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Dr. Judy Blevins, Director of Schools and
Members of the Board of Education
Campbell County School System
522 Main Street
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Ladies and Gentlemen:

As part of our on-going process of examining the records of the activity and cafeteria funds of schools, we have completed our investigative audit of the records of the activity funds of Caryville Elementary School, Campbell County School System. This examination focused on the period July 1, 2001, through December 31, 2002, and was limited primarily to a review of internal controls over cash receipts and disbursements. However, this scope was expanded if the examination warranted.

BACKGROUND

Auditors arrived at the school on Monday, January 6, 2003, the first day school was in session following Christmas break. Soon after arrival, auditors asked to count all cash on hand at the school. The bookkeeper, Ms. Sharon Carson, provided them with bank bags containing a little over $370 in (primarily) coins. Ms. Carson stated that this money consisted of collections from the school vending machine that she had made on the last school day prior to Christmas break. Ms. Carson signed a statement that this was the only cash on hand at the school for which she was responsible. Ms. Carson was asked several times over the next two days if she had any more cash on hand at the school, but continued to maintain that auditors had counted all cash for which she was responsible.

A review of the school's cash receipts journal on January 6, 2003, revealed that Ms. Carson had not issued any cash receipts since September 2002, even though the school bank statements indicated that four deposits were made into the school bank account in October and two deposits were made in November. Our review of the December 2002 school bank statement and discussion with Ms. Carson revealed that the she did not make any deposits into the school bank account in December 2002. Auditors asked Ms. Carson specifically about school collections in December 2002, including a vending commission check which should have been received. Ms. Carson denied that she had made any collections other than vending machine collections for the entire month of December. Ms. Carson further stated that she had been too busy with the new attendance recordkeeping to remain current on her bookkeeping.

When auditors initially requested documentation from Ms. Carson as to the source of the October and November deposits for which she had not issued cash receipts, Ms. Carson provided the auditors with copies of forms purportedly remitted by school personnel when they turned in collections to her. Several times during the auditors' visit, Ms. Carson provided additional copies of these forms that she stated she found in her office. After performing additional work and obtaining certain school records, auditors left the school on the afternoon of January 7, 2003. On the morning of January 8, 2003, Ms. Carson called the auditors at their office and informed them that she had found a bag containing over $2,000 in the file cabinet safe located in her office. Ms. Carson stated that this money was from school collections in December that she had not deposited into the school bank account. Ms. Carson claimed that she had forgotten about this money being in her office, even though, as mentioned above, auditors had asked her specifically about December collections.

Over the next several days and weeks, Ms. Carson faxed our office copies of cash receipts journals that she prepared for October and November 2002 and for the first week of January 2003. Our examination of these documents revealed that Ms. Carson apparently made little or no attempt to write the receipts and record the collections on appropriate dates. For instance, we noted coupon book sales totaling $1,220 receipted in January, even though coupon books had been sold in late September and early October. As a result, the collection sources and amounts are not consistent with the actual money deposited.

As noted above, Ms. Carson stated her inadequate recordkeeping was due to time spent implementing the new attendance recordkeeping. However, auditors also found significant discrepancies in the previous year. A comparison of cash receipts to amounts deposited into the school bank account revealed the following unexplained shortages:

Month	Amount Short
September 2001	$600.00
October 2001	$ 20.00
November 2001	$246.00

Auditors noted that there were no cash receipts issued or deposits made during the months of January 2002 or April 2002. However, in February 2002, the bookkeeper deposited $1,384.21 more than the amount of collections for which she issued cash receipts. Records were inadequate to determine the reason for these discrepancies.

Shortly after our initial visit, Ms. Carson accepted a position with the Campbell County Board of Education Central Office. However, for purposes of the findings set forth in this letter, “bookkeeper” refers to Ms. Carson.

FINDINGS

Our investigative audit revealed the following:

- The bookkeeper failed to deposit school collections into a school bank account within three days. Our review of school bank statements revealed that the bookkeeper failed to deposit any money into the school bank account in December 2002, even though the Christmas break did not begin until December 23 of that month. We also noted that other than an initial deposit on August 23, 2002, (school started August 16, 2002), the bookkeeper did not make any other deposits into the school bank account until September 23, 2002, even though school personnel were collecting room donations during this time.

  The *Internal School Uniform Accounting Policy Manual*, Section 6-2, states, “Collections should be deposited daily, if possible, but no more than three working days after the initial collection.”

  The principal should ensure that the bookkeeper complies with state law and deposits all school collections within three days of initial collection by a school employee.

- The bookkeeper failed to immediately count the collections and issue prenumbered receipts when money was remitted to her. As noted in the background section, at the date of our entrance on January 6, 2003, the bookkeeper had not written any cash receipts since September 2002. Because the school’s recordkeeping system required cash receipts to be written to record collections in the school’s books, the bookkeeper had no official record of cash receipts for October, November, and December 2002. The bookkeeper provided copies of “collection forms” which she stated that school personnel had been asked to complete when they turned over collections to her. However, our examination revealed that these collection forms were apparently not prepared for many collections. Also, the date, purpose, and individual remitting the money was not included on many of the forms which we examined. As a result, these forms could not be relied on as an adequate record of collections. The *Internal School Uniform Accounting Policy Manual*, Section 5-7, requires that "The cashier must count the money and issue a prenumbered receipt at the time money is remitted." Pages 5-9–10, of the manual states that "The bookkeeper should obtain all applicable collection documentation . . . All collection documentation should be filed in a manner which allows the bookkeeper to easily find requested documentation."

The principal should require and ensure that the bookkeeper immediately counts collections when money is turned over to her and that the bookkeeper issues prenumbered receipts for those collections. In addition, the principal should ensure that the bookkeeper obtains and files adequate documentation of recorded collections.

- In many instances, the principal failed to require teachers and other school personnel to properly complete collection logs and/or other collection documentation and to remit copies of this documentation to the bookkeeper when they remitted collections to her. We were unable to locate, and teachers were unable to provide, collection logs, signed recorded counts, or other such records to document collection of some classroom donations, field trip charges, etc. In at least one instance, teachers stated that they collected money from students for a Kindergarten field trip. However, we were unable to identify these collections in the bookkeeper's records and the teachers were unable to locate related documentation.

As noted previously, the bookkeeper stated that school personnel had been asked to complete and remit "collection forms" along with related collections. These forms had space for the date, amount, purpose of collection, and teacher name. However, related "collection forms" could not be located for many collections, and many of the forms examined were not completed properly, including the ones apparently prepared by the bookkeeper. The *Internal School Uniform Accounting Policy Manual*, Page 5-3, states:

> Teachers, assistants, volunteers, and support staff who handle money should be made aware of the requirement for maintaining accurate and systematic

> records of all cash collected. . . . At the beginning of each school year, the principal should ensure that all individuals responsible for school collections are informed of the required procedures and forms and the consequences for noncompliance with the required procedures. . . . Teachers/others who collect money should prepare a collection record (prenumbered receipt, collection log, ticket reconciliation, signed recorded count, etc.) for each separate activity. All collections by teachers/others should be remitted to the cashier daily or more frequently, if necessary.

Pages 5-5–6 of the manual discusses in detail the proper method of completing these records.

To help ensure that collections are documented properly, the principal should require that all individuals who collect money on behalf of the school properly complete and remit a collection log or other adequate record of the collection.

- The principal failed to require and ensure that the bookkeeper or other applicable school personnel prepared and retained profit analysis reports for applicable resale/fundraising activities including vending operations. In addition, the principal failed to ensure that school vending operations were adequately controlled. For instance, the bookkeeper was solely responsible for collecting and counting money from vending snack machines. In addition, although the school received a commission check for the vending drink machine, school personnel did not verify that the correct amount of commission was received. Our analysis of vending machine operations using collection and disbursement information provided by the bookkeeper, revealed that between July 2002 through February 4, 2003, the school made only a 13 percent profit, instead of the expected approximate 34 percent. A projection of these percentages to actual profit amounts indicates that during this period, recorded collections were short of expected collections by approximately $900. Because profit analyses were not completed, the principal was unaware of the shortage in expected collections, and was unable to determine the reason for this shortage. (It should be noted that based on records obtained from the new bookkeeper, recorded vending profits exceeded expected profits for the remainder of the school year.)

The *Internal School Uniform Accounting Policy Manual,* Section 4-27, states, "For ongoing resale activities such as bookstores, concessions, vending, etc., monthly profit analysis reports must be completed to document collections, expenses, and any losses of money or product." Page 4-29 of the manual further states:

> For vending operations, when the vendor does all the product work and the school only receives a percentage, a counter controlled by school personnel should be placed on the machines. If a counter is not used, cash should be counted by school personnel (preferably two persons should be present) when removed from machines in order to establish the amount of collections to be used in calculating the division of profits per the written agreement. Other procedures may be employed which accomplish the independent verification.

Section 49-2-110(d)(1), *Tennessee Code Annotated,* states, "The principal shall be liable to account for the safekeeping and handling of all funds of every character raised by student activities, school services and school events, irrespective of the sources of such funds, or the purpose for which they were raised."

The principal should ensure that the bookkeeper or other designated employee completes profit analysis reports for all applicable resale/fundraising activities and that all shortages are followed up. In addition, the principal should require verification of commission amounts received from vendors and that two persons collect and count money removed from vending machines by school personnel.

- The principal did not obtain written approval from the director of schools for applicable fundraisers In addition, the school could not provide written documentation that other school fundraisers were approved by the principal. The Campbell County Board of Education has adopted the requirements for fundraising set forth by the *Internal School Uniform Accounting Policy Manual,* Page 4-26. Board Policy 6.701, issued 2-14-02, states in part:

> The principal must obtain written approval from the director of schools or designee for all fundraising activities that involve the participation of the

> general student population in the marketing process of the fundraising effort. All other fundraising activities must have written approval from the principal and comply with all administrative procedures issued by the director of schools. The authorization request shall contain the following information:
>
> 1. A list of the proposed fundraising activities;
> 2. Purpose of the fundraising activity;
> 3. Proposed uses of funds raised;
> 4. Expected student involvement in fundraising activity (school-wide or individual class or club); and
> 5. Margin of profit and how it is to be paid to the school.

The principal should ensure that prior approval for applicable fundraisers is obtained from the director of schools or designee. Written documentation of the director's approval, as well as the principal's authorization of other fundraisers, should be retained by the school. Fundraisers should not be conducted unless prior approval has been obtained and is on file. As required by page 4-27 of the manual, if school fundraisers are conducted for designated purposes, the principal should ensure that a fundraiser summary report is prepared and maintained in order to document that profits from these fundraising activities were expended for the purposes for which they were raised.

- The bookkeeper, who was responsible for preparing deposits and reconciling bank statements, was also responsible for receipting, disbursing, and recording collections. In addition, the bookkeeper was responsible for collecting and counting money from vending machines. The *Internal School Uniform Accounting Policy Manual*, Page 4-6–7, states:

> 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. . . . Bank reconciliations should be prepared and reviewed at least monthly by someone who is

independent of the receiving and recording functions.

To help ensure that all collections are deposited into the school's account, disbursements are appropriate, and errors or irregularities are detected promptly, the principal should require an adequate system of internal control so that no employee has control over a complete transaction.

If you have any questions concerning this matter, please contact me.

Sincerely,

Dennis F. Dycus, CPA, CFE, Director
Division of Municipal Audit