

# INVESTIGATIVE AUDIT REPORT

JACKSON COUNTY MIDDLE SCHOOL  
JACKSON COUNTY SCHOOL SYSTEM  
JULY 1, 2004, THROUGH APRIL 13, 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

September 5, 2006

Director of Schools and Members  
of the Board of Education  
Jackson County School System  
711 School Street  
Gainesboro, TN 38562

Director of Schools and Board Members:

Presented herewith is the report on our investigative audit of selected records of the activity funds of the Jackson County Middle School, Jackson County School System. This investigative audit focused on the period July 1, 2004, through April 13, 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.

The investigative audit revealed that the school had missing and unaccounted for collections totaling at least \$20,222.88. School collection and bank records indicated that the former cashier failed to return to the school bank account a portion of the school money obtained for change for athletic events. In addition, auditors were unable to determine that some recorded school collections, including collections for yearbooks and field trips, were deposited into the school bank account. On January 30, 2006, former cashier Jeanette Smith admitted to auditors that she had taken school money without authorization. She stated that she used school money to purchase gas for her personal vehicle. She also stated that school money was used to purchase meals for her and for other employees. Mrs. Smith also assigned blame to other school employees for some theft and improper use of school money. On August 23, 2006, in a follow-up meeting with auditors and a special agent with the Tennessee Bureau of Investigation, Mrs. Smith amended her previous statement, claiming that she had borrowed small amounts of school money at various times during the last two or three years, but that she had paid it all back. Mrs. Smith

Director of Schools and Members  
of the Board of Education  
Jackson County School System  
September 5, 2006

estimated that the total amount she borrowed would have been only about \$100. Mrs. Smith admitted that she lied to auditors during the investigative audit about procedures and about accounting and recordkeeping issues. This matter has been referred to the local district attorney general.

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.

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

September 5, 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 the Jackson County Middle School, Jackson County School System. This investigative audit focused on the period July 1, 2004, through April 13, 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  
September 5, 2006

The investigative audit revealed that the school had missing and unaccounted for collections totaling at least \$20,222.88. School collection and bank records indicated that the former cashier failed to return to the school bank account a portion of the school money obtained for change for athletic events. In addition, auditors were unable to determine that some recorded school collections, including collections for yearbooks and field trips, were deposited into the school bank account. On January 30, 2006, former cashier Jeanette Smith admitted to auditors that she had taken school money without authorization. She stated that she used school money to purchase gas for her personal vehicle. She also stated that school money was used to purchase meals for her and for other employees. Mrs. Smith also assigned blame to other school employees for some theft and improper use of school money. On August 23, 2006, in a follow-up meeting with auditors and a special agent with the Tennessee Bureau of Investigation, Mrs. Smith amended her previous statement, claiming that she had borrowed small amounts of school money at various times during the last two or three years, but that she had paid it all back. Mrs. Smith estimated that the total amount she borrowed would have been only about \$100. Mrs. Smith admitted that she lied to auditors during the investigative audit about procedures and about accounting and recordkeeping issues. This matter has been referred to the local district attorney general.

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

1. Collection records incomplete and collection procedures inadequate
2. Prenumbered receipts not issued correctly and not given to teachers or other individuals remitting money
3. Inadequate accounting and procedures related to school money used for beginning change for athletic events
4. Inadequate controls over vending and concession operations
5. Inadequate control over admission to athletic events
6. Deposits not intact and not made within three banking days
7. Failure to obtain and maintain written fundraiser authorizations
8. No fundraiser profit analysis or summary reports
9. Supporting documentation not found for several disbursements

Mr. John G. Morgan  
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10. Supplemental compensation paid directly to employees
11. Personal purchases made using non-tax status, no documentation that school was reimbursed for personal purchases, and sales tax not remitted for resale items
12. Unauthorized year-end accounts payable

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.

Very truly yours,

A handwritten signature in black ink, appearing to read "Dennis F. Dycus", written over a light gray rectangular background.

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

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**INVESTIGATIVE AUDIT OF SELECTED RECORDS OF  
JACKSON COUNTY MIDDLE SCHOOL  
JACKSON COUNTY SCHOOL SYSTEM  
FOR THE PERIOD JULY 1, 2004, THROUGH APRIL 13, 2005**

**BACKGROUND INFORMATION**

In accordance with state law, the director of schools contacted the Division of Municipal Audit with information regarding apparent inadequate accounting and recordkeeping at Jackson County Middle School. As a result, this office began an investigative audit of the school on April 13, 2005.

Jackson County Middle School had both a cashier and a bookkeeper position. The cashier was responsible for collecting, counting and receipting money, preparing deposits, and delivering deposits to the bank. She was also a signatory on the school's bank account. The bookkeeper was responsible for maintaining the school's cash receipts and disbursements journal and other accounting records, and for preparing school checks. In December 2004, former bookkeeper Heather Young submitted her resignation. In January 2005, school cashier Jeanette Smith took over as the school bookkeeper, and another school employee, Suzy Stewart, became school cashier. Both Jeanette Smith and Suzy Stewart agreed that Jeanette Smith remained involved in the collection process through March 2005. On April 4, 2005, former principal Angelia Smith left the school on medical leave. Gail Myers took over as principal of the school on April 6, 2005. Jeanette Smith resigned as bookkeeper on April 8, 2005. As noted above, the investigative audit began on April 13, 2005. Suzy Stewart submitted her resignation on November 15, 2005.

Unless otherwise specified in the report, "former cashier" refers to Jeanette Smith, and "former principal" refers to Angelia Smith. Other references will be made by individual name and position. The current principal, bookkeeper, and cashier have been asked to respond to the findings presented in the Findings and Recommendations section of this report.

**LEGAL ISSUE**

1. **ISSUE:**        **Unaccounted for school money totaling at least \$20,222.88**

The investigative audit revealed that the school had missing and unaccounted for collections totaling at least \$20,222.88. School collection and bank records indicated that the former cashier failed to return to the school bank account a portion of the school money obtained for change for athletic events. In addition, auditors were unable to

determine that some recorded school collections, including collections for yearbooks and field trips, were deposited into the school bank account. The school also had unexplained shortages in expected collections from vending and concession operations and the fall fundraiser. Lastly, gate collections from an August 27, 2004, volleyball game were missing. Auditors examined selected school records for the period July 1, 2004, through April 13, 2005. We also analyzed vending and concession operations for the period July 1, 2003, through June 30, 2004, which revealed a loss of \$926.41, even though a significant quantity of soft drinks were donated to the school for resale.

According to school personnel, the school cashier was ultimately responsible for receiving and receipting school collections, preparing deposits, and delivering deposits to the bank. The school cashier was also a signatory for checks drawn on the school bank account.

On January 30, 2006, former cashier Jeanette Smith admitted to auditors that she had taken school money without authorization. She stated that she used school money to purchase gas for her personal vehicle. She also stated that school money was used to purchase meals for her and for other employees. Mrs. Smith also assigned blame to other school employees for some theft and improper use of school money. On August 23, 2006, in a follow-up meeting with auditors and a special agent with the Tennessee Bureau of Investigation, Mrs. Smith amended her previous statement, claiming that she had borrowed small amounts of school money at various times for two or three years, but that she had paid it all back. Mrs. Smith estimated that the total amount she borrowed would have been only about \$100. Mrs. Smith admitted that she lied to auditors during the investigative audit about procedures and about accounting and recordkeeping issues. This matter has been referred to the local district attorney general.

Our investigative audit revealed the following shortages for the period examined:

Activity	Period		Total
	July 1, 2003 through June 30, 2004	July 1, 2004, through April 13, 2005	
Vending & Concessions <sup>1</sup>	<u>\$9,166.79</u>	\$7,354.08	\$16,520.87
Athletic Event Change Fund		1,430.00	1,430.00
School Fundraiser <sup>2</sup>		1,522.01	1,522.01
Yearbook		318.00	318.00
Field Trip		280.00	280.00
Missing Volleyball Game <sup>3</sup>		<u>152.00</u>	<u>152.00</u>
Total Apparent Misappropriations	<u>\$9,166.79</u>	<u>\$11,056.09</u>	<u>\$20,222.88</u>

<sup>1</sup> Analysis based on 30% expected profit margin. Current school year (July 1, 2005, through January 31, 2006) profit margin is approximately 42%.

<sup>2</sup> Shortage in expected collections. Based on vendor invoice after adjustments for returned merchandise.

<sup>3</sup> No collections were recorded or deposited to the school's bank account. \$152 was the average amount recorded for all other games during the same season.

## **FINDINGS AND RECOMMENDATIONS**

1. **FINDING:**    **Collection records incomplete and collection procedures inadequate**

School personnel did not always use collection logs or prenumbered receipts to record collections from students, as required by the *Internal School Uniform Accounting Policy Manual*. In fact, some teachers stated that the former cashier told them that maintaining this documentation was unnecessary. Although some teacher collection logs were included in school records, we were unable to locate detailed collection documentation for many school activities, including some field trips and fundraisers. Because teachers and others did not always receive prenumbered receipts for all money remitted to the school cashier (as noted in the next finding), school personnel did not have complete records of amounts collected and turned over to the former cashier. 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, and 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.

Page 1-4 of the manual also requires, “Each school must maintain adequate records and follow acceptable procedures to properly account for all internal school funds.”

**RECOMMENDATION:**

To adequately document all collections, teachers/others who collect and handle money at the school should record all collections on collection records prescribed by the principal. If collection logs are used, the collection logs should specify the teacher’s name, the name of each student paying, the amount collected from each student, the date of the collection, and the purpose of the collection. For an activity in which the whole class participates, such as a field trip, the collection log should list the names of all students in

the class. The teacher should note beside each student's name the amount paid or the reason for nonpayment, such as being eligible for fee waiver. Teachers should correctly total each log before turning them over to the cashier with the collections.

Teachers should retain a copy of each of their collection logs (initialed by the cashier) along with the respective receipt issued by the cashier. The teachers' unaltered collection logs should be turned over to the bookkeeper and maintained in the school office for audit purposes. The principal should ensure that school personnel are held accountable for preparing and retaining correct and complete records of collections.

**MANAGEMENT'S RESPONSE:**

**Director of Schools and Members of the Board of Education:**

We concur with the finding and will/have set forth procedures to implement recommendations of the Comptroller's Office.

**Principal:**

I concur with this finding. Teachers who collect money use a collection log or count of collection form from the *Internal School Uniform Accounting Policy Manual* for each separate activity. Collections are remitted to the cashier as collected. The log documents the name of the school, the purpose of the collection, the name of the teacher, the payers, date(s) of collection, and total. The cashier counts the money and issues a prenumbered receipt to the teacher/other. A copy of the log remains with the cashier and a copy of the receipt is stapled to the log and returned to the teacher. Cashier will also document the receipt number on the log itself and initial. At the end of the school year, both the teachers' logs and the cashiers' will be given to the bookkeeper for year-end reconciliation.

**Bookkeeper:**

Response is the same as that of the principal.

**Cashier:**

Response is the same as that of the principal.

2. **FINDING: Prenumbered receipts not issued correctly and not given to teachers or other individuals remitting money**

School personnel stated that they did not always receive a prenumbered receipt when they remitted money to the former cashier. Our examination of school records indicated that the former cashier issued most receipts in the name of a revenue source, such as

“concessions” or “basketball gate,” instead of issuing the receipt in the name of and giving a copy to the person who actually remitted the money. As noted in the Legal Issue, over \$20,000 of school collections could not be accounted for. Because of the following factors, the school did not have adequate records to document that all collections were recorded in the school accounting records and deposited into a school bank account:

- The former principal failed to ensure that school personnel prepared and retained correct and complete records of collections (as noted in Finding 1);
- Some collections were not counted before being turned over to the former cashier (as noted in Findings 4 and 5); and
- The former cashier did not always give copies of prenumbered receipts to individuals who remitted money to her.

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.” Page 5-8 (e), states:

The receipt must identify the payer, the amount remitted, and date. If the receipt itself does not identify the purpose(s) of the collection and corresponding amount(s), other supporting documentation must be attached to permit the bookkeeper to record the transaction.

**RECOMMENDATION:**

To provide adequate documentation that all school collections have been recorded and deposited, the cashier 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 the receipts received from the cashier agree with the amounts remitted. Any discrepancies should be documented and resolved.

**MANAGEMENT’S RESPONSE:**

**Director of Schools and Members of the Board of Education:**

We concur with the finding and will work with the principals and bookkeepers to see that they are following the *Internal School Uniform Accounting Policy Manual* and the recommendations made by the State Comptroller’s Office.

**Principal:**

I concur with this finding. Receipts are being issued which identify the payer, the amount remitted, and date. A description is also included so that the bookkeeper will know how to assign to the appropriate account. Additional documentation is attached when

available. A copy of the receipt is provided to the school personnel who remitted the money and a copy is secured by the cashier. A third copy of the receipt is given to the bookkeeper. Any discrepancies are documented and resolved immediately.

**Bookkeeper:**

Response is the same as that of the principal.

**Cashier:**

Response is the same as that of the principal.

3. **FINDING: Inadequate accounting and procedures related to school money used for beginning change for athletic events**

Our investigative audit revealed that the school did not follow required procedures for handling beginning change obtained for athletic events. School checks written to establish change funds were payable to “Jackson County Middle School” instead of to the individual responsible for the change. In addition, for change amounts that were redeposited, the former cashier failed to make the proper notation of “Redeposit” on the related deposit slip.

Although school records indicated the former cashier redeposited into the school bank account some amounts obtained for change, we were unable to account for over \$1,430 of change obtained for school athletic events, as noted in the Legal Issue. The former cashier, Jeanette Smith, indicated she was responsible for ensuring that change was redeposited. School records indicated that of \$3,400 obtained for change between August 12, 2004, and February 4, 2005, only \$1,970 was redeposited into the school bank account. In a meeting on January 30, 2006, the former cashier was unable to provide an explanation for the unaccounted for \$1,430. On August 23, 2006, the former cashier stated that she may have included the change in the collection gate totals. However, school records indicated that at least one check for change was purportedly for a game that was not played at Jackson County Middle School, so no related collections were deposited. Also, removing change amounts from collection totals would indicate abnormally low attendance, i.e., 40 to 50 paid attendees at related football games.

The *Internal School Uniform Accounting Policy Manual*, page 5-7 states:

When additional money is needed for the purpose of providing change for events, a check should be written to the individual responsible for the change.... The exact amount of the change should be redeposited as soon as feasible and the deposit slip marked “Redeposit.”

**RECOMMENDATION:**

To establish adequate accountability over school money used to provide beginning change for events, school checks for beginning change should be issued to the individual responsible for the change. The exact amount of the change should be redeposited as soon as possible and the deposit slip marked "Redeposit."

**MANAGEMENT'S RESPONSE:**

**Director of Schools and Members of the Board of Education:**

We concur with the finding and will work with the principals and bookkeepers to see that they are following the *Internal School Uniform Accounting Policy Manual* and the recommendations made by the State Comptroller's Office.

**Principal:**

I concur with this finding. School checks for beginning change for events will be issued to the individual responsible for the change. The change will be adequately safeguarded until the time it is redeposited. The deposit slip will be marked "Redeposit."

**Bookkeeper:**

Response is the same as that of the principal.

**Cashier:**

Response is the same as that of the principal.

4. **FINDING: Inadequate controls over vending and concession operations**

The former principal did not require school personnel to adequately account for vending and concession operations. Although the school received a commission on full-service vending machines, the former cashier stated that she collected the money in the Lance vending machines. In addition, former employee Suzy Stewart operated a daily in-school concession stand. The school was responsible for athletic concession operations.

Ms. Stewart and other school employees who worked concession stands stated that they did not count collections prior to remitting them to the former cashier for deposit into the school bank account. Our investigative audit revealed that concession collections related to soccer and volleyball games were held by the respective coaches for the duration of the corresponding athletic season. Further, school receipts were issued to "concessions," rather than to the individual who actually remitted the money.

The former cashier did not separately document vending machine and concession collections. Instead, she combined them on the same receipts. In addition, school files did not contain documentation of concession products that the former principal and former cashier stated were given to student football players and provided as student rewards. We also noted that a significant portion of a \$2,000 donation received from the church attended by both the former principal and former cashier was inappropriately recorded in the school accounting records as concession collections.

Because the former principal failed to require separate accounting for vending machine and concession collections, it was impossible to perform individual profit analyses for comparison with expected amounts. As detailed in the Legal Issue, our consolidated analysis of vending and concession sales during the 2003-2004 school year showed a shortage in expected collections (using a conservative expected profit margin of 30 percent) of over \$9,100. Our analysis of vending/concession sales from July 1, 2004, through April 13, 2005, (using the same conservative 30 percent expected profit margin) indicated a shortage in expected collections of over \$7,300. In comparison, an analysis of school concession operations from July 1, 2005, through January 31, 2006, revealed approximately a 42 percent profit margin.

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 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.

Page 5-6 also states:

Some activities, such as bake sales, car washes and concessions, preclude remitting money to the cashier directly following the close of an event and do not lend themselves to the use of a collection log or prenumbered receipt. The collection record for these activities may consist of only a recorded count signed by two responsible individuals at the close of the activity. The form used for the recorded count should include the date, purpose and amount of collection. In addition, the form should include a statement that

‘the money collected for this fundraiser was counted by the parties who have signed below’ followed by the signatures of two responsible persons. One of the responsible persons will retain the original recorded count and a duplicate or copy should accompany the money. The cashier should issue the official receipt to one of the persons signing the recorded count.

**RECOMMENDATION:**

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

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

**MANAGEMENT’S RESPONSE:**

**Director of Schools and Members of the Board of Education:**

We concur with the finding and will work with the principals and bookkeepers to see that they are following the *Internal School Uniform Accounting Policy Manual* and the recommendations made by the State Comptroller’s Office.

**Principal:**

I concur with this finding. All collections for vending machines and concessions are separately documented and recorded. Adequate records are being kept of all concessions and vending items purchased, received, sold, given away, and in inventory. All inventories are safeguarded and collections are being counted and recorded before being turned over for deposit to the cashier. Monthly vending and concession profit analysis are being completed by the bookkeeper.

**Bookkeeper:**

Response is the same as that of the principal.

**Cashier:**

Response is the same as that of the principal.

5. **FINDING: Inadequate control over admission to athletic events**

The former principal failed to ensure that adequate procedures were followed regarding admissions to athletic events. Several school employees who worked athletic gates stated they did not use prenumbered tickets, and did not count and reconcile gate collections before turning them over to the former principal. Although the former cashier and former principal initially told auditors that the former bookkeeper, Heather Young, prepared ticket reconciliations for football games, these reconciliations were not located. (It should be noted that the former cashier, the former bookkeeper, and another school employee collected admissions at football games. The other school employee insisted that the former cashier and former bookkeeper never provided tickets to distribute.) In a follow-up interview, the former cashier stated that she had lied to auditors about the ticket reconciliations because the former principal asked her to. Also, Ms. Young, the former bookkeeper, admitted that at the former principal's request, she made up football game ticket reconciliations at the end of the school year.

The investigative audit also revealed that the former cashier issued related receipts to "football gate" or "basketball gate," rather than to the individual who collected the money. Also, at least one gate worker stated that she was paid in cash from collections. (Refer to related Finding 10.) Because adequate procedures were not followed, we were unable to determine that all collections for school athletic events were recorded in the school accounting records and deposited into a school bank account. *The Internal School Uniform Accounting Policy Manual*, pages 5-5 and 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 that all school collections are properly accounted for, the principal should establish adequate procedures related to admissions to events as set forth in the *Internal School Uniform Accounting Policy Manual* and ensure that school personnel follow these procedures. To provide adequate control, when prenumbered tickets are used to account for admissions, individuals purchasing tickets should be required to present the ticket at a location separate from the point of sales.

**MANAGEMENT'S RESPONSE:**

**Director of Schools and Members of the Board of Education:**

We concur with the finding and will work with the principals and bookkeepers to see that they are following the *Internal School Uniform Accounting Policy Manual* and the recommendations made by the State Comptroller's Office.

**Principal:**

I concur with this finding. To ensure that all school collections are properly accounted for, a Count of Collections form will be used for each event in which admission will be charged. This form will require the name of the school, event, date, starting change, amount collected, and the amount turned in. Two signatures are required documenting that the money has been counted and is correct. A receipt will be issued by the cashier to one of these signers and a copy of the Count of Collections will also be given them. Additionally, a copy of the form and the receipt will be given to the bookkeeper for her records.

**Bookkeeper:**

Response is the same as that of the principal.

**Cashier:**

Response is the same as that of the principal.

6. **FINDING:**    **Deposits not intact and not made within three banking days**

The former principal did not ensure that school collections were deposited intact into a school bank account within three banking days after initially being received by school personnel. School records indicated that some yearbook, volleyball, soccer, and field trip collections were held for several weeks and even several months before being deposited into the school bank account. School records also revealed that in at least two instances, the former cashier used school collections to cash payroll checks issued to her spouse.

The *Internal School Uniform Accounting Policy Manual*, page 4-17 states:

Student activity and other internal school fund money must be deposited intact (in the form and amount in which collected) in banks within three banking days after the money is received. When possible, school money should be deposited daily.

Page 4-34 of the manual also 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....

**RECOMMENDATION:**

To safeguard funds, school personnel should deliver all collections to the cashier at least daily. The principal should ensure that the cashier complies with state law and deposits all school collections intact within three days of initial collection. In addition, to avoid risk of loss of school funds, the principal should prohibit school personnel from using school collections to cash personal or third-party checks.

**MANAGEMENT'S RESPONSE:**

**Director of Schools and Members of Board of Education:**

We concur with the finding and will/have set forth procedures to implement recommendations of the Comptroller's Office.

**Principal:**

I concur with this finding. Money collected and receipted by the cashier will be deposited within three working days and daily when possible. No third-party checks will be cashed.

**Bookkeeper:**

Response is the same as that of the principal.

**Cashier:**

Response is the same as that of the principal.

7. **FINDING:**    **Failure to obtain and maintain written fundraiser authorizations**

Although school records revealed that the school conducted several resale and fundraising activities, the school's files did not include written approval from the director of schools and/or former principal for these activities. The *Internal School Uniform Accounting Manual*, page 4-26, states:

The principal must obtain written approval from the director of schools or designee for all fundraising activities that involve the participation of the general student population in the marketing process of the fundraising effort. All other fundraising activities must have written approval from the principal. Authorizations should include the following information:

1. a list of the proposed fundraising activities;
2. purpose of the fundraising activity;
3. proposed uses of funds raised;
4. expected student involvement in fundraising activity (school-wide or individual class or club).

**RECOMMENDATION:**

The principal should ensure approval is obtained from the director of schools for all fundraising activities that involve participation of the general student population in the marketing process of the fundraising effort. The principal should approve all other fundraisers and resale activities not intended to generate a profit, unless otherwise provided by board policies. Written authorization for all fundraisers and resale activities should be maintained in the school files.

**MANAGEMENT'S RESPONSE:**

**Director of Schools and Members of the Board of Education:**

We concur with the finding and will work with the principals and bookkeepers to see that they are following the *Internal School Uniform Accounting Policy Manual* and the

recommendations made by the State Comptroller's Office and follow local school board policy.

**Principal:**

I concur with this finding and will following the recommended procedures as stated in the *Internal School Uniform Accounting Policy Manual*.

**Bookkeeper:**

Response is the same as that of the principal.

8. **FINDING:** No fundraiser profit analysis or summary reports

The former principal failed to require school personnel to prepare and maintain profit analysis reports for resale activities and fundraiser summary reports for applicable fundraising activities. Because profit analyses were not performed, the former principal stated that she was not aware of the discrepancies noted in the Legal Issue between expected collections and the amounts receipted and deposited by the former cashier. In addition, because fundraiser summary reports were not prepared, the school had no documented summation verifying that fundraiser profits were spent for the designated purposes for which they were raised. 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 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.

**RECOMMENDATION:**

The principal should require that sponsors keep adequate records of all fundraiser transactions, including collection logs. For each resale activity, the principal should require the account sponsor or other designee to prepare an accurate profit analysis. Discrepancies in expected profits should be immediately reported to the principal and evaluated, and the reason for the shortage identified and corrected. For applicable fundraisers, the principal should require a responsible individual to prepare a fundraiser summary report showing how the profit was used. An independent person should verify the information contained in these reports, including the amount of collections reported. A designated school official should review all reports and take the necessary steps to ensure deficiencies in resale/fundraiser operations are eliminated.

**MANAGEMENT'S RESPONSE:**

**Director of Schools and Members of the Board of Education:**

We concur with the finding and will/have set forth procedures to implement recommendations of the Comptroller's Office.

**Principal:**

I concur with this finding. Profit analysis and summary reports are being completed for each fundraiser. The principal will be responsible for reviewing all reports.

**Bookkeeper:**

Response is the same as that of the principal.

9. **FINDING:**    **Supporting documentation not found for several disbursements**

The school's files did not contain adequate supporting documentation for several disbursements. For some disbursements, the files contained no documentation whatsoever, or contained only periodic statements from vendors. The *Internal School Uniform Accounting Policy Manual*, page 5-14, states:

**The bookkeeper should require and obtain adequate supporting documentation before disbursing any school money.** Periodic statements from vendors and copies of invoices are not adequate documentation to support disbursements. If a copy of an invoice must be used rather than the original, the bookkeeper should include a written explanation on the invoice stating the reason.

**RECOMMENDATION:**

To document that each disbursement is for a valid school purpose, the principal should ensure that adequate documentation is required, obtained, and kept in the school's files. Before signing a check, authorized individuals should require that adequate supporting documentation is on hand to determine that the disbursement is for a valid school purpose.

**MANAGEMENT'S RESPONSE:**

**Director of Schools and Members of the Board of Education:**

We concur with the finding and will work with the principals and bookkeepers to see that they are following the *Internal School Uniform Accounting Policy Manual* and the recommendations made by the State Comptroller's Office.

**Principal:**

I concur with this finding. A weekly aging report is given to the principal who authorizes the payment of invoices listed. Each invoice is stamped paid with the check number and date it was written listed on the invoice. These are presented to the principal as documentation of valid school disbursement upon presentation for signature.

**Bookkeeper:**

Response is the same as that of the principal.

10. **FINDING:** Supplemental compensation paid directly to employees

Several school employees were compensated directly from school activity funds for work at the school's athletic gates. The former principal admitted that one employee who worked athletic event gates was paid by a school check issued in the name of the employee's son. Another gate worker stated that she was paid in cash directly from admission collections. 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:**

Each school should submit to the board of education on a regular basis, a payroll record for each individual who is to receive a salary supplement. The payroll record should be signed by the employee and include the date, type of work performed, and the pay rate. The board of education should include the salary supplement in the employee's regular paycheck or in a supplemental paycheck.

**MANAGEMENT'S RESPONSE:**

**Director of Schools and Members of the Board of Education:**

We concur with the finding and will work with the principals and bookkeepers to see that they are following the *Internal School Uniform Accounting Policy Manual* and the recommendations made by the State Comptroller's Office.

**Principal:**

I concur with this finding. No cash/check will be directly paid to any employee for goods or services rendered. Gate and concession workers will be strictly on a volunteer basis.

**Bookkeeper:**

Response is the same as that of the principal.

11. **FINDING:** **Personal purchases made using non-tax status, no documentation that school was reimbursed for personal purchases, and sales tax not remitted for resale items**

The school circumvented state sales tax provisions by allowing employees to make personal purchases through the school. We noted several purchases of cheesecake and weight loss supplements that the former cashier and former principal stated were ordered by and for the personal use of various school employees. For the period July 1, 2004, through April 13, 2005, school money totaling \$115.25 was used to purchase weight loss supplements. For the same period, the school paid \$1,061.78 for cheesecake. School personnel stated that some of the cheesecake was used in athletic tournament hospitality rooms. School records contained no documentation that the school received reimbursement for any of the personal purchases. The former cashier stated that the school received reimbursement for at least some personal purchases of cheesecake. The responsible employee stated that she included reimbursements to the school for the weight loss supplements with concession collections. However, we found no documentation of any reimbursements in the school records.

Our investigative audit also revealed that 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 at cost. Sales tax was not paid to the vendor for concession items purchased by the school for resale.

Section 67-1-804 (c), *Tennessee Code Annotated*, states:

- (1) When any person fails to report and pay the total amount of taxes determined to be due by the commissioner, if such failure is determined by the commissioner to be due to fraud, there shall be imposed against the taxpayer a penalty in the amount of one hundred percent (100%) of the underpayment.
- (2) For the purpose of this section, “fraud” includes any deceitful practice or willful device resorted to with intent to evade the tax.

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 upon the purchase price of the item.

**RECOMMENDATION:**

To avoid possible penalties, the principal should prohibit school employees from making personal purchases through the school. We recommend the school attempt to recover any money owed for these personal purchases. Also, 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 with the finding and will/have set forth procedures to implement recommendations of the Comptroller’s Office. It will be our school procedure that “no” personal purchase be made through this public entity.

**Principal:**

I concur with this finding. Personal purchases by school employees are currently prohibited by the school. Policy concerning sales tax as stated in the *Internal School Uniform Accounting Policy Manual* will be adhered to.

**Bookkeeper:**

Response is the same as that of the principal.

12. **FINDING: Unauthorized year-end accounts payable**

The former principal failed to obtain approval from the board of education or the board's designee for year-end accounts payable and the subsequent related expenditure. During the 2004-05 school year, the school paid at least \$3,400 related to the prior school year's yearbook account, and \$800 related to prior year athletic purchases. 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 the board of education is aware of the school's financial circumstances, the principal should submit a list and obtain board approval for outstanding invoices at year end, and for the subsequent related disbursements.

**MANAGEMENT'S RESPONSE:**

**Director of Schools and Members of the Board of Education:**

We concur with the finding and will work with the principals and bookkeepers to see that they are following the *Internal School Uniform Accounting Policy Manual* and the recommendations made by the State Comptroller's Office.

**Principal:**

If outstanding accounts payable exist at year end, Jackson County Middle School will obtain approval to carry over these debts into the next year's budget from the board of education prior to the end of the fiscal year.

**Bookkeeper:**

Response is the same as that of the principal.

**Additional Response of Principal, Bookkeeper and Cashier to All Findings:**

We concur with all findings and are making every effort to follow the policy set forth in the *Internal School Uniform Accounting Policy Manual*. Further we agree to work under the direction of our director of schools and local board of education to ensure that all school funds are handled properly.