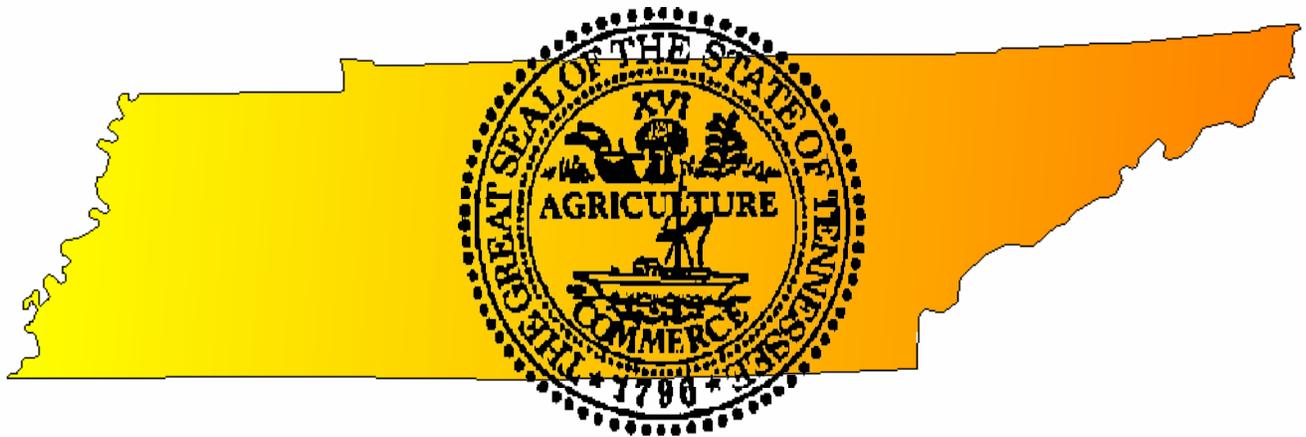


INVESTIGATIVE AUDIT REPORT

**HENDERSONVILLE HIGH SCHOOL
SUMNER COUNTY SCHOOL SYSTEM
JULY 1, 2004, THROUGH JUNE 30, 2005**



State of Tennessee



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



STATE OF TENNESSEE

John G. Morgan

COMPTROLLER OF THE TREASURY

Comptroller

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-0260

PHONE (615) 741-2501

August 28, 2006

Director of Schools and Members of the
Board of Education
Sumner County School System
695 East Main Street
Gallatin, TN 37066-2472

Director of Schools and Board Members:

Presented herewith is the report on our investigative audit of selected records of the activity funds of Hendersonville High School, Sumner County School System. This investigative audit focused on the period July 1, 2004, through June 30, 2005. 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.

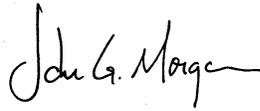
Our investigative audit revealed that during the period July 1, 2003, through June 30, 2005, the former school bookkeeper, Penny Warren, apparently misappropriated school collections totaling at least \$76,122.02. This matter was referred to the local district attorney general. On May 3, 2006, the former bookkeeper, Penny Warren, was indicted by the Sumner County Grand Jury for one count of Theft over \$60,000.

The findings and recommendations in this report also 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
Sumner County School System
August 28, 2006

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 large initial "J" and a long horizontal stroke 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 28, 2006

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 Hendersonville High School, Sumner County School System. This investigative audit focused on the period July 1, 2004, through June 30, 2005. 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
August 28, 2006

Our investigative audit revealed that during the period July 1, 2003, through June 30, 2005, the former school bookkeeper, Penny Warren, apparently misappropriated school collections totaling at least \$76,122.02. This matter was referred to the local district attorney general. On May 3, 2006, the former bookkeeper, Penny Warren, was indicted by the Sumner County Grand Jury for one count of Theft over \$60,000.

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

1. Inadequate separation of duties
2. Major deficiencies in former bookkeeper's collection process
3. Major deficiencies in teachers/others collection procedures
4. Failure to prepare profit analyses and fundraiser summary reports for applicable fundraising and other resale activity
5. Deposits not made promptly and intact, and some deposit slips not itemized
6. Inadequate controls over event admissions
7. Inadequate accounting for school event concession operations
8. Inadequate procedures over disbursements
9. Student collections used to pay for staff development and other staff benefits
10. Former bookkeeper failed to submit for board approval accounts payable totaling over \$26,000
11. Supplemental compensation and taxable gifts paid directly to employees
12. Inadequate documentation to determine restricted grants and donations benefited intended recipients

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.

Mr. John G. Morgan
Comptroller of the Treasury
August 28, 2006

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

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**INVESTIGATIVE AUDIT OF SELECTED RECORDS OF THE
HENDERSONVILLE HIGH SCHOOL
SUMNER COUNTY SCHOOL SYSTEM
FOR THE PERIOD JULY 1, 2004, THROUGH JUNE 30, 2005**

After receiving information regarding unexplained discrepancies in the Hendersonville High School's accounting records, our office began an investigative audit of the school on Monday, May 2, 2005. The former principal, Mr. Paul Decker, who initially alerted the system's internal auditor regarding bookkeeping-related concerns at the school, retired effective June 30, 2005. On July 7, 2005, the school system terminated Penny Warren, former bookkeeper. The current principal and bookkeeper have been asked to respond to the findings presented in the Findings and Recommendations section of this report.

LEGAL ISSUE

1. **ISSUE: Apparent misappropriation of school collections totaling at least \$76,122.02**

Our investigative audit revealed that during the period July 1, 2003, through June 30, 2005, the former school bookkeeper, Penny Warren, apparently misappropriated school collections totaling at least \$76,122.02. The investigative audit revealed that in some instances, the former bookkeeper failed to record in the school's accounting records and deposit into a school bank account some school cash collections turned over to her, apparently keeping the cash for her personal benefit. The audit revealed that in other instances, the bookkeeper intercepted and set aside checks payable to the school, including a \$1,000 check donation from the Noon Sertoma Club to the school. She then exchanged these checks for cash obtained from other school collections, apparently keeping the cash for her own use. Because the former bookkeeper had total control over collections once they reached the school office, she was able to manipulate the school's accounting records and provide false statements of transactions and balances without detection. This total control allowed her to conceal the apparent misappropriation from management and other employees for an extended time. On July 7, 2005, Ms. Warren admitted to auditors that she had taken school money without authorization for her personal use.

Because some records were inadequate to determine total collections, the misappropriation total above does not include any possible additional shortage arising from collections for certain field trips, fees, fundraisers, and returned checks, or for the possible inappropriate use of over \$1,500 of undocumented purchases with Wal-Mart gift cards purchased by the school.

The former bookkeeper apparently made false statements related to financial transactions, failed to turn over requested financial records, and falsified, altered, and disposed of school accounting records

- Auditors noted numerous instances in which dates or amounts on collection logs had been altered, apparently by the former bookkeeper. (Refer to examples in Exhibits 1 through 3.)
- Several teachers stated that when they asked questions related to their accounts, the former bookkeeper provided them with incorrect information, indicating that certain collections were incomplete or were in the process of being recorded. Some school personnel also stated that the former bookkeeper would not provide printouts of account histories, even after numerous requests.
- Auditors noted many instances in which the former bookkeeper recorded collections in the wrong account or made inappropriate transfers between accounts evidently in an attempt to conceal the apparent misappropriation.
- On June 30, 2005, auditors located in the trash receptacles in the former bookkeeper's office several documents supporting collections apparently remitted to her. One of these documents was an original handwritten receipt for \$5,346 issued by the former bookkeeper to an outside vendor representative for the school graduation fee. Another document indicated that \$948.21 of unspent travel advance money had been returned to her by a coach. (Refer to Exhibits 4 and 5.) The investigative audit revealed that Ms. Warren did not record these collections in the school accounting records and did not deposit this money into the school bank account.
- Auditors were unable to locate original (or copies of) collection records supporting several deposits to the school's bank account. Among the missing records were ticket reconciliation reports or signed recorded counts for several scheduled athletic contests. School records revealed that in some instances, the former bookkeeper failed to deposit any money collected at events that had no corresponding reconciliation.

This matter was referred to the local district attorney general. On May 3, 2006, the former bookkeeper, Penny Warren, was indicted by the Sumner County Grand Jury for one count of Theft over \$60,000.

FINDINGS AND RECOMMENDATIONS

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

School administrators failed to separate incompatible financial duties at the school. The former school bookkeeper 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 bookkeeper’s complete control over collection transactions once they reached the school office contributed to her ability to perpetrate and conceal the apparent misappropriation noted in the Legal Issue, allowing it to continue undetected for an extended period.

Section 4, Title 2, of the *Internal School Uniform Accounting Policy Manual*, 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.

Section 5, Title 2, of the manual emphasizes that

The 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 collections are deposited into the school’s bank account, disbursements are appropriate, 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.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Board of Education:

The director of schools and members of the board of education concur with this finding. The following procedures are currently in place and will be enforced:

- Any staff member remitting money to the bookkeeper is required to obtain a receipt *immediately* from the bookkeeper for the money remitted.
- The principal of each school is required to review all bank reconciliations and sign off, signifying his or her approval. The importance of this procedure will be emphasized to the principals through additional training.
- The internal auditor on a quarterly basis reviews bank reconciliations and the corresponding documents. This process will continue.

The following procedures will be implemented as of July 1, 2006:

- An independent office staff member will be assigned the responsibility of opening all mail and documenting money received in the mail on a separate collection log prior to remitting the funds to the bookkeeper.
- The internal auditor will ensure receipts are being obtained by the staff members and retained by selecting a sample of staff files during the annual interim audit and tracing receipts from the staff files to bookkeeper records.

Principal:

Response is the same as that of the director of schools and members of the board of education.

2. **FINDING: Major deficiencies in former bookkeeper's collection process**

The former bookkeeper, Penny Warren, failed to follow required procedures when collecting and recording school money. We noted significant deficiencies which contributed to Ms. Warren's ability to perpetrate and conceal her apparent misappropriation of school collections totaling over \$76,000 (as noted in the Legal Issue) including:

- The former bookkeeper did not always count collections promptly, and give a prenumbered receipt to the individual who remitted the money.
- The former bookkeeper often issued prenumbered receipts in the name of the principal, coach, or account sponsor, rather than to the teacher or other individual who counted and remitted the money. In addition, teachers and other employees stated that when the bookkeeper actually provided a receipt for collections to them, it was often several days or weeks after they turned in the related collections.
- The former bookkeeper failed to document that she reconciled her count to original collection documents, and that she followed up differences with appropriate

individuals. We noted numerous discrepancies between amounts shown as collected by teachers and other staff, and the amount received by the bookkeeper.

- The former bookkeeper failed to record the amount, receipt number, and receipt date on each collection log, and initial the information on the collection log.
- The former bookkeeper often failed to provide copies of account histories to applicable account sponsors, even though several staff members stated that they requested this information.

The *Internal School Uniform Accounting Policy Manual*, Section 5, sets forth required procedures for collection of school money by cashiers and bookkeepers.

RECOMMENDATION:

To adequately account for all school money so that it benefits the students for which it was collected, and to help ensure that errors or irregularities are detected timely, school officials should ensure that required collection procedures as set forth in the *Internal School Uniform Accounting Policy Manual* are established and followed.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

The director of schools and members of the board of education concur with this finding. The following procedures are currently in place and will be enforced:

- All staff members who remit money to the bookkeeper are required to have funds counted by the bookkeeper immediately in their presence and obtain a receipt from the bookkeeper before leaving his or her office. The importance of following this procedure and the staff ensuring the receipt is correctly made out to them with the proper amount will be reinforced during additional training.
- The amount, receipt number, date, and bookkeeper's initials are required to be documented on the collection log at the time the log is remitted with the money. This will be covered during bookkeeper training and collection logs will be reviewed during interim audits for compliance.

The following procedures will be implemented as of July 1, 2006:

- Account histories will be required to be printed and given to every teacher or club sponsor on a monthly basis. The teacher or club sponsor will be required to sign and date the account history signifying his or her approval. These account histories are to be retained by the teacher or club sponsor and will be reviewed during the annual interim audit by the internal auditor.

Principal:

Response is the same as that of the director of schools and members of the board of education.

Bookkeeper:

Response is the same as that of the director of schools and members of the board of education.

3. **FINDING: Major deficiencies in teachers/others collection procedures**

The former principal failed to ensure that teachers and other staff followed required procedures when collecting school money and turning it over to the bookkeeper for deposit. Following are some of the significant collection deficiencies that contributed to management's failure to timely detect the apparent misappropriation of over \$76,000 by the former school bookkeeper (as noted in the Legal Issue):

- In some instances, teachers and other staff did not count and/or prepare a collection record (prenumbered receipt, collection log, ticket reconciliation, signed recorded count, etc.) prior to turning collections over to the bookkeeper for deposit.
- Teachers and others that prepared collection records did not always record a separate count of each activity to allow profit and other analyses, did not indicate the method of payment (cash or check), and did not always record daily totals. In addition, staff members stated that the former bookkeeper instructed them to leave the date off of collection logs, apparently in order to conceal late deposits.
- Teachers and other staff did not always remit collections to the former bookkeeper promptly.
- Teachers and other staff did not always remit collections to the former bookkeeper intact. With management's approval, the school employee responsible for concession operations paid herself from cash collections for each athletic concession operation for which she was responsible.
- Teachers and other staff often failed to obtain a prenumbered receipt from the former bookkeeper when they remitted collections to her.
- When prenumbered receipts were obtained, some teachers and other staff frequently did not verify that the former bookkeeper's amounts agreed with the related collection record, and report noted discrepancies to the principal.
- Many teachers and other staff failed to retain copies of collection records.

The *Internal School Uniform Accounting Policy Manual*, Section 5, sets forth required procedures for collection of school money by teachers/others.

RECOMMENDATION:

To adequately account for and make certain all school money benefits the students for which it was collected, and to help ensure that errors or irregularities are detected timely, school officials should ensure that required collection procedures for teachers and others as set forth in the *Internal School Uniform Accounting Policy Manual* are established and followed.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

The director of schools and members of the board of education concur with this finding. The following procedures are currently in place and will be enforced:

- Money is required to be counted by the staff member and collection logs are required to be completed by the staff member collecting the funds and completed in ink. The collection log must be properly completed by the staff member, including the date. The bookkeeper is not allowed to make changes to the collection logs. This procedure will be reviewed during additional training. All staff members will be made aware of the proper procedures to follow for correcting collection logs.
- A separate collection log is required to be completed for each activity that money is collected for. This procedure will be reviewed during additional training.
- All funds collected by teachers and other staff members are required to be remitted to the bookkeeper on a daily basis. This procedure will be reviewed during additional training.
- Board policy requires any payments to board employees to be paid through the Central Office. This procedure will be reviewed during additional training.
- All staff members who remit money to the bookkeeper are required to have funds counted by the bookkeeper immediately in their presence and obtain a receipt from the bookkeeper before leaving his or her office. The importance of following this procedure and the staff ensuring the receipt is correctly made out to them with the proper amount will be reinforced during additional training.
- Teachers are required to maintain receipts on file and reconcile the amounts with the collection logs and monthly account history reports. This procedure will be reviewed during additional training.

The following procedures will be implemented as of July 1, 2006:

- A sample of teacher files will be selected and will be reviewed during the annual interim audit by the internal auditor. The internal auditor will reconcile the sampled teacher receipts and collection logs to the records maintained by the bookkeeper.

Principal:

Response is the same as that of the director of schools and members of the board of education.

Bookkeeper:

Response is the same as that of the director of schools and members of the board of education.

4. **FINDING:** **Failure to prepare profit analyses and fundraiser summary reports for applicable fundraising and other resale activity**

School personnel failed to complete profit analysis reports for fundraising and other resale activities and failed to complete applicable fundraiser summary reports, and also failed to obtain and/or document written authorization for some school-wide fundraisers. For some fundraisers, school personnel stated that the former bookkeeper would not provide profit information, or would tell them not to worry because she had not recorded all the related collections. As noted in the Legal Issue, the former bookkeeper apparently misappropriated thousands of dollars of school collections. These misappropriated amounts included collections for school plays, football discount cards, yearbooks, t-shirts, and other school fundraising and resale activity collections. Because profit analysis reports were not prepared, verified, and reviewed, the principal and other school officials and employees did not detect the apparent theft timely. In addition, because applicable fundraiser summary reports were not prepared, the school could not readily demonstrate that remaining fundraiser profits, if any, were used for the intended purpose.

The *Internal School Uniform Accounting Policy Manual*, Section 4, requires written authorization be obtained and filed, and sets forth detailed procedures for fundraising activities, including completion of profit analysis reports and fundraiser summary reports.

RECOMMENDATION:

To establish accountability and adequately account for fundraising collections and inventory, and to help ensure that errors or irregularities are detected timely, the principal should establish and ensure compliance with all required procedures related to fundraising and other resale activities set forth in the *Internal School Uniform Accounting Policy Manual*, including obtaining prior authorization, preparing profit analyses, verifying commissions, and preparing fundraiser summary reports.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the School Board:

The director of schools and members of the board of education concur with this finding. Profit analysis and fundraiser summary reports will be required for all activities. The internal auditor will review these reports as part of the annual interim audit at each school.

Principal:

Response is the same as that of the director of schools and members of the board of education.

Bookkeeper:

Response is the same as that of the director of schools and members of the board of education.

5. **FINDING: Deposits not made promptly and intact, and some deposit slips not itemized**

In addition to her failure to deposit some school collections as noted in the Legal Issue, school records indicated that the former bookkeeper did not follow required procedures when deposits were prepared and made. These significant control deficiencies helped to effectively disguise the nature and extent of the shortages listed in the Legal Issue. The investigative audit revealed that the former bookkeeper failed to:

- Deposit school collections within three business days of receipt by a school employee. Many collection log dates were completed by the former bookkeeper, and we noted numerous alterations of dates on those collection logs completed by other school employees, apparently in an attempt to conceal the fact that collections were not deposited promptly.
- Deposit school collections intact. Collection and deposit records and interviews documented that the former bookkeeper used school collections to cash personal and two-party checks.
- Include an itemized check listing on the deposit slip or as part of other deposit support. The former bookkeeper stated that she relied on related collection logs to list check payments individually. However, we noted numerous collection logs, including some completed by the former bookkeeper, that did not include the form of payment or an itemized listing of checks.

The *Internal School Uniform Accounting Policy Manual*, page 6-2, requires:

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... All checks should be listed individually on the deposit slip or an attached list, itemizing the name of the payer and the amount.

RECOMMENDATION:

To safeguard funds, school personnel should deliver total collections to the bookkeeper at least daily. The principal should ensure that the bookkeeper complies with state law and deposits all school collections intact within three days of initial collection. In addition, to ensure that funds are deposited in the form and amount collected, school personnel should indicate the form of payment as well as the amount on each original collection log and receipt. Checks should be listed individually on the deposit slip or attached list.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

The director of schools and members of the board of education concur with this finding. The following procedures are currently in place and will be enforced:

- Deposits are required to be made within three days of funds received by school personnel. Procedures for collection logs and deposit requirements will be reemphasized to all staff members. The internal auditor will verify the make up of deposits during the annual school interim audits.
- Board policy does not allow any personal or two-party checks to be cashed from school funds. This procedure will be reviewed during additional training.
- Itemized check listings are required to be attached to all deposit slips or support. This procedure will be reviewed during additional training.

The following procedures will be implemented as of July 1, 2006:

- A calendar of all events will be maintained on file at the schools. The internal auditor will review this calendar during the annual school interim audits and determine that the proper documentation has been completed for the event and that money collected at the events has been properly accounted for and deposited.

Principal:

Response is the same as that of the director of schools and members of the board of education.

Bookkeeper:

Response is the same as that of the director of schools and members of the board of education.

6. **FINDING: Inadequate controls over event admissions**

The former principal failed to ensure that adequate procedures were followed regarding admissions to events. Our investigative audit revealed the following deficiencies:

- Ticket reconciliation forms or other acceptable collection records for several athletic games, plays, and other school events could not be located.
- Several of the reconciliation forms that were located appeared to have been completed and/or altered by the former bookkeeper. (Refer to example in Exhibit 6.)
- The former bookkeeper did not issue in the name of and give prenumbered receipts to individuals who counted and remitted admission collections. Instead, for event admissions receipts, the former bookkeeper listed the principal, coach, or sponsor as the payor, rather than the individual actually responsible for collecting, counting and recording and reconciling the event admissions.
- Receipts and deposits for several events could not be located, and discrepancies between amounts recorded and deposited were noted in others.

The *Internal School Uniform Accounting Policy Manual*, pages 5-5–6 state:

A ticket reconciliation form is required for all events, such as athletics or entertainment, for which a fee is charged ... All admission tickets should be prenumbered.... The principal is responsible for accounting for all tickets and ensuring the safekeeping of the ticket inventory. Prior to the tickets and ticket reconciliation form being given to the ticket seller, a designated individual other than the ticket seller will record the beginning ticket number and the amount of change to be given to the ticket seller. The ticket seller should initial this information to document verification of the information on the form.... When the event's ticket sales are complete, the ticket seller and the principal or principal's designee should count the cash and complete and sign

the ticket reconciliation form. One of the responsible persons will retain a copy of the original ticket reconciliation and the original should accompany the money and unsold tickets. The cashier should issue the official receipt to one of the persons signing the ticket reconciliation. If a discrepancy between the ticket reconciliation and the official receipt exists, the principal should be notified in writing so that the principal may determine necessary action.

RECOMMENDATION:

To ensure all school event collections are properly accounted for, the principal should establish adequate procedures related to ticket sales as set forth in the *Internal School Uniform Accounting Policy Manual*, Section 5, and ensure that school personnel follow these procedures.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

The director of schools and members of the board of education concur with this finding. The following procedures are currently in place and will be enforced:

- Ticket reconciliations are required to be properly prepared by the staff member in charge for all events where tickets are utilized. The proper completion of ticket reconciliations will be reviewed during additional staff member training.
- Ticket reconciliations are required to be properly completed by the staff member in charge of the event. Procedures for corrections to ticket reconciliations will be reviewed during additional training.
- The issuance of prenumbered receipts to the individual remitting the funds to the bookkeeper is required. The importance of this procedure will be reemphasized through additional training.

Principal:

Response is the same as that of the director of schools and members of the board of education.

Bookkeeper:

Response is the same as that of the director of schools and members of the board of education.

7. **FINDING: Inadequate accounting for school event concession operations**

The principal did not require the basketball athletic concession operator, who was a school employee, to adequately account for concession sales and inventory. The following deficiencies were noted:

- Although the basketball concession operator stated that related amounts were turned in, we were unable to locate concession receipts and deposits for at least five basketball events.
- The basketball concession operator stated that she counted the collections prior to turning them over and recorded the counts on concession reconciliation forms. However, it appeared that the counts on many of these forms had been altered. In addition, the concession operator stated that she did not receive a receipt from the bookkeeper for amounts remitted.
- The concession operator stated that she received cash equaling 10 percent of concession profits for each event she worked. The vice-principal indicated that this payment was authorized by management.
- The concession operator did not prepare any records of inventory, including items sold or given away, and the former principal did not require a profit analysis for any concession operations.

Because procedures and records were inadequate, we were unable to determine if additional concession collections had been misappropriated.

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.” Page 4-27 of the manual states, “For ongoing resale activities such as ... concessions ... profit analysis reports must be completed to document collections, expenses, and any losses of money or product.”

RECOMMENDATION:

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

- adequate records are kept of concession items purchased, received, sold, given away, and left on hand after each event;
- inventory is safeguarded and stored in a secured area;

- collections are not used to provide compensation or change, or to make purchases of supplies;
- collections are counted and recorded by two people before being turned over for deposit;
- a profit analysis report is completed by a designated employee to determine if expected collections are being deposited; and
- any variance from expected collections is investigated.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

The director of schools and members of the board of education concur with this finding. The following procedures are currently in place and will be enforced:

- Collection logs, concession reconciliation forms, and/or profit analysis reports are required to be completed at the end of each event where concessions were sold. The importance of this procedure will be reemphasized through additional training.
- All money collected is required to be remitted to the bookkeeper for deposit. Any payments to concession operators are required to be made through the Central Office and not from funds collected. The importance of this procedure will be reemphasized through additional training.

The following procedures will be implemented as of July 1, 2006:

- An inventory of concession items will be prepared and maintained for each concession stand.

Principal:

Response is the same as that of the director of schools and members of the board of education.

Bookkeeper:

Response is the same as that of the director of schools and members of the board of education.

8. **FINDING: Inadequate procedures over disbursements**

The former principal failed to require and ensure that adequate supporting documentation was on file for several disbursements. For instance, supporting invoices and other documentation could not be located for over \$1,500 of the \$8,050 in school funds spent to purchase Wal-Mart gift cards during the period July 1, 2004, through May 31, 2005. In addition, we noted that cash advances provided for travel and other purposes were often not reconciled with related receipts, and that adequate documentation was not maintained for cash ostensibly obtained for fundraiser prizes or other awards. The *Internal School Uniform Accounting Policy Manual*, page 5-14 requires that “[t]he bookkeeper should require and obtain adequate supporting documentation before disbursing any school money.” Adequate supporting documentation includes documentation that goods and services have been received.

RECOMMENDATION:

To safeguard school assets and to ensure that payments are only issued to those having a legitimate claim, the principal should ensure that adequate disbursement procedures as set forth in the *Internal School Uniform Accounting Policy Manual* are established and followed.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Board of Education:

The director of schools and members of the board of education concur with this finding. The following procedures are currently in place and will be enforced:

- Purchase orders and receipts are required to be maintained on file to support all disbursements. The importance of this procedure will be reemphasized through additional training.
- Travel advances are required to be documented and either receipts supporting expenditures made from the advance or documentation supporting the return of the advance maintained on file. The importance of this procedure will be reemphasized through additional training.

Principal:

Response is the same as that of the director of schools and members of the board of education.

Bookkeeper:

Response is the same as that of the director of schools and members of the board of education.

9. **FINDING: Student collections used to pay for staff development and other staff benefits**

In addition to commissions received from the teachers' lounge vending machine, the former bookkeeper recorded some student-accessible vending machine commissions in the teachers' lounge account from which disbursements were made for staff development and staff gifts. The *Internal School Uniform Accounting Policy Manual* makes no provision for any allocation of commissions or other collections from sources intended to benefit the students or the school. In addition, staff development and compensation are considered to be the responsibility of the local board.

Page 4-1 of the manual states:

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. This includes, but is not limited to ... school-wide fundraisers.... **All expenditures from the general fund must benefit the school or must contribute to the welfare of the student body and supplement, and not replace, funds necessary to fulfill the local board's obligation to provide an instructional program, property, equipment, and salaries.**

RECOMMENDATION:

To ensure that money generated by students actually benefit the students and/or the school, the principal should ensure that vending commission revenue is properly recorded and disbursed. Staff development should never be paid from student activity funds.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

The director of schools and members of the board of education concur with this finding. The following procedures are currently in place and will be enforced:

- Staff development expenses and other expenditures which benefit the staff are to be paid only from Central Office funds or funds collected from the teachers. The importance of this procedure will be reemphasized through additional training.

The following procedures will be implemented as of July 1, 2006:

- Student accessible vending machines commissions will no longer be recorded in the teachers' lounge account. Only commissions from the teachers' lounge vending machine and any money donated by the teachers will be placed in the teachers' lounge account. All other vending machine commissions will be recorded in the appropriate account to benefit the students.

Principal:

Response is the same as that of the director of schools and members of the board of education.

Bookkeeper:

Response is the same as that of the director of schools and members of the board of education.

10. **FINDING:** **Former bookkeeper failed to submit for board approval accounts payable totaling over \$26,000**

Of the \$26,589.75 accounts payable owed by the school as of June 30, 2004, only \$251.97 was submitted by the former bookkeeper to the Sumner County Board of Education for approval. Therefore, unapproved accounts payable totaled over \$26,000 at June 30, 2004. The *Internal School Uniform Accounting Policy Manual*, page 5-16, states, "The local board must approve accounts payable that will not be liquidated during the current fiscal year."

RECOMMENDATION:

To ensure that the board of education is aware of the amounts owed by the school, the principal should obtain board approval for the school's accounts payable at year end.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

The director of schools and members of the board of education concur with this finding. The following procedures are currently in place and will be enforced:

- All accounts payable at year end are required to be submitted to the board for approval. The importance of this procedure will be reemphasized through additional training.

Principal:

Response is the same as that of the director of schools and members of the board of education.

Bookkeeper:

Response is the same as that of the director of schools and members of the board of education.

11. **FINDING: Supplemental compensation and taxable gifts paid directly to employees**

The school employee responsible for basketball concession operations told auditors that with the approval of management, she received cash payments directly from basketball concession collections. In addition, we noted student activity money was used to purchase expensive watches, various other jewelry and gifts, meals, etc., for school personnel. The *Internal School Uniform Accounting Policy Manual*, page 5-22, states:

Any supplemental compensation owed to board of education employees for extracurricular activities must be processed through the director of school's office in the same manner as salary and other payroll payments. Board of education employees may not be compensated directly by individual schools from internal school funds.

RECOMMENDATION:

To comply with the requirements of the *Internal School Uniform Accounting Policy Manual*, all supplemental pay and taxable "gifts" to board employees should be processed through the board of education.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

The director of schools and members of the board of education concur with this finding. The following procedures are currently in place and will be enforced:

- All money collected is required to be remitted to the bookkeeper for deposit. Any payments to concession operators are required to be made through the Central Office and not from funds collected. The importance of this procedure will be reemphasized through additional training.
- All gifts paid to employees are required to be paid through the Central Office and may not be paid from school activity funds. The importance of this procedure will be reemphasized through additional training.

Principal:

Response is the same as that of the director of schools and members of the board of education.

Bookkeeper:

Response is the same as that of the director of schools and members of the board of education.

12. **FINDING: Inadequate documentation to determine restricted grants and donations benefited intended recipients**

The school failed to maintain adequate records to document that restricted grants and donations were used as provided by the donor. Our investigative audit revealed that the school received several grants and donations, including a grant from the local chamber of commerce to purchase calculators. School records were inadequate to readily determine if all related calculators were purchased or if other donations were spent in accordance with required specifications.

The *Internal School Uniform Accounting Policy Manual*, page 4-31, states:

Legally restricted donations or allocations to individual schools must be used in accordance with the stipulations placed on their use by the contributor.... The school must prepare a form prior to the end of each school year for each source of legally restricted donations or allocations. The donation/allocation summary report must include: amount donated or allocated; source and purpose; date received; and detailed list of all related disbursements.

RECOMMENDATION:

To comply with the requirements of the *Internal School Uniform Accounting Policy Manual*, the principal should ensure that all restricted grants and donations are used as stipulated by the donor and that applicable summary reports are prepared to document the use.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

The director of schools and members of the board of education concur with this finding. The following procedures are currently in place and will be enforced:

- Donation summary reports are required to be completed prior to the end of the school year for each restricted donation. This procedure will be reviewed during additional training.

The following procedures will be implemented as of July 1, 2006:

- An independent office employee will open all mail and document on a collection log receipts received by mail.
- A confirmation requesting amount of money donated to the school during the year will be sent at the end of each year by the internal auditor. These confirmations will be sent to all affiliated organizations such as PTOs, foundations, etc.

Principal:

Response is the same as that of the director of schools and members of the board of education.

Bookkeeper:

Response is the same as that of the director of schools and members of the board of education.

ADDITIONAL COMMENT

The investigative audit revealed that per the vendor contract, in January 2005, a bonus check totaling over \$7,500 related to the school's magazine sale fundraiser was paid directly to the Hendersonville High School Foundation, a nonprofit entity. Additionally, in the fall of 2003, football gold card fundraiser profits totaling over \$10,000 were deposited into the football booster club's bank account. Hendersonville High School's magazine sale and gold card fundraisers are student activities, and therefore, must be considered student activity funds. Section 49-2-110, *Tennessee Code Annotated*, provides that local boards of education may authorize schools under their jurisdiction to

[R]eceive funds for student activities, as hereinafter provided, and for events held at or in connection with the school, including contracts with other schools for interschool events and **funds derived from such sources, shall be the property of the respective schools** ... 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. (Emphasis added.)

School officials should ensure that all student activity fund collections are recorded in the school accounting records and deposited in the school bank account.

EXHIBITS

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Exhibit 1

HENDERSONVILLE HIGH SCHOOL School Collection Log

Baugh/Brown
Teacher's Name

Bookstore 310
Purpose

Student's Name	Date	Amount	Check # or blank for cash	Last Name on check (if different from student)
1 _____		_____	_____	
2 _____		_____	_____	
3		23-	958	Carvis
4 Christian Lawson	1-21	15-	1952	Hawberry
5 Shaina Finch		15-	3914	
6 Darnika Wood		15-	1354	Wilson
7 Michelle Mast		8-	1438	Mast
8 Abbya Shackelford		23-	4663	
9 Lauren Smith		15-	8900	
10 April Lindley		15-	1079	
11 Cory Pinston		8-	150	
12				
1 _____				
2 _____				
3				
18				
19	When viewed under magnification, \$783 "cash" appears to have been changed to \$583. Later, both "cash"			
20	and "change" were marked out altogether. Original listing appears to have been \$783 cash; \$3 change; and			
21	\$137 total itemized checks.			
22				
23				
24				
25				
		TOTAL	\$137-	

Bookkeeper Initials W
 Receipt Date 1-21-08
 Receipt Total 137.00
 Receipt # 2944

Exhibit 2

Stu. Council

HENDERSONVILLE HIGH SCHOOL

School Collection Log

Rogers
Teacher's Name

Matchmaker
Purpose

	Student's Name	Date	Amount	Check # or blank for cash	Last Name on check (if different from student)
1	change	3-7	\$95.70		
2	cash		\$200.00		
3	Noon Sertoma		\$1000.00	1864	
4			1295.70		
5					
6					\$200.00
7					
8					
9					
10					
11	Original cash entry appears to have been 1,200.00, with the "1" changed to "\$".				
12	Examination procedures revealed that the \$1,000 "Noon Sertoma" check was				
13	completely unrelated. It was unreceipted, apparently used to replace \$1,000 cash that				
14	was withheld from deposit to the school's bank account.				
15					
16					
17					
18					
19					
20					
21					
22					
23					
24					
25					

TOTAL

Bookkeeper Initials W
 Receipt Date 3-7-05
 Receipt Total 1295.70
 Receipt # 3099

Exhibit 3

HENDERSONVILLE HIGH SCHOOL

School Collection Log

J. Shrum
Teacher's Name

Agriculture
Purpose

	Student's Name	Date	Amount	Check # or blank for cash	Last Name on check (if different from student)
1	Sidney Schatten	Nov 8	\$5 ⁰⁰	2156	
2	Katie Poole	Nov 8	\$30 ⁰⁰	4959	
3	Antoinette Zpost	Nov 8	\$30 ⁰⁰	1879	
4	Steven Cox	Nov 8	\$40 ⁰⁰	5453	
5	David Williams	Nov 8	\$40 ⁰⁰	2793	
6	Tom Rouse ^(SAVANNAH)	Nov 8	\$30 ⁰⁰	4386	\$40 ⁰⁰
7	Kathleen Kain	Nov 8	\$30 ⁰⁰	9004	
8	Rajb Jagan	Nov 8	\$30 ⁰⁰	1279	\$40 ⁰⁰
9	In FFA Foundation	Nov 8	500 ⁰⁰	2041	
10	In FFA Foundation	Nov 8	500 ⁰⁰	2036	
11					
12	Two entries were apparently originally 140. In both cases, it appears that the 1 was				
13	replaced by a "\$", the total was adjusted, and the remaining amount was not recorded to				
14	the school's records or deposited.				
15					
16					
17					
18					
19					
20					
21	1,335 ⁰⁰				
22					
23					
24					
25					

TOTAL 1,335⁰⁰

Bookkeeper Initials Ch
 Receipt Date 11-9-04
 Receipt Total 1335.⁰⁰
 Receipt # 2614

AUG-22-2005 05:00 PM CHAD BONE/JOSTENS

931 684 6718

P. 01

Exhibit 4-2

Fax Cover Sheet



Chad Bone
 P.O. Box 1787
 Shelbyville, TN 37162
 Phone (931) 684-6717
 Fax (931) 684-6718
 E-Mail bonec@jostens.com

Date: 8/22/05
 To: Renee Brison
 Company: _____
 Department/Subject: Hendersonville High School
 Number of Pages (including Cover): 1

Renee,
 This is the receipt from the cash given to
 the bookkeep at Hendersonville H.S.
 \$16 x 334 seniors = \$5344.00
 ✓ May, 2005

DATE	RECEIVED FROM	ACTIVITY NO.	FOR	CHECK	AMOUNT	RECD BY	REC. #
5-29	Chad Bone		graduation	✓	5344.00	R	

RECEIPT

THIS IS YOUR RECEIPT FOR THE PURPOSE SHOWN ABOVE.
 PLEASE KEEP FOR YOUR RECORDS

30226



HENDERSONVILLE HIGH SCHOOL

183 CHEROKEE ROAD
 HENDERSONVILLE, TENNESSEE 37075
 PHONE: 615-884-6188

Southern Accounting Systems, Inc.
 1999-2003 Model

Exhibit 5

Gulf Shores Trip Expense

Total Receipts	\$1841.79
Total Girls Money	<u>\$2210.00</u>
Total Cost	\$4051.79
Money Returned	\$948.21

This document was submitted by a coach with unspent travel money. Auditors located it in a wastebasket in the former bookkeeper's office.

Combit

Exhibit 6

Amount per ticket reconciliation changed from \$3,612 to \$2,489 and then to \$1,739. \$1,738 actually received and deposited by the former bookkeeper.

HHS SCHOOL

TICKET RECONCILIATION

DATE OF EVENT 2-4-05

EVENT HHS vs. BHS

CASH RECEIVED (change fund) 750.00 AMT. RETURNED TO CHANGE FUND 750.00

TICKETS STAPLED AT TOP.....

BEGINNING # <u>7002</u>	ENDING # _____	COLOR <u>tan</u>
BEGINNING # _____	ENDING # _____	COLOR _____
BEGINNING # <u>37752</u>	ENDING # _____	COLOR <u>red</u>
BEGINNING # _____	ENDING # _____	COLOR _____

TICKET COLOR	(A) # OF FIRST TICKET SOLD	(B) # OF LAST TICKET SOLD	(C) (+1) TO LAST TICKET SOLD	SUBTRACT COLUMN C minus COLUMN A	# TICKETS SOLD
<u>tan</u>	<u>7003</u>	<u>7430</u>	<u>(+1) =</u> _____	_____ - _____	<u>428</u>
_____	_____	_____	<u>(+1) =</u> _____	_____ - _____	_____
<u>red</u>	<u>37753</u>	<u>37778</u>	<u>(+1) =</u> <u>37779</u>	<u>37779</u> - <u>37753</u>	<u>26</u>
_____	_____	_____	<u>(+1) =</u> _____	_____ - _____	_____

PRICE PER TICKET \$ 4.00 x TOTAL # TICKETS SOLD 26 = \$ 1712 + 27 (amt. to be collected) 27

TOTAL RECEIPTS TO BE COLLECTED \$ _____ TOTAL RECEIPTS COLLECTED \$ 1738

OVERAGE _____ SHORTAGE _____

TICKET SELLER SIGNATURE

Mohr _____ NUMBER OF TICKETS SOLD _____
 _____ NUMBER OF TICKETS SOLD _____
 _____ NUMBER OF TICKETS SOLD _____
 _____ NUMBER OF TICKETS SOLD _____

\$ 1738

SIGNATURE OF PERSON RESPONSIBLE _____

PRINCIPAL [Signature]