash collections diverted by the cashier. Auditors also determined that for at least \$806 in collections, an equivalent amount of cash was removed by the cashier and the students never received credit on their meal account.²

The former lead cashier of Rivercrest Elementary School Cafeteria admitted to state auditors that she had taken more than \$1,000 in cafeteria collections for her personal use. As noted above, she also acknowledged that the former lead cashier of Bon Lin Elementary School Cafeteria had added credit to her son's meal account even though she or her son had not actually made payment to the school.

These matters were referred to the local district attorney general. The October 2010 Shelby County Grand Jury indicted Courtney Smith Dixon on one count of Theft over \$10,000, one count of Computer Fraud over \$10,000, and Official Misconduct. The grand jury also indicted Tammy Christine Radford on one count of Theft over \$1,000 and Official Misconduct.

²County school officials assisted in identifying those student accounts affected and in making the necessary corrections to restore their balances.

Findings and Recommendations

Our investigative audit also revealed several weaknesses in the schools' cafeterias' internal control systems that contributed to or could contribute to undetected misappropriations.

1. Inadequate separation of duties

Management failed to adequately separate employees' responsibilities. Collections for prepaid cafeteria accounts were gathered at the front office for pickup by the cafeteria's former lead cashier.³ No record of collections for prepaid cafeteria accounts was made independent of the lead cashier. The cafeteria's lead cashier was responsible for making cafeteria collections, recording those collections, and accumulating and totaling cash and checks to be deposited. A second individual recounted the cash and checks only to determine if her count agreed with the lead cashier's totals. That second individual did not compare or verify the accuracy of the count of cash and checks with receipts, or any other documentation of the collections made that day. The deposit slip was prepared from the lead cashier's total of cash and checks turned over for deposit.

The cafeteria's lead cashier was also responsible for making all adjustments to the students' prepaid cafeteria accounts. The legitimate purposes of adjustments were to close an account or correct an error after the cash register was closed. As noted in the Legal Issue, our investigative audit revealed many instances in which adjustments were made for illegitimate purposes. There were no procedures in place to maintain records of adjustments or independently and periodically review adjustments to student accounts.

The *Internal School Uniform Accounting Policy Manual*, page 4-6, states:

At the time of collection, individuals collecting money should prepare prenumbered receipts, collection logs, or other appropriate documentation.... To the extent possible, the following duties should not be performed by the same individual: receiving cash, making bank deposits, maintaining the accounting records and reconciling bank accounts.... A person who is independent of the receiving, depositing, and recording functions should compare bank deposits with the prenumbered receipts, collection logs, ticket reconciliation, cash register tapes, etc.

To help ensure that all school collections are deposited into the school's bank account and that errors or irregularities are detected promptly, the principal should require an

³The Bon Lin Elementary Cafeteria only used one cashier. However, her title position was "Lead Cashier."

adequate system of internal controls so that no employee has control over a complete transaction.

2. **Inadequate accounting records**

The school system used a food service management software system; however, our audit revealed that the total adjustments listed in the monthly prepaid report could not be reconciled with the monthly total of adjustments we computed from examining individual student accounts. The school system's software provider was unable to explain or resolve the difference.

Our review also revealed that new meal accounts could be created and given any beginning account balance desired. That lack of control created a great risk that meal credit could be given without the equivalent amount of money being deposited into the cafeteria bank account.

We also noted that adjustments to meal accounts could be made in a variety of ways. Most troubling was that adjustments could be made at one school for a student's account at a different school if certain personal identifying information was known. We found that adjustments had not been reviewed or reconciled on a regular basis.

In addition, neither the software system nor school personnel created records adequate to allow reconciling the beginning balance of prepaid cafeteria accounts with the ending monthly balance of prepaid cafeteria accounts, including all collections, adjustments, and charges (reductions) to the cafeteria accounts.

The *Internal School Uniform Accounting Policy Manual*, page 4-4, states that internal controls should provide reasonable assurance that "assets recorded in the accounting records are compared with the existing assets periodically, and appropriate action is taken with respect to any differences."

In addition, page 4-6, states that internal controls should provide reasonable assurance that "[a]ll revenue/receipts should be accurately and promptly recorded in the school's accounting records."

To help ensure that errors or irregularities are detected promptly, the board should direct school officials to evaluate records produced by the food services management software system. Inadequacies in the system's reporting could affect other schools using the same system. If the software system does not produce the necessary information, school officials should ensure that alternative methods are employed to compare daily cash and

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check collections with deposits and to allow a monthly reconciliation of prepaid cafeteria accounts.

3. **Accounting records not available for audit**

Back office adjustments made by the former lead cashier of Bon Lin Elementary School Cafeteria prior to the 2008-2009 school year were purged from the system and not readily available for audit.

The *Internal School Uniform Accounting Policy Manual*, page 8-3, states:

School Nutrition Records must be retained for a period of three years after submission of the final claim for reimbursement for the fiscal year. If audit findings have not been resolved, the records shall be retained beyond the 3-year period as long as required for the resolution of the issues raised by the audit.

To comply with state and federal regulations, and to ensure that adequate records are available for audit, the principal should ensure that accounting records are maintained in compliance with state and federal policies.

Auditors noted that several of the deficiencies had already been addressed by management. However, the superintendent and members of the board of education should take immediate action to ensure that unresolved deficiencies are corrected.

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

Very truly yours,



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