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DIVISION OF MUNICIPAL AUDIT

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May 11, 2005

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

We have completed our investigative audit of the activity funds of Mt. Pleasant Middle School, Maury County School System. This audit focused on the period July 1, 2003, through June 30, 2004. However, when the examination warranted, this scope was expanded.

Our investigative audit revealed that during the period July 1, 2003, through June 30, 2004, apparently \$7,291.50 in school collections was not receipted and deposited into a school bank account. School officials immediately notified our office when they had concerns about whether some school collections had been receipted. The former bookkeeper admitted to auditors that she took money from the school without authority for her own personal benefit. She also admitted to auditors that she falsified records to conceal the fact that she took school money.

This matter has been referred to the local district attorney general.

Our investigative audit revealed several weaknesses in the school's internal controls that contributed to or could contribute to undetected misappropriations.

Inadequate separation of duties

The former bookkeeper was responsible for collecting, receipting, recording, preparing deposits, and reconciling the bank statements. Therefore, the former bookkeeper had complete control over collections. The *Internal School Uniform Accounting Policy Manual*, Page 4-6, 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.

Collections not deposited timely or intact

The former bookkeeper did not always deposit collections within three banking days. In several of these instances, it appears that school records, such as collection logs and ticket reconciliations, were falsified in order to make it appear that collections were actually deposited timely. In addition, there were many deposits that were not made intact. Apparently, unreceipted school checks were swapped for cash. Furthermore, personal checks were cashed using school collections and collections were sometimes held to use for change. The *Internal School Uniform Accounting Policy Manual*, Page 6-2, states, "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." Page 4-34 of the manual mentioned above also states that personal checks cannot be cashed for the purpose of making change.

Receipts not issued

Although records indicated that the former bookkeeper prepared receipts, several school employees stated that the former bookkeeper never gave them receipts. Furthermore, school records indicate that many receipts were not prepared until after the collections had already been deposited. The *Internal School Uniform Accounting Policy Manual*, Page 5-7, requires prenumbered receipts to be given to the person when the money is remitted.

Monthly reports not issued

Despite being asked numerous times by the principal, the former bookkeeper did not give teachers monthly reports of their accounts. After the bookkeeper resigned, monthly reports were given to teachers. It was only then that school officials became aware that money was apparently missing. The *Internal School Uniform Accounting Policy Manual*, Page 7-5, states:

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Cash receipts and disbursements reports for each restricted fund account should be given to the sponsor of each account. These responsible individuals should review the reports. If errors are noted, they should be immediately communicated to the principal for follow-up. If no errors are noted, the responsible individual should sign or initial the report.

Problems with ticket reconciliations

Although ticket sellers at athletic and dance events stated they prepared ticket reconciliations immediately after the event, many ticket reconciliations were dated several days later. In addition, in several instances, ticket sellers stated the ticket reconciliation form maintained by the former bookkeeper was not the form they completed and the signature on the form was not theirs. Furthermore, as noted on some ticket reconciliations, a range of ticket numbers for one event fell within a range of ticket numbers used for another event. The *Internal School Uniform Accounting Policy Manual*, Pages 5-5-6 sets forth required policies and procedures related to the use of tickets.

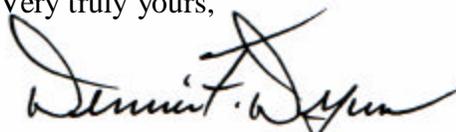
Concession revenue not analyzed

Concessions were offered at dances and other school events. However, the school kept no records detailing giveaways or leftovers and apparently did not compare recorded collection amounts to the amount that would be expected based on product usage. Because of the lack of records, we were unable to determine if all concession collections were deposited. The *Internal School Uniform Accounting Policy Manual*, Pages 4-26-27 sets forth required policies and procedures related to fundraising and resale activities including the requirement for profit analysis reports.

School officials have taken steps to institute additional internal controls to address these weaknesses. We encourage management to continue to take steps to improve internal controls over these areas.

If you have any questions concerning this matter, please contact me.

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