



STATE OF TENNESSEE
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DEPARTMENT OF AUDIT
DIVISION OF MUNICIPAL AUDIT

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Director of Schools and Members of the
Board of Education
Hamblen County School System
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Director of Schools and Board Members:

The Division of Municipal Audit, Comptroller of the Treasury, State of Tennessee, has completed an investigative audit of selected records of Lincoln Heights Middle School, Hamblen County School System. The audit focused on the period July 1, 2008, through June 30, 2009, and was primarily limited to a review of collection procedures and related records. However, when warranted, we expanded the scope.

Our investigative audit revealed numerous instances of fabricated and altered school records, significant deficiencies in collection procedures and related documentation, significant deficiencies in purchasing, and other instances of noncompliance with required procedures set forth in the *Internal School Uniform Accounting Policy Manual*.

School Records Fabricated and Altered to Conceal Deficiencies in Procedures and Documentation

False and altered collection logs

We noted several collections related to the Beta Club that appeared to have been prepared by the bookkeeper, who had also apparently signed the sponsor's name. The Beta Club sponsor stated that she had prepared computerized collection logs which she remitted to the bookkeeper along with her collections, and the sponsor provided copies of some of these logs to Division of Municipal Audit auditors. In one instance, names on the logs fabricated by the bookkeeper substantially agreed with the names on the sponsor's logs; however, the amounts shown as collected were not the same. We were unable to determine the bookkeeper's source of information on one of the collection logs, and on another, additional names and amounts had been added without the sponsor's knowledge.

Fabricated ticket reconciliation forms

School records also included numerous “ticket reconciliation” forms. The forms purportedly showed the number of tickets sold at athletic events, including volleyball, basketball, and football games, and the related collections. However, school personnel who worked gates at athletic events stated that except for a basketball tournament, tickets were not used for athletic event admissions. In addition, dates on the forms were often not consistent with dates games were actually played according to the various athletic schedules. The bookkeeper admitted to creating ticket reconciliation forms and signing teachers’ signatures on the forms in order to avoid contract auditor criticism, and stated she had been doing it for years at the suggestion of the previous bookkeeper.

Required purchasing documentation created after purchase

The bookkeeper stated that she sometimes generated “proper paperwork,” including purchase authorizations, bid documents, and other supporting documentation, for purchases after the related purchase had been made in order to conceal the fact that teachers and others failed to follow proper purchasing procedures. Also, she stated that in at least one instance, she asked the vendor to reissue an invoice with a later date to conceal the failure to make timely payment. The bookkeeper stated that this was done to avoid detection by contract auditors.

Deficiencies in Collection Procedures and Related Documentation

The investigative audit revealed that the principal failed to ensure that the bookkeeper, teachers, and others responsible for school collections followed procedures and maintained adequate records required by the *Internal School Uniform Accounting Policy Manual*. Because school personnel failed to follow adequate collection procedures and maintain sufficient collection records, we were unable to determine the total amount of school collections and whether all collections were recorded in the school accounting records and deposited in the school bank account.

Inadequate collection procedures and recordkeeping by bookkeeper

- The bookkeeper failed to promptly count, record, and deposit collections she made, as well as collections remitted to her by teachers and others. In at least one instance, a check payable to the school was held for over six months. The check was returned by the bank, because the vendor had issued a stop payment request. The bookkeeper admitted to Division of Municipal Audit auditors that she sometimes held collections as long as three weeks before deposit.

- Receipts recorded by the bookkeeper in the school accounting records were not adequately detailed as to source. For instance, one receipt indicated that the collections were for the admission and concessions to the wrestling match held during the school day. However, notepads maintained by the bookkeeper which were not part of the official school records, indicated the collection amount also included collections related to golf as well as admissions and concessions to at least one other athletic event.
- The bookkeeper did not issue to and give receipts to teachers and others when they remitted money to her.
- Bookkeeper receipts were issued to the collection source, such as Beta, Instructional, Football, etc., instead of the teacher or other payer who remitted the money.
- The bookkeeper failed to provide account transaction histories to applicable teachers and others for verification.
- The bookkeeper failed to prepare profit analysis reports for resale and fundraising activities for which she assumed responsibility.

Inadequate collection procedures and recordkeeping by teachers and other responsible for collections

- Many school collections, including athletic gate and concession collections and certain fundraisers, were not counted and recorded on a collection log or other collection record prior to being turned over to the bookkeeper.
- Collections made by teachers and others acting in their official capacity were not always remitted to the bookkeeper for deposit in the school bank account. In some instances, such as for girls' basketball warm-ups, these collections were turned over directly to the vendor.
- Collections were not always turned in to the bookkeeper promptly.
- When collection records were prepared by teachers and others responsible for school collections, in most instances, the teachers and others did not retain copies of the collection records, and did not reconcile these records with receipts from the bookkeeper.

- Teachers and others responsible for collections often did not date collection logs they prepared.
- Teachers and others responsible for resale and fundraising activities failed to prepare profit analysis reports.

The *Internal School Uniform Accounting Policy Manual*, Section 5, sets forth required procedures and documentation related to school collections. Pages 5-2–5-3 of this section states:

Money within an individual school may be obtained from many sources including athletics, concession, plays, publications, stores, gifts, vending machines, etc. 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.

Prior to authorizing or requiring any collections, the principal must evaluate the ability of school personnel to provide the required accountability.... **The principal should never authorize or require any collection which cannot be adequately accounted for.** [Emphasis added.]

Deficiencies in purchasing and other required procedures and documentation

- Purchase authorization and evidence of bid compliance was not always obtained and documented prior to purchases being made. As noted above, in some instances paperwork was generated after a purchase had been made. In addition, some purchase authorizations were not signed by the teacher initiating the purchase and/or by the principal or his designee.
- Documentation was inadequate to determine the school purpose for some disbursements.
- Some disbursements appeared to have been charged to the incorrect account.
- Refunds were not recorded properly in the school accounting records.
- The principal's signature on some documents appeared to have been written by someone other than the principal. The principal should never authorize anyone to sign his name for any reason on school documents. The principal should periodically

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review all canceled checks and purchase authorizations to ensure authenticity of his signature.

- The bookkeeper improperly documented corrections in the school accounting records.

The *Internal School Uniform Accounting Policy Manual*, Section 5, sets forth required procedures and documentation regarding school disbursements.

The bookkeeper stated that she took “full responsibility” for the condition of the records, citing personal issues and lack of time. The bookkeeper stated that 9 out of 10 things she was responsible for at school had nothing to do with bookkeeping, including operating the Slushie machine. In addition, she stated that a lot of changes in school personnel took place which added to her responsibilities. Regarding altering school records, preparing false documents, and generating proper paperwork after the related transaction, the bookkeeper stated that she did not want to get written up by contract auditors. She stated that this might “appear to be a blatant disregard for policy, but it’s not. I did what I had to do to satisfy the auditors.” The bookkeeper went on to state that any paperwork done after the fact was an attempt to remain compliant and was never an attempt to hide anything.

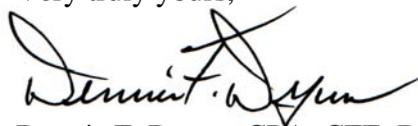
Section 49-2-110, *Tennessee Code Annotated*, states:

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....

School officials should take immediate action to correct the noted deficiencies and instances of noncompliance at Lincoln Heights Middle School. In addition, officials should determine if other schools in the Hamblen County School System have similar deficiencies and if so, take needed corrective action.

If you have any further questions concerning the above, please contact me.

Very truly yours,



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Division of Municipal Audit