

INVESTIGATIVE AUDIT REPORT

JEFFERSON ELEMENTARY SCHOOL FAYETTE COUNTY SCHOOL SYSTEM

JULY 1, 2002, THROUGH JUNE 30, 2003



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
PHONE (615) 741-2501

May 31, 2005

Director of Schools and Members of the
Board of Education
Fayette County School System
P. O. Box 9
Somerville, TN 38068

Director of Schools and Board Members:

Presented herewith is the report on our investigative audit of selected records of the activity funds of Jefferson Elementary School, Fayette County School System. This investigative audit focused on the period July 1, 2002, through June 30, 2003. 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.

From July 1, 2002, through June 30, 2003, school money of at least \$3,171.68 was apparently misappropriated and additional school money of at least \$5,166.22 could not be accounted for. According to school personnel, the former principal, Dr. Gennie Chandler, was ultimately responsible for receiving, recording, and depositing school collections. 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.

Director of Schools and Members of the
Board of Education
Fayette County School System
May 31, 2005

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

**SUITE 1600
JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-0271
PHONE (615) 708-7871
FAX (615) 741-1551**

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

May 31, 2005

Mr. John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, TN 37243

Dear Mr. Morgan:

As part of our on-going 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 Jefferson Elementary School, Fayette County School System. This audit focused on the period July 1, 2002, through June 30, 2003. 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.

From July 1, 2002, through June 30, 2003, school money of at least \$3,171.68 was apparently misappropriated and additional school money of at least \$5,166.22 could not be accounted for.

Mr. John G. Morgan
Comptroller of the Treasury
April 28, 2005

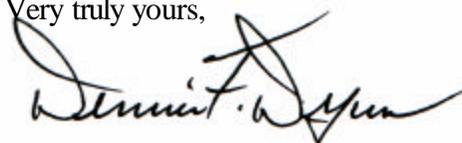
According to school personnel, the former principal, Dr. Gennie Chandler, was ultimately responsible for receiving, recording, and depositing school collections. This matter has been referred to the local district attorney general.

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

1. Missing school records
2. Inadequate separation of duties
3. Recorded school-wide fundraiser collections \$3,802.27 short of amount expected
4. Prenumbered receipts not always issued
5. Deposit slips not always itemized
6. Inadequate supporting documentation for most disbursements
7. Deficit balance in the general fund
8. Unallowable general fund expenditures
9. Change not correctly obtained or redeposited
10. Lack of controls over purchasing
11. Several checks presigned or issued with only one signature
12. No documentation that bank reconciliations were performed

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". The signature is fluid and cursive, with a large initial "D" and "F".

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

**INVESTIGATIVE AUDIT OF SELECTED RECORDS OF THE
JEFFERSON ELEMENTARY SCHOOL-ACTIVITY FUNDS
FAYETTE COUNTY SCHOOL SYSTEM
FOR THE PERIOD JULY 1, 2002, THROUGH JUNE 30, 2003**

Dr. Gennie Chandler was appointed principal in January 2002. As of June 30, 2003, she was reassigned and was no longer principal at Jefferson Elementary School. Dr. Chandler later resigned from the school system.

LEGAL ISSUES

1. ISSUE: Apparent misappropriations of schools funds of at least \$3,171.68

From July 1, 2002, through June 30, 2003, school money of at least \$3,171.68 was apparently misappropriated. According to school personnel, the former principal, Dr. Gennie Chandler, was ultimately responsible for receiving, recording, and depositing school collections. Although the secretary receipted some collections, she stated that she remitted the collections to the former principal for recording and for deposit. Our investigative audit of Jefferson Elementary School revealed the following shortages for the period examined.

Activity	Amount Apparently Misappropriated
Receipted collections not deposited into a school bank account	\$2,424.84
Canteen, school supply, and sock-hop collections recorded on teacher collection logs not receipted or deposited into a school bank account	151.10
Ballgame collections recorded on ticket reconciliation not receipted or deposited into a school bank account	295.74
Collections for basketball shoes not receipted or deposited into a school bank account	<u>300.00</u>
Documented amount apparently misappropriated	<u>\$3,171.68</u>

Additional school money of more than \$5,100 not accounted for

In addition to the apparent shortage mentioned above, several teachers stated that they turned over to Dr. Chandler various collections for canteen sales, supply sales, and a sock-hop. However, our investigative audit revealed that these collections were not receipted in the school's records and were not deposited into a school bank account. For some of these collections, teachers stated that they recorded the collections on collection logs, which they gave to Dr. Chandler at the end of the school year. We were unable to

locate these original collection logs and only one teacher retained copies of her logs. As noted above, some of the canteen, supply sales, and sock-hop collections recorded by the teacher were not receipted or deposited into a school bank account.

One school employee stated that the former principal would sometimes ask her to count the canteen collections with her. This employee estimated that at least \$100 was collected each week, and sometimes much more. Projecting this minimum weekly estimated amount collected for canteen sales calculated over 30 school weeks resulted in an estimated \$3,000 in canteen sales for the school year. However, as noted, **the former principal did not record any canteen sale collections in the school records and did not deposit any of these collections into the school bank account.** Also, although we were unable to obtain a listing of actual payments from Pepsi to the school for vending commission, a vendor representative estimated the minimum amount which should have been paid using records of product stocked to be \$422.40. During the period examined, the former principal did not issue **any** receipts for Pepsi vending commission collections. However, we noted a Pepsi vending check listed on one of the few itemized deposit slips, indicating the school did receive this money. Because the vendor was unable to confirm exact amounts and dates paid, we will include this as unaccounted for school money, rather than as apparently misappropriated school money. School personnel were unable to provide reliable estimates of amounts collected for school supplies and the sock hop.

As noted in Finding 3, recorded fundraiser collections were short of expected collections by over \$3,000. Although some fundraiser order forms were located, other fundraiser collection records were either missing or inadequate. However, we were able to document amounts apparently misappropriated which are included above.

Activity	Additional Amount Unaccounted for
Minimum estimated collections for canteen sales less documented shortage amount included above	\$2,860.90
Recorded school-wide fundraiser collections short of expected collections as discussed in Finding 3 less documented shortage amount included above	2,012.52
Pepsi vending commission calculated by vendor less known amount deposited	292.80
Collections for school supplies less documented shortage amount	**
Collections for sock-hop less documented shortage amount	**
Additional amounts unaccounted for	<u>\$5,166.22</u>

** reliable estimate could not be obtained

Our investigative audit revealed amounts of school money apparently misappropriated and unaccounted for totaling at least \$8,337.90. Dr. Chandler apparently did not require or maintain adequate records of collections turned over to her, and collection logs and

other collection records turned over by teachers could not be found. As a result, we were unable to document a comprehensive total of misappropriated collections and collections not accounted for, or to conclusively determine that Dr. Chandler was responsible for the unaccounted for collections. In addition, we could not determine whether other school collections were missing. This matter has been referred to the local district attorney general.

FINDINGS AND RECOMMENDATIONS

1. **FINDING: Missing school records**

According to school personnel, instead of delegating responsibility, the former principal, Dr. Gennie Chandler, chose to personally maintain the school accounting records. However, Dr. Chandler apparently did not maintain required fundamental accounting records including a cash receipts journal, a cash disbursements journal, or a general ledger. In addition, some bank statements and corresponding canceled checks were missing. Furthermore, as noted in Issue 1, collection logs which teachers stated they turned over to Dr. Chandler could not be found. The *Internal School Uniform Accounting Policy Manual*, Page 1-4, states, “Each school must maintain adequate records and follow acceptable procedures to properly account for all internal school funds.”

Section 49-2-110(d)(1), *Tennessee Code Annotated*, states:

The principal shall be liable to account for the safekeeping and handling of all funds of every character raised by student activities, school services, and school events, irrespective of the sources of such funds, or the purpose for which they were raised.

Page 7-3 of the *Internal School Uniform Accounting Policy Manual* requires various accounting records including a cash receipts journal, a cash disbursements journal, and a general ledger.

RECOMMENDATION:

To properly account for all internal school funds, the principal should ensure that adequate records of financial transactions are maintained.

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

The former principal, who was responsible for preparing and making deposits, also made herself responsible for receipting, recording, and disbursing school collections. The *Internal School Uniform Accounting Policy Manual*, Pages 4-6-7, 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. A person who is independent of the receiving, depositing and recording functions should compare bank deposits with the prenumbered receipts, collection logs, ticket reconciliation, cash register tapes, etc. Bank reconciliations should be prepared and reviewed at least monthly by someone who is independent of the receiving and recording functions.

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 control so that no employee has control over a complete transaction.

3. **FINDING: Recorded school-wide fundraiser collections \$3,802.27 short of amount expected**

The investigative audit revealed that school-wide fundraiser collections recorded by the former principal, Dr. Gennie Chandler, were \$3,802.27 short of the amount expected. Although we located no documentation that Dr. Chandler obtained the required approval from the director of schools, Jefferson Elementary students participated in a school-wide fundraiser in the fall of 2002. According to a letter to parents written by Dr. Chandler, the goal was to raise \$4,000. In addition, the letter stated that students would be required to collect the money before the orders would be placed.

Interestingly, although several teachers told auditors they knew nothing about the fundraiser or stated that their students did not participate, order forms from students in their classes were located in the school files. Other teachers stated they remitted fundraiser collections to the school office without counting the money, and that some collections were remitted directly to the office by students. Based on the amount ordered, at least \$4,664.42 should have been collected. However, only \$862.15 in fundraiser collections was receipted in the school records, resulting in unaccounted for collections of \$3,802.27. Although most fundraiser collection records were inadequate or were missing, we were able to document that some of the unaccounted for collections had been turned over to Dr. Chandler. This documented amount is included in the amount apparently misappropriated.

The *Internal School Uniform Accounting Policy 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." This section also sets forth required

policies and procedures relative to fundraising and resale activities including the requirement for a profit analysis of each activity.

RECOMMENDATION:

To establish accountability and to adequately account for fundraising collections and inventory, the principal should ensure that written authorization from the director of schools is obtained and filed prior to each school-wide fundraiser. In addition, a designated employee (not involved in collecting or recordkeeping) should prepare a profit analysis to determine if the intended profit was made. Any variances from expected collections should be investigated. A fundraiser summary report should also be prepared when applicable and maintained with the school's records.

4. **FINDING: Prenumbered receipts not always issued**

Prenumbered receipts were not always issued for collections. We determined that no receipts were issued for at least \$3,364.58 in collections, although the collections were deposited, apparently in the place of other receipted collections. Also, as noted in Issue 1, we determined that some collections were neither receipted nor deposited. Furthermore, we could not match individual school receipts with deposits. The *Internal School Uniform Accounting Policy Manual*, Page 5-4, requires prenumbered receipts to be issued for all collections. In addition, this section requires the receipts to be marked to indicate in which deposit the receipts are included.

RECOMMENDATION:

To provide records for documenting that all collections are recorded and deposited, a prenumbered receipt should be issued to the person or company who remitted the money. In addition, the last receipt included in a deposit should be marked to indicate the receipt numbers included in the deposit, the amount deposited, and the date of the deposit.

5. **FINDING: Deposit slips not always itemized**

The former principal did not always list the checks being deposited on bank deposit slips. 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.

RECOMMENDATION:

To document that all collections are deposited promptly and intact, the principal should ensure that the checks being deposited are listed on the deposit slips.

6. **FINDING: Inadequate supporting documentation for most disbursements**

The school's files did not include adequate supporting documentation for most disbursements. For several of these disbursements we found no support whatsoever. Because documentation was inadequate, we could not always determine what was purchased or if the purchase benefited the school. The *Internal School Uniform Accounting Policy Manual*, Page 5-14, requires adequate supporting documentation to be obtained before disbursing any school money.

RECOMMENDATION:

To help ensure and provide evidence 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.

7. **FINDING: Deficit balance in the general fund**

On June 30, 2003, Jefferson Elementary School's bank balance was only \$57.03, yet the school had outstanding bills of least \$15,229.36 resulting in a deficit balance in the general fund. In addition, during the school year, several school checks were returned for insufficient funds. The *Internal School Uniform Accounting Policy Manual*, Page 4-1, states "Total general fund expenditures (including unpaid obligations as of June 30 each year) must not exceed the beginning fund balance plus current year revenue. A deficit balance in the general fund . . . is not allowable. The principal is considered to be the sponsor of the general fund." Page 5-12 of the manual stated above also states that ". . . [T]he principal should not authorize payment in any amount for purchases that . . . are to be paid out of accounts that do not have sufficient balances."

RECOMMENDATION:

To prevent a deficit general fund balance, the principal should not authorize purchases or sign related checks unless the school has sufficient money to cover the expenditures.

8. **FINDING: Unallowable general fund expenditures**

For the period July 1, 2002, through June 30, 2003, the school paid at least \$1,072.73 in finance and late charges. The *Internal School Uniform Accounting Policy Manual*, Page

4-1, states, “**All expenditures from the general fund must benefit the school or must contribute to the welfare of the student body. . . .**”

RECOMMENDATION:

To prevent unallowable general fund expenditures, the principal should ensure that invoices are paid timely so that late charges and finance charges are not incurred.

9. **FINDING: Change not correctly obtained or redeposited**

Change for various athletic events was apparently obtained from collections being held for deposit. Furthermore, when checks were issued to obtain change, the checks were not always issued to the person responsible for the change. In addition, when change was returned, the change amount was not identified on the deposit slip or marked “Redeposit.” The *Internal School Uniform Accounting Policy Manual*, Page 5-7, states:

Daily collections from any source should never be used for the purpose of providing change for events. 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 correctly account for change, a check should be written to the individual responsible for the change for each event. The exact amount of the change should be redeposited as soon as feasible, and the deposit slip clearly marked “redeposit.”

10. **FINDING: Lack of controls over purchasing**

School records did not document that purchase requisition/purchase order authorization forms were used. As noted in Finding 7, the general fund had a deficit balance, indicating that purchase authorization requirements were not properly followed. The *Internal School Uniform Accounting Policy Manual*, Pages 5-12–13, states:

To initiate a purchase . . . a prenumbered purchase requisition should be completed. . . . The prenumbered purchase requisition is given to the bookkeeper. When the bookkeeper receives or originates a purchase requisition, the bookkeeper should review the account balance to be charged to determine if sufficient money is available. If sufficient money is available, the bookkeeper should

sign and date the form, and, if the purchase is over \$100, forward it to the principal for approval. After the prenumbered purchase requisition form is signed by the principal, it becomes a **purchase authorization**. This form also can be used as a **purchase order**.

Pages 5-12–15 of the manual set forth detailed procedures for the use and retention of school purchase requisitions/authorizations/orders.

RECOMMENDATION:

To better control expenditures and help prevent deficit fund or account balances, school personnel should correctly and consistently use and file a purchase requisition/purchase order for all purchases, obtaining the principal’s approval for purchases over \$100. If the exact amount of the purchase is not known at the time the purchase requisition/purchase order form is prepared, details of the items to be purchased should be recorded and an estimate or a limitation should be recorded on the form.

11. **FINDING:** **Several checks presigned or issued with only one signature**

School personnel stated and school records documented that several checks were signed without the payee and other information on the checks being completed. In addition, the school issued a number of checks with only one authorized signature. The *Internal School Uniform Accounting Policy Manual*, Page 6-3, states, “**Checks must not be signed in advance of their preparation and issuance.** . . . Two signatures are required for all checks.”

RECOMMENDATION:

To help prevent the misuse of school money, the principal should ensure that checks are not signed in advance and that checks are not issued unless signed by two authorized individuals.

12. **FINDING:** **No documentation that bank reconciliations were performed**

The school’s records did not include documentation that monthly bank reconciliations were performed. In fact, because there were no financial records, as noted in Finding 1, monthly bank balances could not have been reconciled with the school’s accounting records. The *Internal School Uniform Accounting Policy Manual*, Page 6-5, states, “Bank statements must be reconciled with the cash balances presented in the accounting records (general ledger) as of the end of each month.”

RECOMMENDATION:

To help detect errors or irregularities, the principal should ensure that bank reconciliations are prepared each month. The reconciliations should be documented in the school's records.

DIRECTOR OF SCHOOLS' AND CURRENT PRINCIPAL'S RESPONSE TO ENTIRE REPORT:

All findings have been addressed and are being followed.