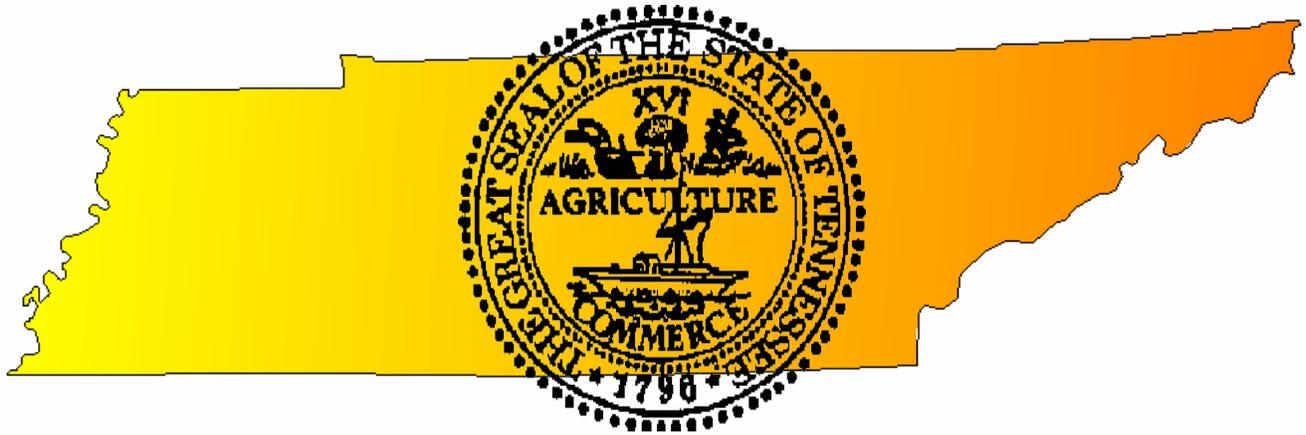


# INVESTIGATIVE AUDIT REPORT

LOUDON HIGH SCHOOL  
LOUDON COUNTY SCHOOL SYSTEM  
JULY 1, 2005, THROUGH MARCH 31, 2006



## 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

December 11, 2006

Director of Schools and Members of the  
Board of Education  
Loudon County School System  
100 River Road  
Loudon, TN 37774

Director of Schools and Board Members:

Presented herewith is the report on our investigative audit of selected records of the activity funds of Loudon High School, Loudon County School System. This investigative audit focused on the period July 1, 2005, through March 31, 2006. 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 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.

Director of Schools and Members of the  
Board of Education  
Loudon County School System  
December 11, 2006

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, 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 11, 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 Loudon High School, Loudon County School System. This investigative audit focused on the period July 1, 2005, through March 31, 2006. 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.

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

Mr. John G. Morgan  
Comptroller of the Treasury  
December 11, 2006

1. Salary supplements amounting to \$22,157.50 paid directly from school activity funds
2. Activity funds not properly accounted for in school records
3. \$2,000 due from Coca-Cola not collected timely
4. Inadequate separation of duties
5. Travel expense claims not found
6. At least \$6,571.34 from student activity funds used for staff development
7. Purchase orders incorrectly used
8. No profit analyses for fundraisers, resale items, and vending
9. Fundraiser collection issues
10. Checks cashed using collections
11. No authorization for certain fundraisers
12. Some resale activities had no sales tax remitted; only yearbooks purchased online included sales tax
13. No original collection documents prepared for on-site yearbook sales; no supporting documents retained for advertising sales
14. School pictures and vending commissions posted to a restricted account
15. Ticket reconciliation forms incorrectly used for football, not used at all for some other sports and events
16. Deposits have no check listings; receipt numbers not recorded on deposit slips
17. Basketball change fund apparently increased by using earlier collections

Mr. John G. Morgan  
Comptroller of the Treasury  
December 11, 2006

18. IRS Form 1099 not issued

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.

Sincerely,

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

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

**INVESTIGATIVE AUDIT OF SELECTED RECORDS OF  
LOUDON HIGH SCHOOL —LOUDON COUNTY SCHOOL SYSTEM  
FOR THE PERIOD JULY 1, 2005, THROUGH MARCH 31, 2006**

The director of schools and members of the board of education were asked to respond to this report. In the “Management’s Response” sections following each finding, the heading “Director of Schools and Members of the Board of Education” refers only to director Edward Headlee and to board members Bill Marcus, Scott Newman, Larry Proaps, Leroy Tate, Nancy Paule, and Steve Harrelson. Board member Larry Bass responded separately. School board members Bobby Johnson, Jr., Freddie Gene Walker, and June Klintstiver, did not respond.

**FINDINGS AND RECOMMENDATIONS**

1. **FINDING:** Salary supplements amounting to \$22,157.50 paid directly from school activity funds

Between July 1, 2005, and March 31, 2006, the principal paid \$22,157.50 for salary supplements, using school activity funds, directly to Loudon County Schools’ employees. Accompanying documentation indicated a variety of reasons for the supplements, including “in lieu of signing bonus;” cleaning and maintenance tasks; “Freshman Academy Assistant Principal;” and payments for athletics duties, including ticket sales, timekeeping, and security.

The *Internal School Uniform Accounting Policy Manual*, page 5–21, requires:

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:**

The school should pay approved salary supplements exclusively through the director of schools’ office to ensure correct withholdings and proper accounting for board employees’ total salaries and wages.

**MANAGEMENT’S RESPONSE:**

**Director of Schools and School Board Members**

We concur with the finding and response by the principal.

**Board Member Bass:**

I concur with state finding. Measures have been put in place to rectify this issue.

**Principal:**

I concur with the state finding. Measures have been put in place to rectify this issue. This has been SOP for LHS for the last 20 years; it has now been changed to make sure all extra pay to employees is processed through central accounting.

**Bookkeeper:**

I concur with the principal’s response to the finding.

2. **FINDING:**    **Activity funds not properly accounted for in school records**

Loudon High School’s accounting records omitted money related to several school activities. For example, a booster club collected all baseball revenue and controlled virtually all expenditures. In fact, no baseball financial activity whatsoever was included in the most recent available audited financial statements. Our audit also revealed that collections from a Navy Junior Reserve Officers Training Corps car wash were deposited into a non-school checking account. Additionally, one class sold school supplies at the beginning of each school day; there was no corresponding accounting in the school’s records. In each of these cases, the principal did not require responsible employees to account for school activity money in accordance with requirements of the *Internal School Uniform Accounting Policy Manual*.

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*.

In addition, Section 49–2–110, *Tennessee Code Annotated* states:

- (d) The principal of each school shall have the duty of instituting and following the reasonable regulations, standards, procedures, and the accounting manual adopted by the board of education having jurisdiction over the school.

(1) 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 sources of such funds, or the purpose for which they were raised.

**RECOMMENDATION:**

The principal should ensure that all money raised by student activities, school services, and school events is deposited into a school bank account and that related transactions are accounted for in accordance with requirements set forth in the *Internal School Uniform Accounting Policy Manual*.

**MANAGEMENT’S RESPONSE:**

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

We concur with the finding and response by the principal.

**Board Member Bass:**

I concur with state finding. Measures have been put in place to rectify this issue.

**Principal:**

I concur with the state finding. Measures have been put into place to rectify this issue. All activity accounts such as NJROTC and baseball gate money is processed through the school.

**Bookkeeper:**

I concur with the principal’s response to the finding.

3. **FINDING:    \$2,000 due from Coca–Cola not collected timely**

Loudon High School personnel had no procedures to verify that the school’s chief vending partner, Coca–Cola, remitted correct vending commission payments. In addition, auditors discovered that an annual signing bonus of \$2,000 was almost six months delinquent. The principal was able to collect the signing bonus after notifying the vendor of the oversight.

According to the *Internal School Uniform Accounting Policy Manual*, page 4–23:

A cooperative activity is one in which the school shares directly in the proceeds.... Prior to commencement of a cooperative activity,

a written agreement concerning each party's responsibilities and the division of expenses and profits should be made between the outside group and the school in accordance with the board of education's policy.... If proceeds are collected by the outside group, a designated individual from the school should verify that the division of the collections was based on the written agreement and a prenumbered receipt should be issued for the school's share.

Page 4–30 of the manual describes several methods for verifying commissions. Periodic profit analyses are a required component.

**RECOMMENDATION:**

The principal should continue to retain written copies of all vending agreements. In addition, the principal should require designated employees to verify that the school receives the correct amount of vending commission and other scheduled payments from each vendor.

**MANAGEMENT'S RESPONSE:**

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

We concur with the finding and the response of the principal.

**Board Member Bass:**

I concur with state finding. Measures have been put in place to rectify this issue.

**Principal:**

I concur with the state finding. Measures have been put in place to rectify this issue. Coca-Cola assured the school this will be an automatic payment; however, the school is closely monitoring the situation.

**Bookkeeper:**

I concur with the principal's response to the finding.

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

Loudon High School's bookkeeper, who is responsible for preparing deposits and reconciling bank statements, is also responsible for receipting, disbursing, and recording collections. The *Internal School Uniform Accounting Policy Manual*, page 4–6, recommends:

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.... 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 that errors and irregularities are detected promptly, the principal should require an adequate system of internal control so that no employee has control over a complete transaction.

**MANAGEMENT’S RESPONSE:**

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

We concur with the finding and the response by the principal.

**Board Member Bass:**

I concur with state finding. Measures have been put in place to rectify this issue.

**Principal:**

I concur with the state finding. Measures have been put in place to rectify this issue. More measures to ensure the bookkeeper does not have sole responsibility are being explored. The principal is reviewing all bank statements on a monthly basis.

**Bookkeeper:**

I concur with the principal’s response to the finding.

5. **FINDING:**   **Travel expense claims not found**

Loudon High School’s files lacked adequate supporting documentation for multiple travel advances and reimbursements paid to district employees. In many cases, the only record for mileage and meal payments was a handwritten note. The auditors noted that the school’s lack of a systematic review process for travel claims could allow undetected improper payments in cases when an employee purchases fuel using the school’s gasoline credit card but also claims mileage reimbursement.

Loudon County's travel policy, which the director of schools' office follows, requires each employee to submit a mileage reimbursement form for travel using a personal vehicle and receipts for all meals claimed. The only advance travel payments allowed by the county policy are for expenses paid directly to third parties, such as lodging facilities. The policy emphasizes that prior to reimbursement for mileage and meal expenses, the employee must first attend the event that prompted the trip and request reimbursement upon return.

According to the *Internal School Uniform Accounting Policy Manual*, pages 5–19 through 5–20:

Boards of education are responsible for establishing travel policies pertaining to school personnel.... Advances given to school personnel for authorized school activities (such as to teachers for class or club trips) must be made by a check payable to and given directly to the responsible individual. When possible, payment should be made directly to vendors, rather than advances being made to individuals.... Within three days after returning from the trip, a travel expense claim should be completed and submitted to the bookkeeper, along with invoices and other supporting documentation. Unexpended balances of advances and unused traveler's checks should be remitted to the cashier for receipt when the travel expense claim is submitted to the bookkeeper. The bookkeeper should reconcile all travel advances with the related travel claim and prenumbered receipts to ensure that all school money has been properly accounted for.

**RECOMMENDATION:**

For better control over expenditures, the principal should ensure that adequate supporting documentation is provided and filed for all travel advances and disbursements. To provide accountability for school money, any allowable advance travel payments should be made by check. To comply with the county's travel policy, the school should discontinue the practice of issuing travel advances directly to administrators, faculty, and staff for mileage and meals.

**MANAGEMENT'S RESPONSE:**

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

We concur with the finding and the response by the principal.

**Board Member Bass:**

I concur with state finding. Measures have been put in place to rectify this issue.

**Principal:**

I concur with the state finding. Measures have been put in place to rectify this issue. The school is now following the county's travel claim process. This process is now reimbursement based.

**Bookkeeper:**

I concur with the principal's response to the finding.

6. **FINDING: At least \$6,571.34 from student activity funds used for staff development**

Loudon High School disbursed at least \$6,571.34 from the general fund for faculty and administration attendance at professional training events and for related travel between July 1, 2005, and March 31, 2006.

The *Internal School Uniform Accounting Policy Manual*, page 4–1, emphasizes:

**All expenditures from the general fund must benefit the school or must contribute to the welfare of the student body and supplement, and not replace, funds necessary to fulfill the local board's obligation to provide an instructional program, property, equipment, and salaries.**

Page 5–19 of the manual states, "Student activity funds must not be used to pay for travel expenses for employee development, conferences, seminars, registration fees, etc., of school personnel."

The note on page 5–11 of the manual explains,

Although disbursements for educational and professional development could be considered to indirectly benefit the welfare of the student body, these disbursements are the responsibility of the board of education and would not be legitimate expenditures of money raised by students.... [S]ince Tennessee schools are referred to as being free, (§ 49-6-3001, *TCA*), money raised by students must be used to finance normal and legitimate extracurricular activities. This money should be used to supplement and not replace money for activities and services provided by the board. Staff development is the responsibility of the board.

**RECOMMENDATION:**

To ensure that student activity general fund money is used in accordance with the *Internal School Uniform Accounting Policy Manual*, we recommend that the principal cease paying for staff development using activity funds. If any such payments are determined to have been a personal benefit for the receiving individual, we recommend that the board members request reimbursement from that individual.

**MANAGEMENT'S RESPONSE:**

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

We concur with the finding and the response by the principal.

**Board Member Bass:**

I concur with state finding. Measures have been put in place to rectify this issue.

**Principal:**

I concur with the state finding. Measures have been put in place to rectify this issue. The school will not spend more on staff development than the county gives it to spend on staff development.

**Bookkeeper:**

I concur with the principal's response to the finding.

7. **FINDING: Purchase orders incorrectly used**

Loudon High School personnel did not document that they had obtained required authorization for some purchases. In most cases, purchase orders were not signed until **after** the obligation was made. In addition, auditors found multiple instances of reused purchase orders. The principal apparently signed each purchase order the first time it was submitted. For subsequent purchases from the same vendor, school employees routinely added new lines to the old, previously signed purchase orders. The documents gave no indication that the principal had reviewed or approved the subsequent disbursements.

The *Internal School Uniform Accounting Policy Manual*, page 5–12, states:

A purchase authorization is a prior written authorization by the principal, or designee, approving the purchase of goods and services. A prenumbered purchase authorization is required for each purchase of goods and/or services of \$100 or more except for

emergency repairs or purchases, reimbursements from restricted accounts not sponsored by the principal, and purchases of goods and services made under contract.... [T]he principal should not authorize payment in any amount for purchases that are not appropriate; or are to be paid out of accounts that do not have sufficient balances.

Pages 5–11 through 5–14 of the manual set forth detailed procedures for the use and retention of school purchase requisitions, authorizations, and 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 each** order of goods and services over \$100 or a lesser amount if designated by school policy.

**MANAGEMENT’S RESPONSE:**

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

We concur with the finding and the response by the principal.

**Board Member Bass:**

I concur with state finding. Measures have been put in place to rectify this issue.

**Principal:**

I concur with the state finding. Measures have been put in place to rectify this issue. Purchase orders are now being processed as suggested by the audit.

**Bookkeeper:**

I concur with the principal’s response to the finding.

8. **FINDING: No profit analyses for fundraisers, resale items, and vending**

The principal of Loudon High School did not require adequate accounting procedures for school fundraisers, other resale activities, and vending (detailed in Finding 3). Based on the school’s records and procedural interviews with building administrators, the bookkeeper, and several activity sponsors, there was no indication that anybody prepared a required profit analysis or fundraiser summary within the scope of our audit.

In addition, many account sponsors did not keep the kind of detailed records necessary to determine if they had received all of the collections expected from their group's resale activities. For example, several sponsors remitted lump sums of money to the office consisting of both fundraising and non-fundraising collections, without a breakdown of the respective amounts. Another problem common to more than one activity was failure to account for resale items given away and for those sold at a discount. In addition, few sponsors tracked their resale items inventory closely enough to determine whether the group had collected money for each item distributed.

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."

The *Internal School Uniform Accounting Policy Manual*, Section 4, sets forth detailed procedures for fundraising activities, which include completion of a profit analysis and fundraiser summary report.

**RECOMMENDATION:**

To establish accountability and adequately account for fundraising collections and inventory, the principal should require that

- a) required written authorization is obtained and filed;
- b) sponsors keep adequate records of the amounts owed by and received from each person;
- c) sponsors follow up amounts owed to the school at the end of the fundraising activity;
- d) sponsors keep adequate records of items distributed to each seller, items given away or damaged, and of inventory on hand;
- e) sponsors give copies of their records to the bookkeeper when the fundraising event is completed;
- f) for fundraisers involving resale activities, a designated employee (not involved in collecting or recordkeeping) prepares a profit analysis to determine if the intended profit was made and reports results in writing to the principal and any variance from expected collections is investigated;
- g) the school remits sales tax to the vendor or use tax to the Tennessee Department of Revenue for applicable purchases of products and services to be resold; and

- h) a fundraiser summary report is prepared to document that profits were expended for the purpose(s) for which they were raised.

**MANAGEMENT’S RESPONSE:**

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

We concur with the finding and the response by the principal.

**Board Member Bass:**

I concur with state finding. Measures have been put in place to rectify this issue.

**Principal:**

I concur with the state finding. Measures have been put in place to rectify this issue. Profit analyses are now being completed along with other fundraiser analyses.

**Bookkeeper:**

I concur with the principal’s response to the finding.

9. **FINDING: Fundraiser collection issues**

During interviews, some activity sponsors told the audit team that they did not remit all of their collections from resale activities and fundraisers to the school bookkeeper on a daily basis. One sponsor said that she kept money received from her students in a locked filing cabinet in her classroom, sometimes for more than three days. Another sponsor admitted buying pizza for her dance team using fundraiser collections. The FCCLA sponsor told the audit team that she withheld cash from collections for a “cash grab” sales incentive. School files also revealed that most fundraiser collection records did not list the form of collection (cash or check).

The *Internal School Uniform Accounting Policy Manual*, page 6–2, requires:

Collections should be deposited daily, if possible, but no more than three days after the initial collection.... Collections should be deposited intact. Intact means that collections are deposited in the form and amount in which they are collected. All money collected must be deposited in the next deposit. No collections should be withheld from the deposit for any reason.... All checks should be listed individually on the deposit slip or an attached list, itemizing the name of the payer and the amount. The receipt numbers comprising the deposit should be written on the deposit slip.

Page 5-8 of the manual states, “Using daily collections for cashing checks or making purchases is prohibited.”

**RECOMMENDATION:**

To safeguard funds, school personnel should deliver total collections to the bookkeeper at least daily. The principal should ensure that the bookkeeper complies with state law and deposits all school collections intact within three days of initial collection. In addition, to ensure that funds are deposited in the form and amount collected, each original collection log and/or receipt should indicate the form of payment as well as the amount. Checks should be listed individually on the deposit slip or attached list, and receipt numbers comprising the deposit should be listed on the deposit slip.

**MANAGEMENT’S RESPONSE:**

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

We concur with the finding and the response by the principal.

**Board Member Bass:**

I concur with state finding. Measures have been put in place to rectify this issue.

**Principal:**

I concur with the state finding. Measures have been put in place to rectify this issue. All fundraisers now have increased monitoring by the administration and require collection logs, etc. The teachers will deposit money on a daily basis with the bookkeeper.

**Bookkeeper:**

I concur with the principal’s response to the finding.

10. **FINDING: Checks cashed using collections**

The bookkeeper at Loudon High School used collections to cash school employees’ personal checks. As a result, some school money was not deposited intact as required by page 4–17 of the *Internal School Uniform Accounting Policy Manual*. Intact means in the form and amount collected.

According to page 4–34 of the manual:

Student activity and other internal school funds must not be used for any purpose which 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, including school personnel.

**RECOMMENDATION:**

To avoid risking an undetected loss of funds and to comply with the intact collections requirement, the bookkeeper should not cash personal checks using school money.

**MANAGEMENT’S RESPONSE:**

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

We concur with the finding and the response by the principal.

**Board Member Bass:**

I concur with state finding. Measures have been put in place to rectify this issue.

**Principal:**

I concur with the state finding. Measures have been put in place to rectify this issue. Checks are no longer cashed using collections.

**Bookkeeper:**

I concur with the principal’s response to the finding.

11. **FINDING: No authorization for certain fundraisers**

Although Loudon High School records revealed that several clubs and teams conducted resale and fundraising activities, it appears that some sponsors conducted their fundraisers without first obtaining required documented approval from the principal and director of schools. The school office did not retain copies of any fundraiser approval forms. All available copies of fundraiser authorizations were located at the district office.

The *Internal School Uniform Accounting Policy Manual*, page 4–26, requires:

The principal must obtain written approval from the director of schools or designee for all fundraising activities that involve 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)

Loudon County Schools' adopted policy requires the director's approval prior to the beginning of **any** resale or fundraising activity.

**RECOMMENDATION:**

The principal, after giving approval, should verify that the director of schools has approved each fundraising and resale activity prior to its commencement. Copies of written authorization for all fundraisers and resale activities should be maintained in school files as well as at the district office. No unapproved fundraisers should be allowed.

**MANAGEMENT'S RESPONSE:**

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

We concur with the finding and the response of the principal.

**Board Member Bass:**

I concur with state finding. Measures have been put in place to rectify this issue.

**Principal:**

I concur with the state finding. Measures have been put in place to rectify this issue. All fundraisers had authorization. Authorization forms were not all on file with the principal but were filed with the individual teacher and the central office. All authorization forms are now on file in the principal's office.

**Bookkeeper:**

I concur with the principal's response to the finding.

12. **FINDING:** Some resale activities had no sales tax remitted; only yearbooks purchased online included sales tax

In several instances, Loudon High School and its suppliers did not remit sales tax to vendors, or use tax to the Tennessee Department of Revenue, for applicable purchases of products and services intended for resale. For example, on more than one occasion an area vendor produced t-shirts for the school. Although yearbook workers intended to resell the shirts, the vendor marked the invoices “exempt.” Similarly, the supplier for a girls’ soccer candle sale and the supplier for a HOSA candy sale neglected to collect sales tax on their respective invoices.

Another sales or use tax issue arose with the school yearbook sale. A representative of the company that published the yearbook explained that his company collected sales tax and remitted it to the Tennessee Department of Revenue, but only for copies purchased over the Internet. The school did not collect or remit use tax for yearbooks paid for at the school.

Section 67–6–102, *Tennessee Code Annotated*, sets forth sales and use tax requirements (with specific exemptions) for businesses that 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 all 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 the response by the principal.

**Board Member Bass:**

I concur with state finding. Measures have been put in place to rectify this issue.

**Principal:**

I concur with the state finding. Measures have been put in place to rectify this issue. All purchases for resale will have sales tax paid. All staff has been made aware of this procedure.

**Bookkeeper:**

I concur with the principal's response to the finding.

13. **FINDING:** **No original collection documents prepared for on-site yearbook sales; no supporting documents retained for advertising sales**

No collection logs, receipts or other original collection records were available for on-site yearbook sales and for yearbook advertising sales. According to the *Internal School Uniform Accounting Policy Manual*, pages 5-3 through 5-5:

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 requires, "Each school must maintain adequate records and follow acceptable procedures to properly account for all internal school funds." Page 4-21 of the manual specifies that original collection documents "... should be retained for a minimum of 5 years or until all applicable audit exceptions are resolved, whichever is later."

**RECOMMENDATION:**

To document all collections, teachers and 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, the payment method—cash or check, and the purpose of the collection. Teachers should correctly total each log before turning it over to the bookkeeper with the collections. Teachers should retain a copy of each of their collection logs (initialed by the bookkeeper) along with the respective receipt issued by the bookkeeper. The teachers’ unaltered collection logs should be maintained in the school office for audit purposes. The bookkeeper should require and verify that the person remitting each collection has also submitted correct and complete records.

**MANAGEMENT’S RESPONSE:**

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

We concur with the finding and the response by the principal.

**Board Member Bass:**

I concur with state finding. Measures have been put in place to rectify this issue.

**Principal:**

I concur with the state finding. Measures have been put in place to rectify this issue. All collections will have a log completed along with proper receipts, including the yearbook collections.

**Bookkeeper:**

I concur with the principal’s response to the finding.

14. **FINDING: School pictures and vending commissions posted to a restricted account**

Per the principal’s instructions, the bookkeeper at Loudon High School recorded vending commissions, vending signing bonuses, and school picture commissions to a restricted, “incentive” account. Funds from this account benefited members of the faculty, staff, and administration.

The *Internal School Uniform Accounting Policy Manual* does not allow for allocation of commissions or other student-generated collections to any purpose that does not directly benefit the student body or the school in general.

Page 4-1 of the manual states:

The general fund is used to account for all money to be used for the general operation of the school or for the welfare of the student body. This includes, but is not limited to ... school-wide fundraisers.... **All expenditures from the general fund must benefit the school or must contribute to the welfare of the student body, and supplement, and not replace, funds necessary to fulfill the local board's obligation to provide an instructional program, property, equipment, and salaries.**

**RECOMMENDATION:**

To ensure that money generated by students directly benefits the students or the school, the principal should require the bookkeeper to post all vending and picture commission revenue to the general fund. All subsequent disbursements of student-generated money should directly benefit the student body or supplement general school operations.

**MANAGEMENT'S RESPONSE:**

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

We concur with the finding and the response by the principal.

**Board Member Bass:**

I concur with state finding. Measures have been put in place to rectify this issue.

**Principal:**

I concur with the state finding. Measures have been put in place to rectify this issue. All school picture money and Coca-Cola money is now deposited in the general fund.

**Bookkeeper:**

I concur with the principal's response to the finding.

15. **FINDING: Ticket reconciliation forms incorrectly used for football, not used at all for some other sports and events**

The Loudon High School bookkeeper told auditors that the ticket numbers and quantities sold, written on football reconciliation sheets, did not necessarily correspond to the actual ending ticket numbers at the end of the event. She explained that she had been trained to force the quantity sold to reconcile with the cash count in all cases. To accomplish this, she counted the money and then calculated the number of ticket sales required to reach that amount. As a result, it was impossible to determine whether all football game admission money was recorded and deposited in the school's bank account.

For certain sports, including soccer and softball, admission procedures were more informal. The parents and teachers that collected gate money at these events did not complete ticket reconciliation forms or even prepare a signed record that they had counted the amount of money turned in and reflected in the school's records.

Additionally, on the day that yearbooks were distributed, the audit team observed that several students attended a "signing day" assembly. The students who wished to attend paid their classroom teachers \$3 apiece for admission. The teachers did not use prenumbered tickets, collection logs, or any other method to record the number of students that paid to attend signing day or the amount collected. As a result, it was impossible to determine if the yearbook account received credit for each student that attended and it was impossible to determine if the complete amount of "signing day" admission money was deposited to the school's bank account.

The *Internal School Uniform Accounting Policy Manual*, pages 5–5 through 5–6, explains:

A ticket reconciliation form is required for all events, such as athletics or entertainment, for which a fee is charged or paid in advance, and a collection log is not used.... 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 all school event collections are properly accounted for, the principal should establish adequate admissions procedures as set forth in the *Internal School Uniform Accounting Policy Manual*. He should require all teachers and others that collect admission money to follow these procedures, and verify their compliance.

**MANAGEMENT’S RESPONSE:**

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

We concur with the finding and the response by the principal.

**Board Member Bass:**

I concur with state finding. Measures have been put in place to rectify this issue.

**Principal:**

I concur with the state finding. Measures have been put in place to rectify this issue. All ticket reconciliation forms are filled out the night of the ballgame by an individual other than the bookkeeper. The bookkeeper and principal no longer handle the collections, which ensures double accountability for processing the deposits later in the week.

**Bookkeeper:**

I concur with the principal’s response to the finding.

16. **FINDING: Deposits have no check listings; receipt numbers not recorded on deposit slips**

The bookkeeper at Loudon High School did not list the checks included in each deposit. She did not record the receipt numbers on the deposit slip either. Both of these procedures, when properly performed, help to document that the responsible employees have deposited all school collections intact, in a timely manner.

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 create and retain an accurate record of the checks in each deposit. She should also record the receipt numbers that make up each deposit on the deposit slip.

**MANAGEMENT’S RESPONSE:**

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

We concur with the finding and response by the principal.

**Board Member Bass:**

I concur with state finding. Measures have been put in place to rectify this issue.

**Principal:**

I concur with the state finding. Measures have been put in place to rectify this issue. All checks for deposit are copied, and numbers are recorded on the deposit slips.

**Bookkeeper:**

I concur with the principal’s response to the finding.

17. **FINDING: Basketball change fund apparently increased by using earlier collections**

The Loudon High School bookkeeper did not correctly account for the money used for change at basketball games. Between the end of the regular season and the beginning of post-season tournaments, the amount of change on hand increased from \$800 to \$1,000 without explanation. Apparently, the bookkeeper obtained the additional change from money on hand that was awaiting deposit.

According to page 5–7 of the *Internal School Uniform Accounting Policy Manual*:

**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 establish responsibility for change funds, the bookkeeper should follow procedures set forth in the *Internal School Uniform Accounting Policy Manual*. Each time the change is turned over to another individual (ticket seller, concession operator, etc.), the money should be counted with the count documented by both persons.

**MANAGEMENT'S RESPONSE:**

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

We concur with the finding and the response by the principal.

**Board Member Bass:**

I concur with state finding. Measures have been put in place to rectify this issue.

**Principal:**

I concur with the state finding. Measures have been put in place to rectify this issue. To prevent this from happening, change will no longer be made out of collections.

**Bookkeeper:**

I concur with the principal's response to the finding.

18. **FINDING: IRS Form 1099 not issued**

During the 2005 calendar year, Loudon High School paid at least \$600 to several noncorporate recipients without reporting those payments to the Internal Revenue Service on a federal Form 1099. The *Federal Tax Code*, Section 6041, requires that a business or nonprofit organization, which pays \$600 or more to a noncorporate recipient, must file a Form 1099 for that recipient and provide the recipient with a list of the payments.

**RECOMMENDATION:**

To comply with federal law and avoid substantial penalties, the bookkeeper should be certain that a Form 1099 has been filed with the Internal Revenue Service for all noncorporate recipients to whom the school pays \$600 or more during a calendar year. The school should contact the Internal Revenue Service for additional information.

**MANAGEMENT’S RESPONSE:**

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

We concur with the finding and the response by the principal.

**Board Member Bass:**

I concur with state finding. Measures have been put in place to rectify this issue.

**Principal:**

I concur with the state finding. Measures have been put in place to rectify this issue. See number 1. This finding will no longer be an issue.

**Bookkeeper:**

I concur with the principal’s response to the finding.