

INVESTIGATIVE AUDIT REPORT

**KITTRELL ELEMENTARY SCHOOL-NUTRITION DEPARTMENT
RUTHERFORD COUNTY SCHOOL SYSTEM
JULY 1, 2006, THROUGH JUNE 30, 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

PHONE (615) 741-2501

December 13, 2007

Director of Schools and Members of the Board of Education
Rutherford County School System
2240 South Park Drive
Murfreesboro, TN 37128

Director of Schools and Board Members:

Presented herewith is the report on our investigative audit of selected records of the Nutrition Department of Kittrell Elementary School, Rutherford County School System. This investigative audit focused on the period July 1, 2006, through June 30, 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.

Our examination revealed that the former cafeteria manager apparently diverted 10 nutrition department checks, totaling \$6,249.21, for her personal benefit.

This matter was referred to the local district attorney general. During the December session of the Rutherford County Grand Jury, Cynthia Odom was indicted on one count of Theft over \$1,000 and nine counts of Forgery.

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.

Director of Schools and Members of the Board of Education
Rutherford County School System
December 13, 2007

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 prominent initial "J" and a long, sweeping underline.

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

December 13, 2007

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 Nutrition Department of Kittrell Elementary School, Rutherford County School System. This investigative audit focused on the period July 1, 2006, through June 30, 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. 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
December 13, 2007

Our examination revealed that the former cafeteria manager apparently diverted 10 nutrition department checks, totaling \$6,249.21, for her personal benefit.

This matter was referred to the local district attorney general. During the December session of the Rutherford County Grand Jury, Cynthia Odom was indicted on one count of Theft over \$1,000 and nine counts of Forgery.

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

1. Separation of duties
2. Unexplained adjustments

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

Sincerely,

A handwritten signature in black ink, appearing to read "Dennis F. Dycus". The signature is fluid and cursive, with a large initial "D" and "F".

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

**INVESTIGATIVE AUDIT OF SELECTED RECORDS OF THE
NUTRITION DEPARTMENT OF KITTRELL ELEMENTARY SCHOOL
RUTHERFORD COUNTY SCHOOL SYSTEM
FOR THE PERIOD JULY 1, 2006, THROUGH JUNE 30, 2007**

LEGAL ISSUES

1. **ISSUE: Apparent misappropriation**

School officials were alerted to a potential problem in July 2007 when a nutrition department vendor complained that payment had not been received for three invoices issued in May 2007. According to bank records, a \$457.15 check issued to the vendor, dated May 29, 2007, bore a second endorsement of the name of the cafeteria manager of Kittrell Elementary School. The former cafeteria manager admitted to school officials that she had diverted the proceeds of the check for her own personal benefit. Her employment with the school was terminated.

Based on that information, we initiated an investigative audit. Our examination revealed that the former cafeteria manager apparently diverted 10 nutrition department checks, totaling \$6,249.21, for her personal benefit. In most instances, the checks were made payable to legitimate cafeteria vendors. However, the former cafeteria manager apparently endorsed the back of the checks as the vendor, signed her or her husband's name as the second endorsement, and deposited the checks into her personal bank account. The former cafeteria manager created invoices or altered existing invoices to make the payments appear legitimate.

On October 12, 2007, the former cafeteria manager admitted to auditors that she had diverted eight checks from the nutrition department totaling \$4,364.21.

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

The former cafeteria manager obtained bank statements and imaged checks online and submitted copies of these records to the central office to document bank account activity of the school nutrition account of Kittrell Elementary. However, in order to conceal the diverted check scheme, the former cafeteria manager altered the payee and the endorsement information on several checks.

On October 12, 2006, the former cafeteria manager admitted to auditors that she had altered school records in order to conceal her diverted check scheme from management.

3. **ISSUE: Apparent conflict of interest**

In the interview with auditors on October 12, 2007, the former cafeteria manager stated two checks totaling \$1,885 were legitimate payments they received for pressure washing she and her husband, a custodian at the school, performed at the cafeteria. The former cafeteria manager stated she used an altered invoice of a cousin's business as documentation for the payments. In addition, she acknowledged removing a portion of the payee and endorsement on the imaged copy of one of the cafeteria checks to disguise the nature of the payment. Auditors also noted the following about those two transactions:

- The former cafeteria manager signed documents stating she had obtained three price estimates for the work performed and that the service had been provided by the lowest bidder. However, auditors were unable to confirm from the listed vendors that other estimates for the work had actually been obtained.
- The checks were issued several weeks before the work was to have been done.
- The former cafeteria manager's husband told auditors that he did assist his wife in performing some cleaning and pressure washing in the cafeteria during the winter break. However, he was not aware that his wife was paying herself extra for that work.

As a result of these discrepancies, auditors were unable to document a legitimate justification for these payments. However, it appears that these payments would be prohibited even if they had been for a legitimate service.

Section 12-4-101, *Tennessee Code Annotated*, states that it is unlawful for any person in any applicable political subdivision created by statute with a direct interest in any work or contract to let out, overlook, or in any manner to superintend that same work.

Section 12-4-102, *Tennessee Code Annotated*, states that any person unlawfully directly or indirectly interested in a contract whose duty it is to let out, overlook, or superintend that contract shall forfeit all pay and compensation from that contract.

4. **ISSUE: Unaccounted for pressure washer**

The investigative audit revealed that in November 2006, the former cafeteria manager signed a purchase order and check for \$310.02 to purchase a gas pressure washer. Documentation provided to the school system's central office was a copy of a receipt with a handwritten note stating the original invoice was kept at the school for proof of warranty. However, we were unable to locate the original invoice or the pressure washer at the school. The former cafeteria manager's husband informed auditors that his wife had returned that item. Auditors found no evidence that the school received the proceeds of a refund.

This matter was referred to the local district attorney general. During the December session of the Rutherford County Grand Jury, Cynthia Odom was indicted on one count of Theft over \$1,000 and nine counts of Forgery.

FINDINGS AND RECOMMENDATIONS

1. **FINDING: Separation of duties**

The investigative audit revealed that the former cafeteria manager prepared checks, signed checks, prepared purchase orders, signed for the receipt of goods, and prepared food production reports. This lack of an adequate separation of duties contributed to the circumstances of the apparent misappropriation.

The *Internal School Uniform Accounting Policy Manual*, Administration of Internal School Funds-Section 4, states, "To the extent possible, the following duties should not be performed by the same person: approving requisitions; preparing purchase authorizations; receiving goods or services; approving payment; preparing checks; signing checks; and preparing bank reconciliations."

RECOMMENDATION:

To decrease the risk of undetected errors and irregularities, board personnel should review employees' responsibilities to ensure that no employee has control over a complete transaction. Central office personnel should obtain bank statements and imaged checks directly from the bank.

2. **FINDING: Unexplained adjustments**

Finally, our investigative audit revealed that \$474.65 in adjustments were made to increase students' meal accounts on August 11, 2006, three days before the first meal for the school year was served. This adjustment was made using an administrative password. Auditors could not determine any valid reason for these adjustments. In addition, auditors noted that the former cafeteria manager had made several other adjustments to increase students' account balances with no corresponding collection.

RECOMMENDATION:

To help ensure all adjustments are proper, monthly adjustment reports should be reviewed by board personnel. Any unexplained adjustments should be investigated.

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EXHIBITS

Copy of Check No. 1090 obtained from bank

KITTRELL ELEMENTARY SCHOOL
NUTRITION DEPARTMENT
1601 OLD HOOBLOTTY PK
MADISON, TN 37116

1090
87-88214C

DATE 12-12-06

PAY TO THE ORDER OF Adina Presswood Webb Services \$ 1475.00
Custom Handed & Sewn Tailor X DOLLARS

Pinnacle
NATIONAL BANK

Patricia Adams
Patricia Adams

⑆001090⑆ ⑆061008637⑆ ⑆0000147500⑆

1090 \$1,475.00 12/14/2006

0411973317
12142006
12142006
12142006
0510-0014 6
KMT 1200 TRC=4227 TX 10

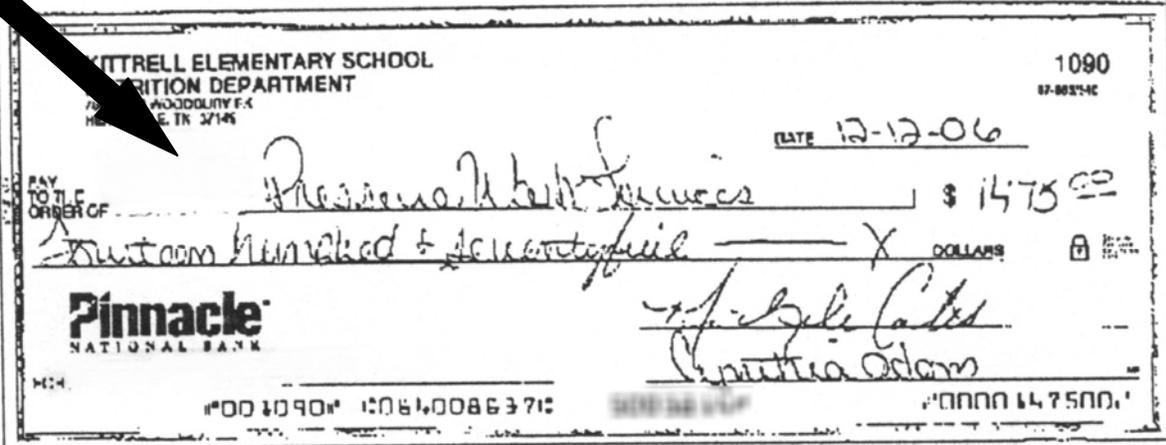
1279352515

1090 733

Patricia Adams

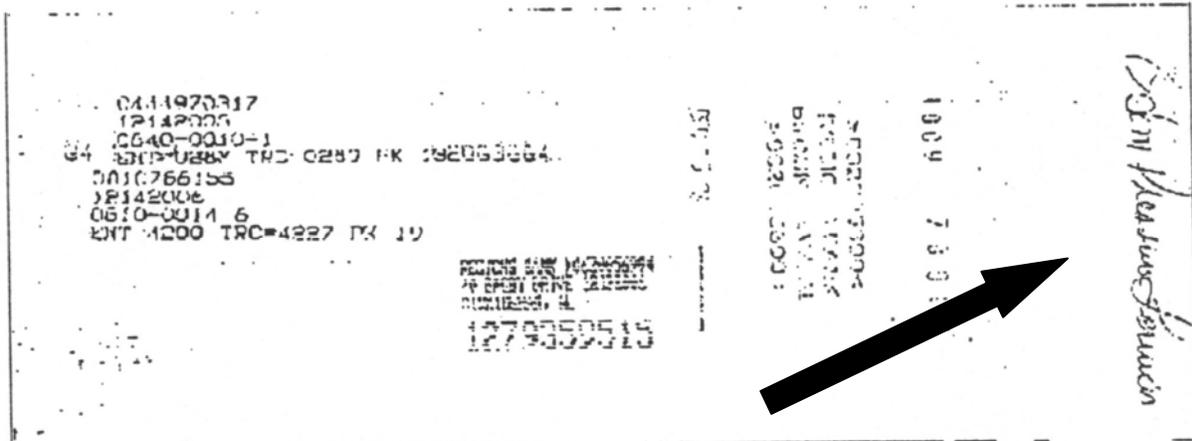
1090 \$1,475.00 12/14/2006

Copy of Check No. 1090 submitted to the Central Office
(Note: Arrows indicate part of payee name and second endorsement removed.)



Front of check No. 1090. The check is from Kittrell Elementary School, Education Department, dated 12-12-06, for \$1,475.00. The payee is Mrs. Marketa Francis. The check is payable to the order of Custom Handled & Accounted For. The bank is Pinnacle National Bank. A black arrow points to the payee name.

1090 \$1,475.00 12/14/2006



Back of check No. 1090. The back features a MICR line, a routing slip, and a signature strip. The routing slip includes the bank name Pinnacle National Bank and the amount \$1,475.00. The signature strip contains the signature of Marketa Francis. A black arrow points to the signature strip.

1090 \$1,475.00 12/14/2006

Copy of Check No. 1104 obtained from the bank

KITRELL ELEMENTARY SCHOOL
NUTRITION DEPARTMENT
1301 OLD WOODS JRY PK
WEADY, TN 37140

1104
ET-262948

DATE 12/27/06

PAY TO THE ORDER OF Central Restaurant \$ 864.00
Eight hundred sixty four and 00/100 CENTS

Pinnacle
NATIONAL BANK

FOR Supplier

James G. Coffey
Aprilia Odem

⑈001104⑈ ⑆064008637⑆ ⑆0000086400⑆

1104 \$864.00 12/27/2006

0147030281
12272006
0140-0010-J
ENT=016A TRC=0497 PK=13
04 4498072217
12272006
0510-0014-6
ENT 4224 TRC 4070 PK=19

12/27/06

1005 5516

⑆000000000⑆
FEDERAL RESERVE BANK
MEMPHIS, TN 38103
⑆000000000⑆

1473247827

Central Restaurant
Aprilia Odem

1104 \$864.00 12/27/2006

Copy of Check No. 1104 submitted to the Central Office
(Note: Arrow indicates second endorsement removed.)

KITTRELL ELEMENTARY SCHOOL
NUTRITION DEPARTMENT
1231 OLD WOODS DR PK
WADSWORTH, TN 37149

1104
ST. 068140

DATE 12/27/06

PAY TO THE ORDER OF Central Restaurant \$ 864.00

Eight hundred & sixty four and no/100ths

Pinnacle
NATIONAL BANK

FOR Supplier

Jimmy D. [Signature]
Director

⑈001104⑈ ⑈064008637⑈ ⑈0000086400⑈

1104 \$864.00 12/27/2006

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12272006
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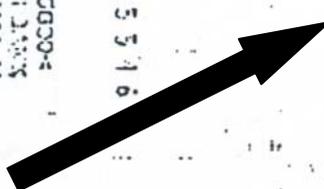
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POSTOFFICE
FEDERAL BANK
BIRMINGHAM, AL
⑈00000000⑈

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1473247927

Central Restaurant



1104 \$864.00 12/27/2006