

INVESTIGATIVE AUDIT REPORT

**JEFFERSON COUNTY HIGH SCHOOL
JEFFERSON COUNTY SCHOOL SYSTEM
JULY 1, 2006, THROUGH MAY 31, 2007**



State of Tennessee



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



STATE OF TENNESSEE

John G. Morgan
Comptroller

COMPTROLLER OF THE TREASURY

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-0260

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October 24, 2008

Director of Schools and Members of the
Board of Education
Jefferson County School System
1221 Gay Street
Dandridge TN 37725

Director of Schools and Board Members:

Presented herewith is the report on our investigative audit of selected records of the chorus department of the Jefferson County High School, Jefferson County School System. This investigative audit was conducted in conjunction with the Tennessee Bureau of Investigation, and focused on the period July 1, 2006, through May 31, 2007. 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 a former parent volunteer in the chorus department apparently misappropriated at least \$1,750 of school money by requesting and obtaining a school check which she used for her personal benefit. The audit also revealed that the parent volunteer apparently falsified at least one school receipt to indicate she paid for airfare related to a school trip, even though she never remitted this payment to the school bookkeeper or other officials. Finally, the chorus director allowed the parent volunteer almost total control over collection activities in the chorus department. The investigative audit revealed that at least \$11,900 in expected collections for a chorus trip and for related fundraisers could not be accounted for.

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

Director of Schools and Members of the
Board of Education
Jefferson County School System
October 24, 2008

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.

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

October 24, 2008

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 other internal funds of schools, we have completed our investigative audit of selected records of the chorus department of the Jefferson County High School, Jefferson County School system. This investigative audit was conducted in conjunction with the Tennessee Bureau of Investigation and focused on the period July 1, 2006, through May 31, 2007. However, this scope was expanded if warranted.

Section 49-2-110, *Tennessee Code Annotated*, provides for student activity and other internal funds and establishes responsibility for those funds. The board of education is responsible for providing reasonable regulations, standards and procedures, and adopting an activity fund accounting manual. The director of schools is responsible for ensuring that laws and rules of the state and of the board of education are faithfully executed. The principal's responsibilities include accounting for the safekeeping and handling of money collected for and raised by student activities and school services and events. Prior to July 1, 2008, state law specifically excluded 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.

The investigative audit revealed that a former parent volunteer in the chorus department apparently misappropriated at least \$1,750 of school money by requesting and obtaining a school check which she used for her personal benefit. The audit also revealed that the parent volunteer

Mr. John G. Morgan
Comptroller of the Treasury
October 24, 2008

apparently falsified at least one school receipt to indicate she paid for airfare related to a school trip, even though she never remitted this payment to the school bookkeeper or other officials. Finally, the chorus director allowed the parent volunteer almost total control over collection activities in the chorus department. The investigative audit revealed that at least \$11,900 in expected collections for a chorus trip and for related fundraisers could not be accounted for.

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

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

1. Missing records and inadequate and improper procedures related to fundraisers and other collections
2. Failure to ensure that all recorded chorus collections were turned over intact for deposit into the school bank account
3. Failure to prepare profit analyses and fundraiser summary reports, and to maintain adequate documentation for fundraising and other resale activities
4. Supporting documentation not filed for several disbursements
5. Detailed information not included on deposit slips
6. Sales tax not remitted for applicable purchases
7. Inadequate separation of duties

If after reviewing the report you should have any questions, I will be happy to provide any additional information which you may request.

Sincerely,



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

**INVESTIGATIVE AUDIT OF SELECTED RECORDS OF
JEFFERSON COUNTY HIGH SCHOOL
JEFFERSON COUNTY SCHOOL SYSTEM
FOR THE PERIOD JULY 1, 2006, THROUGH MAY 31, 2007**

LEGAL ISSUES

1. **ISSUE: Apparent misappropriation of \$1,750**

Jefferson County High School officials became concerned about transactions in the chorus department after a school check that supposedly had been destroyed cleared the bank, resulting in a deficit balance. Information was referred to the Division of Municipal Audit. Our subsequent investigative audit, conducted in conjunction with the Tennessee Bureau of Investigation, revealed that for the period July 1, 2006, through May 31, 2007, at least \$1,750 was apparently misappropriated from the Jefferson County High School by Tara Smallin, a former parent volunteer in the chorus department.

Ms. Smallin perpetrated the apparent misappropriation by requesting and obtaining a school check dated January 18, 2007, purportedly to pay a deposit for charter buses related to a planned chorus trip. However, according to the vendor payee, Ms. Smallin used the school check to pay a deposit and rent on a trailer for Ms. Smallin.

2. **ISSUE: Destruction of and falsifying governmental records**

The investigative audit revealed that former parent volunteer, Tara Smallin, apparently falsified at least one prenumbered receipt in a chorus receipt book to indicate she made a payment for airline tickets, when in actuality, no such payment was made. The receipt, which was apparently prepared by Ms. Smallin, indicated that she paid \$372 to the school by check on May 17, 2007 for airfare. However, the chorus director and the school bookkeeper both stated that Ms. Smallin never remitted this check to them for deposit into the school bank account.

It should be noted that Ms. Smallin, as well as her husband and preschool age son, accompanied the chorus on the trip to Orlando, Florida. Ms. Smallin received a complimentary package, but was asked to pay for her airfare which cost \$186. Total charges for the husband and child would have been \$1,514 (\$757 each). Therefore, Ms. Smallin should have paid at least \$1,700 (\$1,514 + \$186), in addition to any amount paid for her daughter who was a member of the chorus. We were unable to determine that Ms. Smallin paid any amounts related to herself, her husband, or her son.

The investigative audit also revealed that at least three receipt books, certain individual receipts, and the individual student account sheets prepared to document collections were missing. School personnel stated that these documents were last seen in the possession of Ms. Smallin.

Section 39-16-504, *Tennessee Code Annotated*, states:

(a) It is unlawful for any person to:

- (1) Knowingly make a false entry in, or false alteration of, a governmental record;
- (2) Make, present or use any record, document or thing with knowledge of its falsity and with intent that it will be taken as a genuine governmental record; or
- (3) Intentionally and unlawfully destroy, conceal, remove or otherwise impair the verity, legibility or availability of a governmental record.

(b) A violation of this section is a Class A misdemeanor

3. **ISSUE: Unexplained shortfall in expected collections of over \$11,900**

According to the chorus director, Ms. Smallin was allowed almost total control over collection activities in the chorus department, which included fundraisers and trip deposits related to a planned trip to Orlando, Florida, as well as handling receipts for costumes, t-shirts, jewelry, etc., related to chorus programs. State auditors noted that the amount Ms. Smallin estimated that should be charged students and chaperones for the trip was over \$13,000 short of the actual related costs. However, the investigative audit revealed that even considering this projected shortfall in revenue, additional expected collections for trip deposits and related fundraisers totaling at least \$11,900 could not be accounted for. As noted above, auditors were unable to locate critical school records, including some chorus receipt books and most of the individual student account sheets that school employees indicated were last seen in the possession of Ms. Smallin. As a result, records were insufficient to determine the reason for this discrepancy.

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

FINDINGS AND RECOMMENDATIONS

1. **FINDING: Missing records and inadequate and improper procedures related to fundraisers and other collections**

The principal failed to ensure that chorus personnel prepared and retained adequate records or followed proper procedures related to collections in the chorus department. As noted in the Legal Issues, the chorus director stated she allowed a parent volunteer almost total control over collection activities in order to facilitate a planned trip to a chorus competition in Orlando, Florida. The estimated cost of the trip per student was \$757, but by participating in fundraisers, students could earn credit toward the trip charge, as well as toward other chorus charges such as for t-shirts and costumes.

Several chorus receipt books were located which indicated that prenumbered receipts for at least some collections in the chorus department were issued to students and others primarily by the parent volunteer. Auditors noted that many of the receipts did not indicate the form of payment, i.e., cash or check. The investigative audit revealed that at least three of the prenumbered chorus receipt books were missing, as well as some individual receipts in other books. Again, chorus and other school personnel indicated that the parent volunteer had primary responsibility for these receipt books.

In addition, the chorus director stated that the parent volunteer also maintained individual student account sheets on which she recorded trip and related fundraiser and resale activity collections for which students were given credit. However, of the over 80 students in chorus, state auditors were able to locate only 12 individual student account sheets. (The account sheets located all related to students who, according to a list prepared by the parent volunteer near the end of the school year, owed money to the chorus department.) The chorus director told auditors that near the end of the school year, she observed the parent volunteer place the student account sheets in a black bag, claiming that she was taking them home because the school bookkeeper said she did not need them. The parent volunteer later denied she had possession of any school records. The student account sheets were never located.

Because both receipt books and individual student accounts were missing, and because required profit analyses were not performed, as noted in Finding 3, the school had no record of the actual amount of money collected and receipted by the parent volunteer and others, and whether all collections were remitted intact to the bookkeeper's office. In addition, no record existed of amounts for which students were given trip-related or other credit. As noted in Legal Issue 3, over \$11,900 in expected collections could not be accounted for.

The *Internal School Uniform Accounting Policy Manual*, page 1-6, states:

Money or property received by a school official, employee, or volunteer, acting in his or her official capacity, becomes public

money or property. The money is the property of the respective school. Such money must be appropriately managed and safeguarded by the school.

Pages 5-2–3 of the manual states:

Money within an individual school may be obtained from many sources ... Most often, this money may be handled by one or more persons before it is recorded in the cash receipts journal by the designated school employee. The school becomes accountable when money is initially received by employees, officials, or volunteers acting in their official capacity.... Teachers, assistants, volunteers and support staff who handle money should be made aware of the requirement for maintaining accurate and systematic records of all cash collected.... At the beginning of each school year, the principal should ensure that all individuals responsible for school collections are informed of the required procedures and forms and the consequences for noncompliance with the required procedures.... 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.

Page 5-4 of the manual sets forth requirements related to prenumbered receipts. These requirements include:

- 1) Designating responsibility for controlling the issuance of receipt books to teachers/others
- 2) Requiring one copy of the prenumbered receipt to be remitted to the cashier/bookkeeper along with the related collections
- 3) Requiring teachers/others to be responsible for all receipts in receipt books issued to them, including voided receipts
- 4) Requiring teachers/others to identify the payer, amount, date, specific source, and form of collection

In addition, providing individual credit to students/parents for participation in fundraising events could be considered a taxable benefit to the student/parent according to rules and regulations of the Internal Revenue Service.

RECOMMENDATION:

To safeguard funds, the principal should ensure that the issuance of prenumbered receipt books is controlled, and that teachers/others are accountable for all prenumbered receipts in all receipt books issued to them. All prenumbered receipts should be properly completed with all required information. In addition, to ensure that the tax exempt status of the school is not jeopardized, the school should ensure that all fundraising practices comply with requirements of the Internal Revenue Service.

2. **FINDING: Failure to ensure that all recorded chorus collections were turned over intact for deposit into the school bank account**

The principal failed to assign responsibility for reconciling collections receipted in chorus receipt books to amounts remitted to the bookkeeper's office, recorded in the school accounting records, and deposited into the school's bank account. The school bookkeeper's office required teachers and others who remitted money to prepare a voucher indicating the source, amount, account, etc., of funds remitted. Therefore, when the parent volunteer or others remitted money to the bookkeeper's office, they prepared a voucher, which was turned over to office personnel along with the related collections. Copies of the related prenumbered receipts, which purportedly comprised the remitted collections, were not turned over with the collections. As a result, the cashier/bookkeeper had inadequate records to verify that amounts remitted reconciled with amounts receipted by chorus department personnel.

State auditors attempted to trace amounts recorded in chorus receipt books to amounts recorded on vouchers and related office receipts. However, the amounts did not agree, indicating that some amounts were not remitted, or that amounts were not remitted intact. In addition, it appeared that in some instances, the source of collections recorded by the parent volunteer on the voucher did not agree with the source of collections recorded on the related prenumbered chorus receipts. As a result, the source of collections recorded in the school accounting records could not be relied on as an accurate reflection of activities. In addition, because records were missing and inadequate, and because profit analyses were not prepared, as outlined in Finding 3, we were unable to determine the reason for the discrepancy in amounts receipted in chorus receipt books and the amounts recorded in the school accounting records and deposited into the school bank account.

The *Internal School Uniform Accounting Policy Manual*, page 5-4, requires one copy of the prenumbered receipt to be remitted to the cashier/bookkeeper along with the related collections. In addition, page 5-9 of the manual requires the bookkeeper to determine that the amounts and totals on collection documentation are mathematically correct and agree with receipts issued by the cashier.

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. The principal should assign responsibility to ensure that collections remitted to the bookkeeper's office are reconciled with prenumbered receipts, collection logs, etc., prepared by teachers/others.

3. **FINDING: Failure to prepare profit analyses and fundraiser summary reports, and to maintain adequate documentation for fundraising and other resale activities**

School personnel failed to comply with requirements of the *Internal School Uniform Accounting Policy Manual* and with local board policies related to fundraising and resale activities. The investigative audit revealed that recorded collections for chorus resale activities were at least \$4,395 short of expected collections. A review of records related to the chorus department revealed that although authorization was requested and received from the school principal for most chorus fundraising activities, the school principal failed to ensure that proper procedures were followed, and that adequate records of amounts collected from these activities were maintained. Also, the principal failed to ensure that profit analyses were performed to determine if expected collections were received and deposited. Because profit analyses were not performed, school officials were unaware of the shortage in expected collections related to almost all of the fundraisers, and the actual loss related to the Lemonade Stand fundraiser.

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.... At the beginning of each school year, the principal should ensure that all individuals responsible for school collections are informed of the required procedures and forms and the consequences for noncompliance with the required procedures.

Related to all resale activities, page 4-27 of the manual further states that

... 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.... 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.

RECOMMENDATION:

To ensure compliance with the manual and to establish accountability for fundraising and resale activities, the principal should require and ensure that adequate records of all fundraising and resale activities, such as collection logs, are prepared and retained in the school's files. Sponsors should keep records of items given away or damaged, and inventory on hand. A profit analysis of each resale activity should be prepared comparing expected collections to actual collections, and any difference should be explained. For fundraisers conducted for designated purposes, a fundraiser summary report should also be prepared. Amounts on profit analyses and other reports should be verified by someone other than the individual making the collections.

4. **FINDING: Supporting documentation not filed for several disbursements**

The school's files did not contain adequate supporting documentation for reimbursements of over \$1,000 to a parent volunteer for meals, gas, etc., and for some chorus charges using the Wal-Mart credit card, such as gift cards. Although some documentation was located for each of the related payments, documentation was insufficient to determine that the payment actually benefitted the chorus department. The *Internal School Uniform Accounting Policy Manual*, page 5-13, requires that **"The bookkeeper should require and obtain adequate supporting documentation before disbursing any school money."** Page 6-3 states, "Before signing checks, each signatory should review adequate supporting documentation (such as vendor invoices, purchase authorizations, etc.)." Page 5-14 states, "Supporting documents (copy of check, invoice, purchase authorization, receiving report/delivery receipt, etc.) should be filed together or in such a way that they can be easily reassembled."

RECOMMENDATION:

To better control disbursements and document that they are allowable, the bookkeeper should require, obtain, and file adequate supporting documentation for every disbursement. To adequately document that reimbursements are appropriate, the bookkeeper should require that the purpose is clearly noted on the documentation.

5. **FINDING: Detailed information not included on deposit slips**

In many instances, the checks being deposited were not listed on bank deposit slips or other accompanying records. The *Internal School Uniform Accounting Policy Manual*, page 5-9, states:

The cashier should complete a duplicate deposit slip. All checks should be listed individually on the deposit slip, itemizing the name of the payer and the amount. The receipt numbers comprising the deposit should be written on the deposit slip.

RECOMMENDATION:

To document that all collections are deposited promptly and intact, the bookkeeper should list on deposit slips the checks being deposited.

6. **FINDING: Sales tax not remitted for applicable purchases**

In several instances, 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, including candy, candles, cookie dough, etc., purchased for fundraisers. Section 67-6-102, *Tennessee Code Annotated*, sets forth sales and use tax requirements (with specific exemptions) for businesses who sell to schools. Vendors may collect and remit sales tax to the state on the sale of tangible personal property or taxable services to a public school, grades K-12, if the school intends to resell the property or services. However, if for any reason the vendor does not collect and remit sales tax to the state under these circumstances, the school is liable for use tax based on the purchase price of the item.

RECOMMENDATION:

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

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

The principal failed to ensure that collection duties were adequately separated. The chorus director stated she allowed a parent volunteer almost total control over collection activities in the chorus department. The parent volunteer collected money from students, counted the money, receipted the money, and remitted some money to the school

bookkeeper. The parent volunteer also had responsibility for chorus department collection records. As noted in Finding 2, no one was assigned responsibility for reconciling amounts collected in the chorus department with amounts remitted to the bookkeeper's office and deposited into a school bank account. In addition, as noted in Finding 3, profit analyses were not performed on resale activities. As a result, shortages in expected collections were not discovered by school personnel. Also, as noted in the Legal Issues, the parent volunteer was apparently responsible for some falsified and missing chorus department collection records. The *Internal School Uniform Accounting Policy Manual*, page 4-6, sets forth recommended internal controls, including adequate separation of duties. These controls include a requirement that

[t]he school should establish and document detailed requirements for collections, including the assignment of related responsibility, timing of collection, and follow-up on uncollected accounts. The principal or designee should recalculate collection amounts ... on a sample basis.

RECOMMENDATION:

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