

INVESTIGATIVE AUDIT REPORT

**CLOUDLAND ELEMENTARY SCHOOL
CARTER COUNTY SCHOOL SYSTEM
JULY 1, 2004, THROUGH OCTOBER 31, 2006**



State of Tennessee



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



STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

John G. Morgan

Comptroller

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-0260

PHONE (615) 741-2501

July 26, 2007

Director of Schools and Members of
the Board of Education
Carter County School System
305 Academy Street
Elizabethton, TN 37643

Director of Schools and Board Members:

Presented herewith is the report on our investigative audit of selected records of the activity funds of Cloudland Elementary School, Carter County School System. This investigative audit focused on the period July 1, 2004, through October 31, 2006. However, this scope was expanded if warranted.

Section 49-2-110, *Tennessee Code Annotated*, provides for student activity funds and establishes responsibility for those funds. This section requires local school systems to adopt the *Internal School Uniform Accounting Policy Manual* (prepared and approved as set forth in this code), and to maintain all activity fund books and records in accordance with the requirements of the manual. The purpose of our audit was to determine the extent of the school's compliance with certain laws and regulations, including those in this manual.

Our investigative audit revealed that the former school bookkeeper failed to properly deposit at least \$8,686.62 in cash collections. This matter was referred to the district attorney general.

Also, the findings and recommendations in this report present those conditions that we believe warrant the attention of the school's officials and other responsible individuals. As a result, the responses to each of the findings and recommendations are included in the report.

Director of Schools and Members of
the Board of Education
Carter County School System
July 26, 2007

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

July 26, 2007

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 the activity and cafeteria funds of schools, we have completed our investigative audit of selected records of the activity funds of Cloudland Elementary School, Carter County School System. This investigative audit focused on the period July 1, 2004, through October 31, 2006. However, this scope was expanded if warranted.

Section 49-2-110, *Tennessee Code Annotated*, provides for student activity funds and establishes responsibility for those funds. The board of education is responsible for providing reasonable regulations, standards and procedures, and adopting an activity fund accounting manual. The director of schools is responsible for ensuring that laws and rules of the state and of the board of education are faithfully executed. The principal's responsibilities include accounting for the safekeeping and handling of money collected for and raised by student activities and school services and events. State law specifically excludes funds raised by parent-teacher and parent-student support type organizations from accounting and recordkeeping requirements. Therefore, these funds were not included in our audit.

Student activity funds must be accounted for according to the *Internal School Uniform Accounting Policy Manual*. This manual was prepared by the Tennessee Department of Education and approved by the Comptroller of the Treasury and the Commissioner of Finance and Administration, in accordance with Section 49-2-110, *Tennessee Code Annotated*. The purpose of our audit was to determine the extent of the school's compliance with certain laws and regulations, including those in this manual.

Mr. John G. Morgan
Comptroller of the Treasury

Our investigative audit revealed that the former school bookkeeper failed to properly deposit at least \$8,686.62 in cash collections. This matter was referred to the district attorney general.

Our investigative audit resulted in findings and recommendations related to the following:

1. Inadequate accounting for fundraising activities
2. School money used to cash personal checks
3. Prenumbered receipts not issued to teachers or other individuals remitting money
4. Copies of collection logs not maintained by teachers
5. Inadequate accounting for vending operations
6. Sales tax not remitted for resale items

Because state law assigns specific responsibilities for school activity funds to the members of the board of education, the director of schools, and the principal, they were asked to respond to each finding. When appropriate, other responsible individuals were also asked to respond. The responses are included in this report.

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
CLOUDLAND ELEMENTARY SCHOOL
CARTER COUNTY SCHOOL SYSTEM
FOR THE PERIOD JULY 1, 2004, THROUGH OCTOBER 31, 2006**

LEGAL ISSUE

1. **ISSUE: Unreceipted cash collections not deposited**

School officials noted certain discrepancies in school collection records and referred that information to the Division of Municipal Audit. Our subsequent investigative audit revealed that between July 1, 2004, and October 31, 2006, the former school bookkeeper failed to properly deposit at least \$8,686.62 in cash collections. In most cases, she did not issue prenumbered receipts for these collections. In one instance, the former bookkeeper issued a receipt for an amount less than what was turned over to her.

As an example, school records indicated that on December 2, 2005, the school librarian turned over to the former bookkeeper collections totaling \$1,368.89. The collections were from the school book fair and included both cash and checks. However, the former bookkeeper failed to receipt these collections into the school's records. In addition, neither the cash nor the checks were deposited into a school bank account. Some time later, a parent who had apparently written one of the undeposited checks complained to the school librarian that her check had not cleared her bank. The school librarian referred this parent to the former bookkeeper. On May 15, 2006, the former bookkeeper deposited 13 checks¹ that had been initially remitted to her by the school librarian in December as book fair collections. The former bookkeeper recorded those checks as "donations."

Event	Amount
School Photographs	\$5,169.00
Book Fair	\$2,240.22
Math-A-Thon (St. Jude's)	\$1,137.70
Field Trips	139.70
Total Shortage	\$8,686.62

This matter has been referred to the local district attorney general.

¹Included with these checks was the check from the parent that had previously complained to the school librarian.

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FINDINGS AND RECOMMENDATIONS

1. **FINDING: Inadequate accounting for fundraising activities**

The principal did not require school employees to adequately account for fundraisers. School personnel did not prepare and maintain profit analysis reports for resale activities or fundraiser summary reports for applicable fundraising activities. The *Internal School Uniform Accounting Policy Manual*, page 4-27, states:

For ongoing resale activities ... monthly profit analysis reports must be completed to document collections, expenses, and any losses of money or product ... The school must maintain detailed records to support all amounts recorded on these forms. If the profit analysis report indicates a shortage, an explanation must be given for the shortage. If no reasonable explanation can be given, each subsequent day's activities must be recorded and evaluated until the reason for the shortage has been identified and corrected. For ... activities that are not perpetual in nature, profit analysis reports may be completed at the conclusion of the activity.

Regarding fundraiser summary reports, page 4-27 of the manual also states:

To document that profits from fundraising activities conducted for designated purposes were expended for the purposes for which they were raised, a designated employee should prepare a fundraiser summary report. This report would include a summary of the expenditures showing how the profit was used. This form should be prepared and filed in the school office as close as possible to the time that the money is expended.

Page 5-3 of the manual 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.

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 *Internal School Uniform*

Accounting Policy Manual, Section 4, sets forth detailed procedures for fundraising activities, which include completion of a profit analysis and fundraiser summary report.

RECOMMENDATION:

To establish accountability and adequately account for fundraising collections and inventory, the principal should require that

- a) required written authorization is obtained and filed;
- b) sponsors keep adequate records of the amounts owed by and received from each person;
- c) sponsors follow up amounts owed to the school at the end of the fundraising activity;
- d) sponsors keep adequate records of items distributed to each seller, items given away or damaged, and of inventory on hand;
- e) sponsors give copies of their records to the bookkeeper when the fundraising event is completed;
- f) for fundraisers involving resale activities, a designated employee (**not involved in collecting or recordkeeping**) prepares a profit analysis to determine if the intended profit was made and reports results in writing to the principal and any variance from expected collections is investigated;
- g) the school remits sales tax to the vendor or use tax to the Tennessee Department of Revenue for applicable purchases of products and services to be resold; and
- h) a fundraiser summary report is prepared to document that profits were expended for the purpose(s) for which they were raised

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur and will follow the recommendations.

Principal:

I concur that school employees did not adequately account for fundraisers. This responsibility had been delegated to the bookkeeper. Once I became aware of evidence of fraud, before the annual audit had been performed, I notified the appropriate personnel, in accordance with the policy manual. Cloudland Elementary faculty will be required to follow the Carter County School Board policy and the *Internal School Uniform Accounting Policy Manual*, and the specific recommendations made in the investigative

audit. These procedures will be covered during in-service and faculty will be asked to sign off on training.

2. **FINDING: School money used to cash personal checks**

The former bookkeeper apparently used school money to cash her personal checks. The *Internal School Uniform Accounting Policy Manual*, page 4-34, states:

Student activity and other internal school funds must not be used for any purpose that represents an accommodation, loan, or credit to anyone. Personal checks may be taken for payment of goods, services, and other school charges, but must not be cashed for the purpose of making change or as an accommodation to individuals, including school personnel.

RECOMMENDATION:

To avoid risking the loss of funds, the bookkeeper should not cash personal or third-party checks with school money.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur and will follow the recommendations.

Principal:

I concur that personal checks should not have been cashed out of school money. The new bookkeeper has been informed of this policy. Additionally, Cloudland faculty will be informed of this policy and asked to sign off on this. Faculty not conforming to this policy may be reprimanded.

3. **FINDING: Prenumbered receipts not issued to teachers or other individuals remitting money**

The former bookkeeper did not always prepare and issue prenumbered receipts at the time money was turned over to her. Our review of receipts located in the bookkeeper's files and recorded in the school's accounting records revealed that when the former bookkeeper did issue prenumbered receipts, the receipts were sometimes prepared several days after the money had initially been remitted to her. Furthermore, although auditors located certain prenumbered receipts in school files, they found that the former

bookkeeper did not always give a copy of receipts she did issue to the remitting school employee. At least one school employee told auditors that even though she routinely remitted collections to the former bookkeeper, she had never received a receipt from the former bookkeeper. In addition, in some instances, the former bookkeeper did not prepare or issue a receipt at all. As noted in the Legal Issue, school collections totaling at least \$8,686.62 were not deposited into a school bank account. The investigative audit revealed that the former bookkeeper did not issue prenumbered receipts for these collections.

The *Internal School Uniform Accounting Policy Manual*, page 5-7, requires that “(a) The cashier must count the money and issue a prenumbered receipt at the time the money is remitted.”

RECOMMENDATION:

To provide records for documenting that all school collections have been recorded and deposited, the bookkeeper should immediately issue and provide a copy of a prenumbered receipt to the individual who counted and remitted the money. School personnel who remit money should ensure that the amounts of money listed on the receipts received from the bookkeeper agree with the amounts of money remitted. A copy of the receipt should be retained for their records. Any discrepancies should be documented and resolved.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur and will follow the recommendations.

Principal:

I concur that prenumbered receipts should be issued immediately after the bookkeeper receives any school collections. Additionally, the Cloudland Elementary faculty will receive training during in-service hours on acceptable procedures for collecting, logging, and receipting school collections. All collections will be counted by two employees.

4. **FINDING: Copies of collection logs not maintained by teachers**

Teachers failed to retain copies of collection records. The *Internal School Uniform Accounting Policy Manual*, pages 5-3–5, states:

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.... The log documents the name of the school, the purpose of the collection, the name of the teacher/other or club/class, the payers, the date(s) of collection, and the daily total. When daily collections are completed, the collections should be counted by the teacher/other and reconciled with the daily total on the collection log. Noted errors should be corrected and unexplained differences should be documented.... The cashier must count the money and issue a prenumbered receipt to the teacher/other at the time the collections are remitted. In addition, the cashier should record the amount, receipt number, receipt date on the collection log, and initial the information on the collection log.... On the final collection date, the teacher should bring the collection log to the bookkeeper and retain a copy.

RECOMMENDATION:

To document all collections, teachers/others who collect and handle money at the school should record all collections on collection records prescribed by the principal. Teachers should correctly total each log before turning it over to the bookkeeper with the collections. Teachers should retain a copy of each of their collection logs (initialed by the bookkeeper) along with the respective receipt issued by the bookkeeper. The teachers' unaltered collection logs should be maintained in the school office for audit purposes.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur and will follow the recommendations.

Principal:

I concur that all faculty members that collect and handle money at Cloudland Elementary need to keep a collection log following the procedures established in the *Internal School Uniform Accounting Policy Manual*. These collection logs will be given out at the beginning of the school year, maintained throughout the year by the faculty member, and filed at the end of the school year to be secured in the school vault. Faculty members will receive training during in-service hours on how to maintain collection logs and asked to sign off on such training.

5. **FINDING: Inadequate accounting for vending operations**

The principal did not require school personnel to adequately account for vending operations. Our analysis of purchases for and sales from the school's vending machines

revealed that for the period July 1, 2004, through May 30, 2006, there was a \$2,883 shortfall from expected collections. In fact, for the school year ended June 2006, the drink machines not only failed to produce the expected 30 percent profit, they actually lost money. The *Internal School Uniform Accounting Policy Manual*, page 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.... The school must maintain detailed records to support all amounts recorded on these forms.

Page 5-3 of the manual also 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.... Teachers/others who collect money should prepare a collection record (prenumbered receipt, collection log, ticket reconciliation, signed recorded count, etc.) for each separate activity.

RECOMMENDATION:

To provide adequate accountability for vending collections and inventory, the principal should require that

- a) adequate records are kept of vending items purchased, received, sold, given away, and left on hand;
- b) inventory is safeguarded and stored in a secured area;
- c) collections are counted and recorded by two people before being turned over for deposit, and the count is recorded by the persons counting;
- d) a monthly vending profit analysis report is completed by a designated employee to determine if expected collections are being deposited; and
- e) any variance from expected collections is investigated.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur and will follow the recommendations.

Principal:

I concur that monthly profit analysis should be done on all vending operations. In the past, this has been delegated duty of the bookkeeper. The following procedures will be or have already been established:

- Collections have been established that require two people to count and record all collections. Additionally, such logs included areas to document any events such as produce given away, or vending machine malfunctions.
- All inventory has been moved to a more secure area.
- The assistant principal will be delegated to do monthly profit analysis and to follow up on any collection variances.

6. **FINDING:** **Sales tax not remitted for resale items**

The school did not remit sales tax to the vendor or use tax to the Tennessee Department of Revenue for applicable purchases of products intended for resale. Resale items include **anything** purchased by the school and subsequently resold to students, teachers, clubs, or other school organizations, the public, etc., (regardless of whether the items are resold for profit or cost). Sales tax was not paid to the vendor for snacks sold through the school's "Miller Mart" concession. Section 67-6-102, *Tennessee Code Annotated*, sets forth sales and use tax requirements (with specific exemptions) for businesses who sell to schools. Vendors may collect and remit sales tax to the state on the sale of tangible personal property or taxable services to a public school, grades K-12, if the school intends to resell the property or services. However, if for any reason the vendor does not collect and remit sales tax to the state under these circumstances, the school is liable for use tax based on the purchase price of the item.

RECOMMENDATION:

To avoid liabilities for sales tax due to the state and any related penalties, the school should comply with state sales tax statutes by remitting sales tax to the vendor or use tax to the Tennessee Department of Revenue for applicable purchases of products intended for resale.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur and will follow the recommendations.

Principal:

I concur that sales tax needs to be remitted for all resale items. The assistant principal, bookkeeper, and all volunteers involved with the school store will be advised of Section 67-6-102, *Tennessee Code Annotated*, and pay sales tax at the time of purchase.