

INVESTIGATIVE AUDIT REPORT

PARSONS ELEMENTARY SCHOOL

DECATUR COUNTY SCHOOL SYSTEM

JULY 1, 2002, THROUGH FEBRUARY 29,



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
Department of Audit
Division of Municipal Audit



STATE OF TENNESSEE

John G. Morgan

C O M P T R O L L E R O F T H E T R E A S U R Y

Comptroller

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-0260

PHONE (615) 741-2501

January 18, 2005

Director of Schools and Members of
the Board of Education
Decatur County School System
59 Main Street
Decaturville, TN 38329

Director of Schools and Board Members:

Presented herewith is the report on our investigative audit of selected records of the activity and cafeteria funds of Parsons Elementary School, Decatur County School System. This examination focused on the period July 1, 2002, through February 29, 2004. However, this scope was expanded if the examination 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 examination was to determine the extent of the school's compliance with certain laws and regulations, including those in this manual.

Our investigative audit revealed that the former bookkeeper apparently misappropriated cafeteria collections of at least \$21,574 and vending commission collections totaling at least \$860. Also, the former bookkeeper apparently destroyed and removed cafeteria records from the school.

This matter was referred to the local district attorney general. On October 18, 2004, the Decatur County Grand Jury indicted Deborah K. Bivens, former cafeteria bookkeeper, on one count of Theft over \$10,000. On January 7, 2005, Ms. Bivens entered a guilty plea to this charge. The court has scheduled Ms. Bivens to be sentenced on March 23, 2005.

Director of Schools and Members of
the Board of Education
Decatur County School System
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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.

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,

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

SUITE 1600
JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-0271
PHONE (615) 708-7871
FAX (615) 741-1551

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

January 18, 2005

Mr. John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, TN 37243

Dear Mr. Morgan:

As part of our on-going 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 and cafeteria funds of Parsons Elementary School, Decatur County School System. This examination focused on the period July 1, 2002, through February 29, 2004. However, this scope was expanded if the examination 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 examination.

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 examination

Mr. John G. Morgan
Comptroller of the Treasury
January 18, 2005

was to determine the extent of the school's compliance with certain laws and regulations, including those in this manual.

Our investigative audit revealed that the former bookkeeper apparently misappropriated cafeteria collections of at least \$21,574 and vending commission checks totaling at least \$860. Also, the former bookkeeper apparently destroyed and removed cafeteria records from the school.

This matter was referred to the local district attorney general. On October 18, 2004, the Decatur County Grand Jury indicted Deborah K. Bivens, former cafeteria bookkeeper, on one count of Theft over \$10,000. On January 7, 2005, Ms. Bivens entered a guilty plea to this charge. The court has scheduled Ms. Bivens to be sentenced on March 23, 2005.

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

1. Inadequate separation of duties
2. Deposits not made promptly or intact
3. Deposit slips not itemized
4. Inadequate records for Extended School Program
5. Prenumbered receipts not issued
6. Some checks did not have authentic dual signatures

Because state law assigns specific responsibilities for school activity and cafeteria 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,

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

**INVESTIGATIVE AUDIT OF SELECTED RECORDS OF
PARSONS ELEMENTARY SCHOOL
DECATUR COUNTY SCHOOL SYSTEM
FOR THE PERIOD JULY 1, 2002, THROUGH FEBRUARY 29, 2004**

LEGAL ISSUES

1. **ISSUE: Apparent misappropriation of cafeteria collections totaling over \$21,500**

Our investigative audit revealed that during the period July 1, 2000, through February 29, 2004, the former cafeteria bookkeeper, Deborah Bivens, apparently misappropriated cafeteria collections of at least \$21,573.96. Ms. Bivens apparently used cash she collected for student meals for her personal benefit. Ms. Bivens also apparently took checks paid for cafeteria meals and swapped the checks for cash collected for the Extended School Program. (Ms. Bivens also had access to all collections received for student activities.) Ms. Bivens apparently used this cash for her personal benefit.

Ms. Bivens was able to conceal the theft of the cash and checks by making adjustments to the applicable student accounts, instead of correctly entering the collections in the computerized cash register as payments. Because the computerized accounting system did not recognize adjustments as collections, daily totals of amounts collected and deposited did not reflect a shortage. Computerized cafeteria records indicate that during the period July 1, 2000, through February 29, 2004, adjustments to student accounts totaled \$21,602.82. (For perspective, for the period July 1, 2003, through February 29, 2004, adjustments made to student meal accounts at Parsons Elementary totaled \$9,802.56. During the same time period, adjustments at two other cafeterias in the Decatur County School System totaled only \$26.25 and \$25.68, respectively.) According to school personnel, Ms. Bivens was responsible for the cafeteria collections and also handled some student activity fund collections. Ms. Bivens admitted that she took cafeteria collections without authorization and that she concealed the misappropriation by making adjustments to accounts.

2. **ISSUE: Apparent misappropriation of vending commission checks totaling at least \$860.29**

As noted in Issue 1, the former cafeteria bookkeeper, Deborah Bivens, had access to collections received from the Extended School Program, as well as other collections accounted for in the school activity funds. Apparently, Ms. Bivens, who for the period July 1, 2000, to June 30, 2003, was also the activity fund bookkeeper, took certain vending commission checks paid to the school, did not receipt the checks in the school

records, and swapped them for cash totaling at least \$860.29 collected for the Extended School Program. Ms. Bivens then apparently used the cash for her personal benefit.

3. **ISSUE: Destruction and removal of cafeteria records**

The cafeteria uses a software program from Local Government Data Processing to record payments and transactions involving cafeteria funds. According to a representative from the company, current student history files, which show all transactions made to individual student accounts, had been deleted from the computer system. In addition, several computerized print-outs called event logs, which are printed daily and show various transactions made, including adjustments, had been removed from the school. According to other school employees, the former cafeteria bookkeeper, Deborah Bivens, was solely responsible for deleting records from the computerized accounting system and for printing and maintaining the daily event logs.

Summary of Apparent Misappropriation

Dates of Collections	Cafeteria Collections Apparently Misappropriated	Vending Commissions Apparently Misappropriated	Total Amount Apparently Misappropriated
July 1, 2000, through June 30, 2001	\$ 1,743.95		\$ 1,743.95
July 1, 2001, through June 30, 2002	1,688.93		1,688.93
July 1, 2002, through June 30, 2003	8,404.02	\$496.40	8,900.42
July 1, 2003, through February 28, 2004	<u>9,737.06</u>	<u>363.89</u>	<u>10,100.95</u>
Total apparently misappropriated	<u>\$21,573.96</u>	<u>\$860.29</u>	<u>\$22,434.25</u>

This matter was referred to the local district attorney general. On October 18, 2004, the Decatur County Grand Jury indicted Deborah K. Bivens, former cafeteria bookkeeper, on one count of Theft over \$10,000. On January 7, 2005, Ms. Bivens entered a guilty plea to this charge. The court has scheduled Ms. Bivens to be sentenced on March 23, 2005.

FINDINGS AND RECOMMENDATIONS

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

Both the activity fund bookkeeper and the cafeteria fund bookkeeper were responsible for receipting, disbursing, and recording collections, as well as preparing deposits and reconciling bank statements for their respective funds. In addition, the cafeteria bookkeeper had complete control over adjustments made to student accounts, and made all adjustments without any oversight. As noted in Legal Issue 1, the cafeteria bookkeeper made adjustments to conceal the apparent theft of cafeteria funds. The *Internal School Uniform Accounting Policy Manual*, Pages 4-6-7, 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. . . . 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 account, disbursements are appropriate, and errors or irregularities are detected promptly, the principal should require an adequate system of internal controls 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. Office employees will be assigned duties which will allow adequate segregation of financial transaction responsibilities and prevent this situation from occurring. The principal will assume part of these duties and will make weekly reviews of each account.

Principal:

I concur. The office bookkeepers will segregate their duties with each other so that at least two people will take care of financial transactions. The principal will conduct weekly/monthly reviews of accounts and help with duties when needed.

2. **FINDING: Deposits not made promptly or intact**

The cafeteria bookkeeper did not always deposit cafeteria collections within three banking days. In addition, there were many activity and cafeteria deposits that were not made intact. As noted in Legal Issues 1 and 2, various checks were swapped for collected cash. Furthermore, personal checks were cashed using school collections, and cafeteria 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." The *Internal School Uniform Accounting Policy Manual*, Page 4-33, also states:

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 safeguard funds, collections should be deposited intact within three banking days of initial collection. Collections should not be used to cash personal checks or to provide change for events.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur. All money will be deposited within three days and not be moved to different account lines. No personal checks will be cashed through school funds.

Principal:

I concur. Deposits will be made into appropriate accounts within three banking days of initial collection. Checks will not be cashed for personal use through school accounts.

3. **FINDING: Deposit slips not itemized**

Both the activity fund and cafeteria fund bookkeepers failed to list on bank deposit slips the checks being deposited. Although in most instances, copies of checks were made and attached to the deposit slip, the total amount of copied checks did not always correspond

to the total amount deposited per the deposit slip. 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.

RECOMMENDATION:

To document that all collections are deposited promptly and intact, the bookkeepers should either list on deposit slips the checks being deposited or copy all the checks comprising a deposit and attach them to a copy of the deposit slip. The bookkeepers should ensure that the total amount of all copied checks correspond with the total amount deposited per the deposit slip.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur. All schools will follow the recommendations set forth by this audit review.

Principal:

I concur. A copy of all checks making up each individual deposit will be kept and a copy of the deposit slip will be attached to them. The total amount of copied checks will correspond with that indicated on the deposit slip.

4. **FINDING: Inadequate records for Extended School Program**

The school offers an Extended School Program (ESP). Payments for the program are collected at the school by ESP employees. However, per our review, records maintained by the ESP program director were inadequate. Receipts noted as comprising a deposit did not always agree to the amount deposited, and receipts were apparently not always issued when money was collected. In addition, auditors could not reconcile individual participant records noting payments with the receipts and deposits. Furthermore, the ESP program director admitted that collections were sometimes used to make purchases. Because of the inadequate recordkeeping, it was often difficult to determine amounts collected and balances owed by the participants.

The *Internal School Uniform Accounting Policy Manual*, Page 5-3, states, “Teachers, assistants, volunteers, and support staff who handle money should be made aware of the requirement for maintaining accurate and systematic records of all cash collected.” Page 6-2 of the manual requires that collections be deposited intact and states, “All money

collected must be deposited in the next deposit. No collections should be withheld from the deposit for any reason.”

RECOMMENDATION:

To adequately account for ESP collections, detailed and accurate records should be maintained. The director of schools or his designee should periodically review and reconcile the ESP records to determine if they are adequate and accurate. In addition, cash should not be withheld from collections to make purchases. If cash is needed to make purchases, then a petty cash fund should be established according to the guidelines on Pages 5-18–19 of the *Internal School Uniform Accounting Policy Manual*.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur. All cash and checks will be receipted and deposited according to correct guidelines. Monthly reviews will be conducted by the director.

Principal:

I concur. All cash and checks will be receipted and deposited according to correct guidelines.

5. **FINDING: Prenumbered receipts not issued**

Although the records indicated that both the activity fund and cafeteria fund bookkeepers prepared prenumbered receipts, school personnel stated that the bookkeepers did not give the prenumbered receipts to teachers. Instead, the computerized prenumbered receipts remained in the school’s records. The *Internal School Uniform Accounting Policy Manual*, Page 5-7, requires a prenumbered receipt to be given to the person remitting the money.

RECOMMENDATION:

To provide records for documenting that all collections are recorded and deposited, a prenumbered receipt should be given to the individual who counted and remitted the money.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur. Prenumbered receipts will be used by all schools for all money collected. Copies will be provided to staff as money is received in the school office.

Principal:

I concur. Records for documenting all collections through collection logs will be recorded and deposited and a prenumbered receipt will be issued to the individual who counted and remitted the money.

6. **FINDING: Some checks did not have authentic dual signatures**

Although school checks had two signatures, in several instances it appeared that the principal’s signature was not signed by the principal. According to the principal, her name was apparently signed by the former cafeteria bookkeeper. The principal stated she never gave the former cafeteria bookkeeper permission to sign her (the principal’s) name. The *Internal School Uniform Accounting Policy Manual*, Page 6-3, states, “Two signatures are required for all checks. In most cases, the principal or principal’s designee together with at least one other person must be authorized as cosigners of checks of all internal school fund accounts.”

RECOMMENDATION:

To help prevent the misuse of school funds, all school checks should be signed by two authorized individuals. Each authorized individual must individually sign the checks. No one should be allowed to sign checks on behalf of someone else.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur. Dual signatures will be required. No employee will be permitted to sign another employee’s name on checks or receipts.

Principal:

I concur. All school checks will be signed by two authorized individuals. No one will be allowed to sign checks on behalf of someone else.