

# INVESTIGATIVE AUDIT REPORT

CLINTON CITY SCHOOL SYSTEM  
JULY 1, 2005, THROUGH DECEMBER 31, 2007



## State of Tennessee



**Comptroller of the Treasury  
Department of Audit  
Division of Municipal Audit**



STATE OF TENNESSEE

John G. Morgan  
Comptroller

COMPTROLLER OF THE TREASURY

STATE CAPITOL  
NASHVILLE, TENNESSEE 37243-0260  
PHONE (615) 741-2501

August 21, 2008

Director of Schools and Members of  
the Board of Education  
Clinton City School System  
212 North Hicks Street  
Clinton, TN 37716-0225

Director of Schools and Board Members:

Presented herewith is the report on our investigative audit of selected records of the Clinton City School System for the period July 1, 2005, through December 31, 2007. However, when the examination warranted, this scope was expanded.

Section 9-2-102, *Tennessee Code Annotated*, requires that the Comptroller of the Treasury prescribe a uniform system of bookkeeping designating the character of books, reports, receipts and records, and the method of keeping same, in all state, county and municipal offices, including utility districts, which handle public funds. This code section also requires that all officials adopt and use the prescribed system. The Comptroller has prescribed a minimum system of recordkeeping for municipalities, which is detailed in the *Internal Control and Compliance Manual for Tennessee Municipalities* combined with Chapters 1-7 of *Governmental Accounting, Auditing, and Financial Reporting*. The purpose of our audit was to determine the extent of the entity's compliance with certain laws and regulations, including those in the above-mentioned manuals.

Our investigative audit revealed that the former school system bookkeeper made unapproved and unauthorized payments to herself through the system's payroll bank account totaling \$5,336. She also made payments for her personal benefit totaling \$990 without properly deducting the amount from her payroll checks. Finally, the former system bookkeeper made two reimbursements to herself totaling \$462, for which she was not entitled. The total of these payments were \$6,788.

These matters were referred to the local district attorney general. On August 5, 2008, the Anderson County Grand Jury returned an indictment against former system bookkeeper, Mary Ellen Rietzler, on one count of Theft over \$1,000.

Director of Schools and Members of the  
Board of Education  
Clinton City School System  
August 21, 2008

The finding and recommendation in this report also present those conditions that we believe warrant the attention of the school's officials and other responsible individuals.

Copies of this report are being forwarded to Governor Phil Bredesen, the State Attorney General, the District Attorney General, certain state legislators, and various other interested parties. A copy is available for public inspection in our office.

Very truly yours,

A handwritten signature in black ink that reads "John G. Morgan". The signature is written in a cursive style with a long horizontal flourish at the end.

John G. Morgan  
Comptroller of the Treasury



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF MUNICIPAL AUDIT

John G. Morgan  
Comptroller of the Treasury

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

August 21, 2008

Mr. John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, TN 37243

Dear Mr. Morgan:

As part of our ongoing process of examining the records of municipalities, we have completed our investigative audit of selected records of the Clinton City School System. This investigative audit focused on the period July 1, 2005, through December 31, 2007. However, when the examination warranted, this scope was expanded.

Section 9-2-102, *Tennessee Code Annotated*, requires that the Comptroller of the Treasury prescribe a uniform system of bookkeeping designating the character of books, reports, receipts and records, and the method of keeping same, in all state, county and municipal offices, including utility districts, which handle public funds. This code section also requires that all officials adopt and use the prescribed system. The Comptroller has prescribed a minimum system of recordkeeping for municipalities, which is detailed in the *Internal Control and Compliance Manual for Tennessee Municipalities* combined with Chapters 1-7 of *Governmental Accounting, Auditing, and Financial Reporting*. The purpose of our audit was to determine the extent of the entity's compliance with certain laws and regulations, including those in the above-mentioned manuals.

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Mr. John G. Morgan  
Comptroller of the Treasury  
August 21, 2008

Our investigative audit resulted in a finding and recommendation related to the following:

1. Lack of separation of duties

If after reviewing the report you should have any questions, I will be happy to provide any additional information which you may request.

Sincerely,

A handwritten signature in black ink, appearing to read "Dennis F. Dycus". The signature is fluid and cursive, with a large initial "D" and "F".

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

**INVESTIGATIVE AUDIT OF SELECTED RECORDS OF  
THE CLINTON CITY SCHOOL SYSTEM  
FOR THE PERIOD JULY 1, 2005, THROUGH DECEMBER 31, 2007**

**LEGAL ISSUES**

1. **ISSUE:      Unauthorized payroll checks**

Our investigative audit revealed that during the period July 1, 2006, through August 31, 2007, the former school system bookkeeper made unapproved and unauthorized payments to herself through the system's payroll bank account totaling \$5,336. Our investigative audit determined the following:

- The former bookkeeper apparently issued school payroll checks to herself that were unauthorized and unapproved.
- The former bookkeeper apparently issued school payroll checks to an individual who was not an employee of the school and who did not provide services to the school. She placed her signature as the second endorsement on the back of these checks and deposited them into her personal bank account.
- The former bookkeeper caused at least one unauthorized and unapproved electronic funds transfer from the school's bank account to her personal bank account.

The former bookkeeper was able to conceal her activities from management by recording several of the improper checks as voided transactions. In addition, in some instances, she changed the name of the payee in the school's accounting records.

2. **ISSUE:      Excess garnishment payments**

Our investigative audit also revealed that, during the period August 1, 2005, through August 31, 2007, the former system bookkeeper made payments for her personal benefit totaling \$990 without properly deducting the amount from her payroll checks. The former system bookkeeper was responsible for all aspects of the payroll function, including maintaining each employee's payroll deductions. She was also responsible for making payments to vendors. Although the former system bookkeeper had several court-mandated and voluntary payroll deductions, our examination revealed that she made several of these payments for her personal benefit without first deducting the funds from her paychecks.

3. **ISSUE:**      **Fraudulent reimbursements**

Finally, our investigative audit found that the former system bookkeeper made two reimbursements to herself totaling \$462, for which she was not entitled.

<b>Summary of Loss</b>	
<b>Method</b>	<b>Amount</b>
Unauthorized payroll payments	\$5,336
Excess deduction payments	990
Fraudulent reimbursements	<u>462</u>
Total	<u>\$6,788</u>

These matters were referred to the local district attorney general. On August 5, 2008, the Anderson County Grand Jury returned an indictment against former system bookkeeper, Mary Ellen Rietzler, on one count of Theft over \$1,000.

## **FINDING AND RECOMMENDATION**

1. **FINDING:**    **Lack of separation of duties**

The former system bookkeeper had the responsibility of preparing checks and reconciling bank statements. Although she was not an authorized signature on school system checks, she did maintain both signature stamps for the dual signature checks. As a result, she was in a position to create authentic school system checks with no oversight.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 2, Section 2, states:

Municipal officials should enforce division of duties to provide a system of checks and balances so that no one person has control over a complete transaction from beginning to end. Work flow should be established so that one employee's work is automatically verified by another employee working independently....

Title 1, Chapter 2, Section 4, of the manual further states:

Municipal officials should ensure that automatic proof techniques are applied whenever possible. These techniques include the use of an employee without prior access to the records to ... reconcile bank accounts ... periodically test ... daily balancing of cash receipts ... open mail and prelist mail receipts ... perform routine duties of other employees ... for at least one vacation period per year.

**RECOMMENDATION:**

To decrease the risk of undetected errors and irregularities, board personnel should review employees' responsibilities to ensure that no employee has control over a complete transaction.