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DEPARTMENT OF AUDIT
DIVISION OF MUNICIPAL AUDIT

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July 1, 2005

Director of Schools and Members of the
Board of Education
Anderson County School System
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Ladies and Gentlemen:

We have completed our investigative audit of the activity funds of Norwood Middle School, Anderson County School System. The audit focused on the period July 1, 2003, through June 30, 2004. However, when warranted, we expanded the scope.

Our investigative audit revealed the following:

LEGAL ISSUES

1. **ISSUE:** **Apparent misappropriation of \$1,668.50**

Fundraiser collections totaling \$2,294 were remitted to the office and receipted by the bookkeeper, Robin Patterson, on November 5, 2003. Two receipts were issued for the total amount. In addition, Ms. Patterson prepared two deposit slips for these collections—one for \$625.50 and the other for \$1,668.50. Both deposit slips were dated the same date. According to school bank records, the deposit for \$625.50 was made on November 7, 2003; however, the \$1,668.50 was not deposited into a school bank account. Ms. Patterson admitted that she knew the collections were missing a few days after the deposit should have been made. However, Ms. Patterson conceded she did not notify the principal or anyone else in the school system about the missing money. (The principal was informed of the missing deposit after our investigation began in July 2004.) Ms. Patterson claimed she thought this was an error by the bank and that she asked bank personnel

several times to investigate the missing money. However, bank personnel stated that Ms. Patterson never asked them to investigate this missing deposit.

2. **ISSUE: Change totaling \$100 not accounted for**

Change of \$100, which was obtained for the basketball ticket and concession sales, could not be accounted for. The amount receipted and deposited after the last basketball game agreed to the amount noted per the ticket reconciliation and concession forms less the amount of change. There was no receipt or redeposit of the \$100. The bookkeeper, Ms. Patterson, prepared both the ticket reconciliation form and the concession form. However, she could not explain what happened to the change.

3. **ISSUE: Collections totaling \$670.50 not deposited for over five months**

Collections for a Washington, D.C., trip totaling \$670.50 were receipted by the bookkeeper, Ms. Patterson, on January 26, 2004. Ms. Patterson also prepared a deposit slip dated the same day. However, Ms. Patterson did not deposit these collections into a school bank account until June 29, 2004, over five months after the money was collected by school personnel. It is interesting to note that this deposit was made the day before the close of the school's fiscal year and two weeks after Ms. Patterson stated that she had started her summer break. At first, Ms. Patterson contended the delay was due to a bank error. Later, Ms. Patterson told auditors that she held the entire deposit, claiming she was told one of the checks included in the deposit would not clear the bank due to insufficient funds. However, the individual who wrote this check stated that he never told anyone at the school to hold his check.

Summary of Legal Issues

We were unable to account for school collections totaling \$1,768.50 which were in Robin Patterson's custody. Ms. Patterson was unable to explain what happened to the missing money. In addition, Ms. Patterson failed to deposit additional school checks and cash totaling \$670.50 for over five months after the money was given to her. During the investigative audit, Ms. Patterson repeatedly made inconsistent, misleading, and/or deceptive statements to the state auditors.

This matter has been referred to the local district attorney general. The board should seek legal counsel to determine if any civil action to recover funds is warranted.

Glossary of State Statutes

Section 39-14-103, *Tennessee Code Annotated*

Theft of property.

“A person commits theft of property if, with intent to deprive the owner of property, the person knowingly obtains or exercises control over the property without the owner’s effective consent.”

Section 39-14-105, *Tennessee Code Annotated*

Grading of theft.

“Theft of property or services is ... (3) A Class D felony if the value of the property or services obtained is one thousand dollars (\$1,000) or more but less than ten thousand dollars (\$10,000) ...”

Section 39-16-402, *Tennessee Code Annotated*

Official misconduct.

- (a) A public servant commits an offense who, with intent to obtain a benefit or to harm another, intentionally or knowingly ...
- (4) Violates a law relating to the public servant’s office or employment; or
- (5) Receives any benefit not otherwise authorized by law.

Our investigative audit also revealed the following internal control weaknesses:

◆ **Inadequate separation of duties**

The bookkeeper, who was responsible for preparing deposits and reconciling bank statements, was also responsible for receipting, disbursing, and recording collections. The *Internal School Uniform Accounting Policy Manual*, Pages 4-6-7, state:

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.

The principal should require an adequate system of internal control so that no employee has control over a complete transaction. Someone other than the bookkeeper should receive and reconcile the bank statement each month and, periodically, someone other than the bookkeeper should trace receipts to deposit. Any problems found should be reported and followed up.

◆ **Collections not documented**

Ticket sellers and concession workers did not count and document collections before they were remitted to the office. The *Internal School Uniform Accounting Policy Manual*, Page 5-3, states, "Teachers/others who collect money should prepare a collection record (prenumbered receipt, collection log, ticket reconciliation, signed recorded count, etc.) for each separate activity." Ticket sellers should complete a ticket reconciliation report or a signed recorded count before remitting the collections. Concession workers should also prepare a signed recorded count of concession sales.

◆ **Petty cash fund not established correctly**

On our first visit to the school, we counted cash totaling \$83.70 that the bookkeeper had in her office. The bookkeeper was not clear regarding the origins

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of this money, stating that some of the money was from library collections and some from teachers for flowers. She also implied the money was used for petty cash. However, the bookkeeper stated that she had no records, and did not know how much of this money had been turned over to her. Therefore, we were unable to determine if all of this money was accounted for. Furthermore, the principal stated that he was unaware that the bookkeeper maintained a petty cash fund. Board of education personnel stated that a petty cash fund was not authorized.

The *Internal School Uniform Accounting Policy Manual*, Page 5-18, states:

School officials and employees are discouraged, but not prohibited, from making petty cash disbursements. However, the creation and use of a school petty cash account must be specifically authorized in writing by the board of education for a prescribed amount and for the maximum amount of a single petty cash transaction.

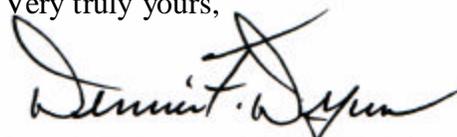
Section 5, Title 4 of the manual sets forth other requirements for establishing and maintaining a petty cash fund.

◆ **Documentation of itemized deposits not always maintained**

Although the bookkeeper apparently itemized deposit slips, she did not always maintain copies of the itemized deposit slips in the school's records. 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."

School officials stated that they have instituted additional internal controls and oversight to address these weaknesses. If you have any questions concerning the above matter, please contact me.

Very truly yours,



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Division of Municipal Audit