INVESTIGATIVE AUDIT OF SELECTED RECORDS OF EASTSIDE ELEMENTARY SCHOOL WARREN COUNTY SCHOOL SYSTEM FOR THE PERIOD JULY 1, 2001, THROUGH DECEMBER 31, 2002

LEGAL ISSUE

1. **ISSUE:** **Apparent misappropriation of school funds totaling over $17,000**

On January 9, 2003, the former bookkeeper of Eastside Elementary School admitted to the Director of Warren County Schools, that she had embezzled approximately $4,000 from the Eastside Elementary School activity fund vending account. The former bookkeeper later admitted that she was unsure how much she had taken. Our investigative audit of Eastside Elementary School revealed the following shortages for the period July 1, 2001, through December 31, 2002:

Activity/Document	Amount Apparently Misappropriated (Rounded to nearest dollar)
Shortage in expected vending collections based on products purchased from vendors	$13,970
Documented shortage in December 2002 Santa Shop fundraiser	972
Loss on December 2001 Santa Shop Fundraiser (Sponsor could not locate records, but stated that this activity did not lose money.)	1,279
Receipted collections not deposited into a school bank account	459
Collections recorded on collection logs not recorded by the bookkeeper in the cash receipts journal or deposited into a school bank account	486
Book Fair collections recorded on collection records not recorded by bookkeeper in cash receipts journal or deposited into a school bank account (most conservative amount.)	333
Total amount apparently misappropriated	$17,499

The former bookkeeper apparently attempted to conceal the apparent misappropriation related to vending by recording some collections and disbursements incorrectly in the school's accounting records. We noted several instances in which vending expenses were recorded in other accounts and nonvending collections were recorded in the vending account. As a result, the school's books, prepared by the former bookkeeper, understated the total shortage in expected vending collections.

In addition to the apparent shortages scheduled on page 1, as noted in Finding 4, the concession stand operations generated a gross profit margin of only about 6 percent– significantly less than the expected **minimum** 40 percent. The difference could represent an additional collections shortage of more than $1,000. Also, because of inadequate recordkeeping, and because the bookkeeper was often solely responsible for counting, recording, and depositing school money, we were unable to determine if certain other school collections, including collections for several other fundraisers, were deposited intact.

This information was referred to the local district attorney general. The former bookkeeper, Rebecca Collins, was subsequently indicted by the Warren County Grand Jury on September 5, 2003, for theft over $10,000.

FINDINGS AND RECOMMENDATIONS

1. **FINDING:** **Inadequate controls over vending operations**

The school did not adequately control vending operations and did not perform a monthly vending profit analysis. Discussion with school personnel indicated that the former school bookkeeper was often solely responsible for collecting, counting, recording, and depositing vending money, and for disbursing related vendor checks. As noted in the Legal Issue, our analysis of the vending operation revealed that between July 1, 2001, and December 31, 2002, recorded vending collections were $13,970 short of expected collections. Because controls were inadequate, the admitted misappropriation by the former bookkeeper from vending collections was not detected timely.

Eastside Elementary School's annual audits for several years revealed significantly lower than expected vending profitability. However, despite the school's unexpectedly low vending profitability, school administrators did not require implementation of, or adherence to, controls designed to prevent or to at least timely detect shortages in this account. Requirements for, and recommended controls over resale activities including vending are addressed in Section 4, Title 8, of the *Internal School Uniform Accounting Policy Manual*.

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.

RECOMMENDATION:

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

a) Deliveries are checked in and vendor invoices are verified for accuracy;

b) any extra inventory that is not immediately stocked in a machine is stored in a secured area;

c) if any items are given away for any reason, detailed records are kept;

d) money from the machines is collected and counted by two persons, who sign and date a record of the count, and retain a copy of the record (before the money is turned over for deposit);

e) a **monthly profit analysis of vending transactions** is completed by a designated employee (not involved in collections or recordkeeping) to determine if expected collections are being deposited; and

f) any variance from expected collections is investigated. 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.**

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur. Recommendations (a) through (f) will be followed.

Principal:

I concur with recommendations; every effort will be made to fulfill parts (a) through (f).

Bookkeeper:

I concur. To date, we turn the money over to the bank to count. We are going to get a counting machine and begin counting before we take it to the bank.

2. **FINDING: Required detailed information omitted from many deposit slips and some receipts used were not prenumbered**

On many bank deposit slips, the former bookkeeper did not prepare a detailed list of the included checks. In addition, the bookkeeper did not identify the receipt numbers that comprised each deposit. We also noted that for certain collections during the 2001-2002 school year, the former bookkeeper apparently issued receipts which were not prenumbered. We were unable to trace $200 of collections documented by these receipts to deposit in the school's bank account.

The *Internal School Uniform Accounting Policy Manual*, Section 6, Title 2, states:

> Deposit slips must be completed in duplicate. All checks should be listed individually on the deposit slip or an attached list, itemizing the name of the payer and the amount. The receipt numbers comprising the deposit should be written on the deposit slip. The validated duplicate deposit slip or the duplicate deposit slip with deposit receipt attached should be given to the bookkeeper.

Section 5, Title 2, of the above manual enumerates the acceptable forms of documentation for collections. Among the forms listed are prenumbered receipts. Receipts that are not prenumbered are not listed in the acceptable types of documentation. Section 4, Title 2, of the *Internal School Uniform Accounting Policy Manual* mandates, "A person who is independent of the receiving, depositing and recording functions should compare bank deposits with the prenumbered receipts, collections logs, ticket reconciliation, cash register tapes, etc."

RECOMMENDATION:

To document that all collections are deposited promptly and intact, the bookkeeper should list on deposit slips the checks being deposited and the receipt numbers for the respective amounts being deposited. All receipts issued must be prenumbered consecutively. If a receipt is voided for any reason, all copies must be retained.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur. We have already corrected this.

Principal:

I concur. All recommendations have been implemented.

Bookkeeper:

I concur. I have applied all of these measures.

3. **FINDING: Some deposits not made promptly and intact and payment method not indicated on collection records**

In addition to amounts misappropriated which were never deposited into the school bank account (as noted in the Legal Issue), the former bookkeeper did not always deposit other school collections within three banking days. On one occasion, collections documented by receipts were apparently not deposited for 24 calendar days. On another occasion, the former bookkeeper did not deposit collections, receipted over a 2-day period, until 80 calendar days, and Winter Break, had passed. Our investigative audit also revealed that for most collections, school personnel failed to record the method of payment on the collection record.

The *Internal School Uniform Accounting Policy Manual,* Section 5, Title 2, requires teachers to remit total collections to the cashier daily or more frequently, if necessary. Section 6, Title 2, states:

> Collections should be deposited daily, if possible, but no more than three days after the initial collection. . . . Collections should be deposited intact. Intact means that collections are deposited in the form and amount in which they are collected. All money collected must be deposited in the next deposit. No collections should be withheld from the deposit for any reason.

<u>RECOMMENDATION:</u>

To safeguard funds, school personnel should deliver total collections to the bookkeeper at least daily. The bookkeeper should deposit all collections within three banking days of initial collection. In addition, to ensure that funds are deposited in the form and amount collected, each original collection log and receipt should indicate the form of payment as well as the amount.

<u>MANAGEMENT'S RESPONSE:</u>

<u>Director of Schools and Members of the Board of Education:</u>

We concur. This has been corrected.

<u>Principal:</u>

I concur with the recommendation. Collection and deposit safeguards have been implemented.

<u>Bookkeeper:</u>

I concur. I have applied most of these measures. I need to talk to all teachers and make sure they turn in all money daily.

4. **<u>FINDING:</u>** **School's records of concession operations were inadequate**

The principal did not require concession operators to adequately account for concession sales and inventory. Neither the workers nor the responsible activity sponsors counted collections from the concession stand prior to transferring custody of the money to the former bookkeeper. As a result, the former bookkeeper counted and recorded concession stand collections without verification or supervision. The school kept no records detailing giveaways, leftovers, or spoilage and apparently did not compare recorded collection amounts to the amount that would be expected based on product usage. Our analysis of school concession operations indicated that the concession profit margin should have been no less than 40 percent. However, school records indicated the profit margins for the 2001-2002 and 2002-2003 school years were only 6.1 percent and 5.4 percent, respectively.

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 5, Title 2, 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."

RECOMMENDATION:

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

a) adequate records are kept of concession items purchased, received, sold, given away, and left on hand after each event;

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;

d) **a periodic concession 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. This will be done.

Principal:

I concur. Recommendations shall be implemented.

Bookkeeper:

I concur. I am going to make a sheet for counting the money. This sheet will have a beginning and ending amount. We will get a form showing how much is given away at the end of games.

5. **FINDING:** **Failure to retain written approval of fundraisers and to prepare profit analyses for resale activities**

According to both the former and the current principal, approval to hold fundraisers and resale activities was often given verbally, without written documentation. Further, profitability of fundraisers was not systematically evaluated and satisfactory explanations for shortages in fundraiser collections were not determined. For instance, the former bookkeeper's records indicated that the "Santa Shop" resale event lost $1,006, $1,279 and $718, respectively, during the 2001, 2002, and 2003 school years. However, the sponsor of this event stated that the school had made a profit each year.

Another example of deficient resale activity procedures and possible shortages occurred at book fairs. It appears that the collections from 2001 and 2002 book fairs receipted by the former bookkeeper were at least $333 less than collections recorded on the book fair invoices. According to the librarian, the former bookkeeper recorded collections without the librarian's verification. The former principal stated that the school had lost money on a book fair while she was principal at the school, but that she had not been able to determine how that was able to occur.

In addition, as noted in Findings 1 and 4, profit analyses were not performed in vending and concession operations, although recorded collections in both operations were significantly short of expected collections. School officials failed to determine the reasons for these discrepancies. As a result, the apparent misappropriation noted in the Legal Issue was not detected timely.

Section 4, Title 8, of the *Internal School Uniform Accounting Policy Manual* sets forth required policies and procedures relative to fundraising and resale activities, including requirements for written approval and for a profit analysis of each activity.

RECOMMENDATION:

To establish accountability and to 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. This will be done.

Principal:

I concur. Recommendations for documentation procedures shall be developed to comply.

Bookkeeper:

I concur. All fundraisers are in written form. I will be sure all records are done correctly and turned in daily.

6. **FINDING: Failure to establish restricted teacher and athletic funds**

Money specifically intended to benefit school employees, as well as revenues and expenditures from the school athletic program, were accounted for in the general fund. Collections from all vending machines in the employee lounge were apparently intended to be used to benefit school employees, rather than students. Our investigative audit revealed that in addition to expenditures for products in the lounge drink machines, the former bookkeeper charged flowers and meals for school officials, teachers, and other employees to a general fund account titled "teachers lounge vending." (All snack food products, including those in the lounge vending machine, were charged to the student snack account.) According to the *Internal School Uniform Accounting Policy Manual*, Section 4, Title 1:

> The general fund is used to account for all money to be used for the general operation of the school or for the welfare of the student

> body . . . **All expenditures from the general fund must benefit the school or must contribute to the welfare of the student body**. . . . The restricted fund is used to account for all money which is restricted for the use of a specific group (club, class, etc.) or legally restricted for a specific purpose (BEP funds, scholarship donations, etc.). **All expenditures of restricted fund account money must be used for the purpose or group for which the money was raised.**

Section 4, Title 1, of the *Internal School Uniform Accounting Policy Manual* states:

> Although athletic programs may benefit the welfare of the student body, money raised from sanctioned athletic programs is generally restricted for the use of the athletic program. In addition, parents and other individuals generally demand a separate accounting of money raised by school athletics. Therefore, a sanctioned athletic program must be accounted for in the restricted fund.

RECOMMENDATION:

To ensure that revenues from teachers' lounge vending benefit the group for which they were raised, the administration should specify the intended use of those funds. If the funds raised are intended to be for the benefit of the school or the student body, it is appropriate to account for them in the general fund. If management allows the funds collected from teachers' lounge vending to be used to benefit faculty and staff, the school should establish a restricted fund to account for the revenues and expenses. All products sold in teachers' lounge vending machines should be charged to teachers' lounge vending expense. In addition, school officials should determine if the school's athletic program should be accounted for in a restricted fund.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur. We will study these accounts and see if they need to be restricted. If so, we will change them.

Principal:

I concur with the recommendations in regard to restricted accounts for teachers' lounge vending and athletic funds.

Bookkeeper:

I concur. We have certain funds restricted that can only be used for certain activities.