

INVESTIGATIVE AUDIT REPORT

**EVANS ELEMENTARY SCHOOL
MEMPHIS CITY SCHOOL SYSTEM
JULY 1, 2008, THROUGH JANUARY 31, 2009**



State of Tennessee



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



STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Justin P. Wilson
Comptroller

STATE CAPITOL
NASHVILLE, TENNESSEE 37243-9034
PHONE (615) 741-2501

April 18, 2011

Superintendent and Members of the
Board of Education
Memphis City Schools
2597 Avery Avenue
Memphis, TN 38112

Superintendent and Board Members:

Presented herewith is the report on our investigative audit of selected records of the activity funds of Evans Elementary School, Memphis City School System. This investigative audit focused on the period July 1, 2008, through January 31, 2009. 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 during the period July 1, 2008, through January 31, 2009, the former financial secretary apparently misappropriated school money totaling at least \$1,458.36. This matter has been referred to the local district attorney general.

The finding and recommendation in this report also presents a condition that we believe warrants the attention of the school's officials and other responsible individuals.

Superintendent and Members of the
Board of Education
Memphis City School System
April 18, 2011

Copies of this report are being forwarded to Governor Bill Haslam, 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, appearing to read "Justin P. Wilson", with a stylized flourish at the end.

Justin P. Wilson
Comptroller of the Treasury



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

Justin P. Wilson
Comptroller of the Treasury

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

April 18, 2011

Mr. Justin P. Wilson
Comptroller of the Treasury
State Capitol
Nashville, TN 37243-9034

Dear Mr. Wilson:

As part of our ongoing process of examining the records of the activity and other internal funds of schools, we have completed our investigative audit of selected records of the Evans Elementary School, Memphis City School System. This investigative audit focused on the period July 1, 2008, through January 31, 2009. However, this scope was expanded if warranted.

Section 49-2-110, *Tennessee Code Annotated*, provides for student activity and other internal 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.

Student activity funds and other internal school 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.

Our investigative audit revealed that during the period July 1, 2008, through January 31, 2009, the former financial secretary apparently misappropriated school money totaling at least \$1,458.36. This matter has been referred to the local district attorney general.

Mr. Justin P. Wilson
Comptroller of the Treasury
April 18, 2011

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

1. Inadequate 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
EVANS ELEMENTARY SCHOOL
MEMPHIS CITY SCHOOL SYSTEM
FOR THE PERIOD JULY 1, 2008, THROUGH JANUARY 31, 2009**

LEGAL ISSUES

1. **ISSUE: Apparent misappropriation of school collections totaling at least \$1,458.36**

Our investigative audit revealed that during the period July 1, 2008, through January 31, 2009, the former financial secretary apparently misappropriated school money totaling at least \$1,458.36. The former financial secretary apparently used at least three schemes to obtain these collections.

Missing collections totaling \$748.40 remitted to former financial secretary by teachers/others

The former financial secretary failed to deposit into the school bank account at least \$748.40 collected for fall pictures and other activities that teachers and/or others stated they remitted to her. For several of the missing collection amounts, the former financial secretary issued to and provided a prenumbered school receipt to the teacher/other remitting the collection, and recorded the related receipt number in the teacher's receipt book and on the teacher's deposit form. Apparently, the former financial secretary later voided the receipt in the school's computerized accounting system without the knowledge or authorization of the teacher/other who remitted the money.

Unrecorded checks apparently used to conceal missing cash collections totaling \$492.76

In at least two instances, the former financial secretary intercepted and set aside checks totaling \$492.76 payable to the school from the Memphis City School System. The former financial secretary did not receipt or record these checks in the school's computerized accounting system. Instead, she exchanged these checks for cash obtained from other school collections, apparently keeping the cash for her personal use.

Unauthorized check totaling \$217.20 issued by former financial secretary for which school apparently did not receive benefit

Without the principal's knowledge or consent, in September 2008, the former financial secretary issued a check for \$217.20 for which the school apparently received no benefit. The transacted check showed the payee to be "Howard Johnson." However, school records were falsified, apparently by the former financial secretary, to indicate the payee

was another authorized vendor. In addition, the principal stated that her signature on the check had been forged.

The table below shows a summary of the apparent misappropriation:

Summary of Apparent Misappropriation	
Source	Amount
Missing teacher/other collections turned over to former financial secretary	\$ 748.40
Unrecorded checks “swapped” for cash collections	492.76
Unauthorized check for which school apparently did not receive benefit and on which principal’s name apparently forged	<u>217.20</u>
Total apparent misappropriation by former financial secretary	<u>\$1458.36</u>

2. **ISSUE: Apparent alteration of government records**

As noted above, in an attempt to conceal payment to an unauthorized individual, the former financial secretary apparently altered the payee information on at least one check. The payee information entered by the former financial secretary into the school’s computerized accounting system and shown on the school’s carbon copy of the check was different from the actual handwritten payee shown on the imaged copy of the transacted check. In addition, we noted several instances in which the former financial secretary had entered appropriate collection information into the school’s computerized accounting system, and printed and provided related prenumbered receipts to the pertinent teacher/other. Subsequently, without the knowledge or consent of the principal or other school personnel, the former financial secretary entered false information so that the school’s computerized accounting system would show the receipts as void. These false entries were apparently made to conceal missing school cash collections removed by the former financial secretary for her personal benefit.

3. **ISSUE: Apparent forgery of principal’s signature**

Presumably, in an attempt to conceal missing cash collections taken for her personal benefit and in order to cover up a payment to an unauthorized individual, the former financial secretary apparently signed the principal’s name on at least two checks without the principal’s knowledge or consent. Auditors noted at least two additional checks on which the principal’s signature had apparently been written by the former financial secretary without authorization. For one payment, the school received the items purchased. However, for the other check, although items were delivered to the school, documentation was insufficient to determine whether the purchase had been authorized by the principal.

These matters have been referred to the local district attorney general.

FINDING AND RECOMMENDATION

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

School administrators failed to separate incompatible financial duties at the school. The former school financial secretary received and counted cash; prepared bank deposits; maintained and updated the school's accounting records; requested, prepared, and signed checks; and reconciled the school's bank statements. The former financial secretary's complete control over collection transactions once they reached the school office contributed to the former financial secretary's ability to perpetrate and conceal the apparent misappropriation noted in Issue 1.

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

Page 5-2 of the manual emphasizes that

[t]he use of a cashier is necessary for optimal separation of duties. However, some schools may not have adequate personnel to allow someone other than the bookkeeper to collect money and write receipts. In these situations ... school personnel should develop alternative procedures that minimize the risks associated with this lack of separation of duties.... **WHEN AT ALL POSSIBLE, SOMEONE OTHER THAN THE BOOKKEEPER SHOULD COLLECT MONEY AND WRITE RECEIPTS.**

RECOMMENDATION:

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