

**INVESTIGATIVE AUDIT OF THE RECORDS OF THE
ACTIVITY AND FOOD AUTHORITY FUNDS OF
PAUL G. CAYWOOD ELEMENTARY SCHOOL
LEXINGTON CITY SCHOOL SYSTEM
FOR THE PERIOD JULY 1, 2001, THROUGH NOVEMBER 30, 2002**

FINDINGS AND RECOMMENDATIONS

1. **FINDING:** Collections not remitted in two instances and not remitted intact in several other instances

In at least two instances, a teacher conducted fundraisers on behalf of a school organization but did not remit the collections to the school. The collections were used to reimburse parents who had paid expenses for the organization's student members using their own funds. In addition, in several instances, various expenses, including fees for game officials and concession workers, were paid from collections before the remainder was turned in for deposit. Collections were also used on several occasions to cash checks. The *Internal School Uniform Accounting Policy Manual*, Page 5-3, states, "The school becomes accountable when money is initially received by employees, officials, or volunteers acting in their official capacity." Page 6-2 of the manual referred to above states:

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.

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

RECOMMENDATION:

To help account for all funds collected by the school, school personnel should deliver **total** collections to the cashier. For no reason should collections be withheld from a deposit. In addition, the principal should prohibit school personnel from cashing checks for any purpose using the school's collections.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur with the finding. Policies and procedures are currently in place that reflect compliance with both the stated recommendation and the policy manual.

Principal:

I concur with the response of the director of schools and the board of education.

2. **FINDING: Change of at least \$1,279 not accounted for**

Change of at least \$1,279, which was obtained for various school events, could not be accounted for. Neither the deposit slips nor the school’s records provided any documentation that the money was redeposited. It appeared that if redeposited, the change was combined with the event collections. In other instances when change was needed, cash was taken out of collections which had been turned in to the bookkeeper for deposit. Similarly, change needed to operate registers in the cafeteria was withheld from cafeteria collections. Further, we could not determine the amount or the source of change used for ticket and concession sales, and we could not trace any change used for these sales to redeposit. The *Internal School Uniform Accounting Policy Manual*, Page 5-7, states:

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 change should be redeposited as soon as feasible and the deposit slip marked “Redeposit.”

RECOMMENDATION:

To correctly account for change, a check should be written to the individual responsible for the change for each event. The exact amount of the change should be redeposited as soon as feasible, and the deposit slip clearly marked “redeposit.”

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur with the finding. Policies and procedures are currently in place that reflect compliance with both the stated recommendation and the policy manual.

Principal:

I concur with the response of the director of schools and the board of education.

Cafeteria Supervisor:

I concur with the reply of the director of schools and the board of education.

Bookkeeper:

I concur with the response of the Lexington City Board of Education.

3. **FINDING: Some cafeteria a la carte collections unrecorded**

Prior to the beginning of our investigative audit, employees of the School Nutrition Program, Division of Finance and Administration, State Department of Education, determined that the amount of cash collected for certain a la carte items and placed in the cash register drawer had not been entered into the school cafeteria's computerized system. Our examination of the school's records confirmed this finding. School officials had corrected this deficiency prior to the beginning of our audit. Nevertheless, because of this deficiency, we could not determine whether or not all collections due from the sale of a la carte items during the audit period were deposited into the school's cafeteria bank account. The *Internal School Uniform Accounting Policy Manual*, Page 5-3, states, "The school becomes accountable when money is initially received by employees, officials, or volunteers acting in their official capacity."

RECOMMENDATION:

School officials should continue to ensure that **all** collections are entered in the cafeteria's computerized system at the time of sale.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur with the finding. Policies and procedures are currently in place that reflect compliance with both the stated recommendation and the policy manual.

Principal:

I concur with the response of the director of schools and the board of education.

Cafeteria Supervisor:

I concur with the reply of the director of schools and the board of education.

4. **FINDING: Collections not counted when remitted to the school office, and collections not safeguarded**

Although school officials correctly separated duties by employing a cashier who did not perform any bookkeeping duties, they failed to direct the cashier to count collections and issue a receipt **at the time** the collections were turned in. In addition, before the cashier was hired, faculty and staff members completed office receipts themselves when they turned money in for deposit. Further, in at least one instance, an administrative employee who was not authorized to receive collections took custody of a check and cash and stored this money overnight in an unlocked cabinet. Although a receipt had been issued for the cash, the employee violated separation of duties instructions which had been issued by the director of schools. The *Internal School Uniform Accounting Policy Manual*, Page 5-7, states, "The principal should prohibit teachers/others from turning money over (leaving money on the cashier's desk) without receiving a receipt." The same page of the manual cited also states, "The cashier must count the money and issue a prenumbered receipt at the time money is remitted." The *Internal School Uniform Accounting Policy Manual*, page 1-7, states, "Money or property received by a[n] . . . employee . . . acting in his or her official capacity, becomes public money or property. . . . Such money must be appropriately managed and safeguarded by the school."

RECOMMENDATION:

To help ensure that all collections are recorded correctly in the school's records and deposited in the school's bank account, the cashier should recount collections in the presence of the person remitting them and issue a prenumbered receipt at the time of the recount. As required by the director of schools, all money should be remitted to the cashier, or in her absence, secured in the school's safe.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur with the finding. New policy has recently been approved but present procedure does not reflect the stated recommendation. Procedures will be implemented that are in compliance with both the stated recommendation and the policy manual. This implementation will begin August 11, 2003.

Principal:

I concur with the response of the director of schools and the board of education.

5. **FINDING:** Collections not deposited promptly

Many teachers did not remit collections to the office promptly. In addition, prior to the hiring of a cashier to assume deposit preparation duties, the bookkeeper failed to deposit a number of activity and cafeteria collections within three days of the date she received them. The *Internal School Uniform Accounting Policy Manual*, Page 5-3, states, “All collections by teachers/others should be remitted to the cashier daily or more frequently, if necessary.” Page 6-2 of the same manual states:

Collections should be deposited daily, if possible, but no more than three days after the initial collection. Night deposits may be necessary to avoid large sums of cash being on hand overnight.

RECOMMENDATION:

To safeguard funds, school personnel should deliver total collections to the cashier daily, and the collections should be deposited daily, if possible, but no later than three banking days after **initial** collection.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur with the finding. Policies and procedures are currently in place that reflect compliance with both the stated recommendation and the policy manual.

Principal:

I concur with the response of the director of schools and the board of education.

Cafeteria Supervisor:

I concur with the reply of the director of schools and the board of education.

Bookkeeper:

I concur with the response of the Lexington City Board of Education.

6. **FINDING: Receipts not issued or inadequate**

Office receipts were not issued for some collections, including money from game admissions and concession operations, checks received from the board of education for the state cafeteria reimbursement, and cafeteria register and some activity fund collections transferred between employees. In addition, many receipts were not issued to the person remitting the money, but instead were **issued to** a revenue source, such as “pictures.” However, in several other instances, receipts did not adequately identify the source of the collections for posting purposes. Finally, the receipts used by the school, except those used by the cashier for cafeteria prepayments, were not adequately prenumbered. Although the “one-write” system original receipts were prenumbered, the listing created to serve as duplicate receipts did not have a number preprinted for each entry. The *Internal School Uniform Accounting Policy Manual* requires prenumbered receipts to be issued for all collections. Page 5-8 of the manual states:

The receipt must identify the payer, the amount remitted, and date. If the receipt itself does not identify the purpose(s) of the collection and corresponding amount(s), other supporting documentation must be attached to permit the bookkeeper to record the transaction.

RECOMMENDATION:

To help account for all money received by the school, an adequately prenumbered receipt should be issued for all collections remitted to the school office. The receipt should be issued to the person remitting the money and should contain adequate information to allow the bookkeeper to correctly record the specific source of the money. When cafeteria collections are transferred between employees, both parties should count the money together, and both should initial the count. The initials of the employee accepting the collections document that employee’s acceptance of responsibility for the collections.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur with the finding. New policy has recently been approved but present procedure does not reflect the stated recommendation. Procedures will be implemented that are in compliance with both the stated recommendation and the policy manual. This implementation will begin August 11, 2003.

Principal:

I concur with the response of the director of schools and the board of education.

Cafeteria Supervisor:

I concur with the reply of the director of schools and the board of education.

7. **FINDING: Bank accounts not included in school's records**

A bank search revealed at least three bank accounts, using the school's federal identification number, for which the school did not have records. In addition, during our audit we became aware of several other bank accounts apparently containing money to be used for the school. Because these accounts were controlled by teachers, the school did not have records. School officials believe these accounts were opened to consolidate, by grade level, fundraiser proceeds distributed by the local parent-teacher organization to individual teachers. However, because these donations were not recorded in the school's records, school officials could not establish and maintain accountability for these donations or the purchases made with the money. The *Internal School Uniform Accounting Policy Manual*, Page 1-4, states, "Each school must maintain adequate records and follow acceptable procedures to properly account for all internal school funds." Page 1-7 of the same manual states:

Money or property received by a school official, employee, or volunteer, acting in his or her official capacity, becomes public money or property. The money is the property of the respective school. Such money must be appropriately managed and safeguarded by the school.

RECOMMENDATION:

To help appropriately manage and safeguard all funds belonging to the school, donations made for the use of the school should be included in the school's records. Donations should be made directly to the school for the use of a particular teacher's class to help ensure that proper accountability is maintained.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur with the finding. New policy has recently been approved but present procedure does not reflect the stated recommendation. Procedures will be implemented that are in compliance with both the stated recommendation and the policy manual. This implementation will begin August 11, 2003.

Principal:

I concur with the response of the director of schools and the board of education.

8. **FINDING:** **Collection logs not used**

Collection logs or three-part prenumbered receipts were not used by teachers to record activity fund collections from students. Although two-part receipt books (originals to be written to students and copies to be retained) were issued to teachers, teachers did not always use them. Even when teachers did issue these receipts, the receipt books used did not provide a collection record to be turned in to the cashier with the collections. Collection logs were used for cafeteria collections; however, teachers did not always date the logs. The *Internal School Uniform Accounting Policy Manual*, Page 5-3-5, 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. All collections by teachers/others should be remitted to the cashier daily or more frequently, if necessary. . . . The principal may choose to require all teachers/others who collect money to issue a prenumbered receipt to each payer. If so, the following requirements apply: . . . (b) The receipt book used should contain at least three-part prenumbered receipts. . . . A collection log may be prepared as an alternative to prenumbered receipts. . . . 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. . . . Teachers are encouraged to retain these logs for at least three years in the event of audit questions.

Page 1-4 of the manual also states, “Each school must maintain adequate records and follow acceptable procedures to properly account for all internal school funds.”

RECOMMENDATION:

To help ensure that all money received by the school is correctly documented, teachers and others who collect and handle money at the school should record all collections on records prescribed by the principal. If collection logs are used, the logs should specify the teacher’s name, the name of each student paying, the amount collected from each student, the date of the collection, and the purpose of the collection. Teachers should correctly total each log before turning it over to the cashier with the collections. Teachers should

retain a copy of each of their collection logs (initialed by the cashier) along with the related receipt issued by the cashier.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur with the finding. A new policy will be adopted that will reflect compliance with both the stated recommendation and the policy manual. The new policy and related procedures will be in place by October 20, 2003.

Principal:

I concur with the response of the director of schools and the board of education.

Cafeteria Supervisor:

I concur with the reply of the director of schools and the board of education.

9. **FINDING: Fundraising activities conducted in the absence of board policy authorizing them**

Although the board had not adopted policies authorizing fundraisers, school personnel conducted a number of such activities. However, in several instances teachers did not maintain adequate documentation of the fundraiser transactions, and some fundraiser collections and disbursements were not even recorded on the school’s books. Independent reconciliations were not performed for applicable fundraisers to determine if expected collections were received and deposited, and profit analyses were not performed for any fundraising activities.

The *Internal School Uniform Accounting Policy Manual*, Page 4-26, states, “**In the absence of local board policies, all fundraising activities are prohibited.**” 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*, Page 4-26, states:

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

Page 4-27 of the manual further states, “[P]rofit analysis reports must be completed to document collections, expenses, and any losses of money or product. . . . The school must maintain detailed records to support all amounts recorded on these forms. If the profit analysis report indicates a shortage, an explanation must be given for the shortage.”

RECOMMENDATION:

To ensure compliance with the manual, all fundraisers should be prohibited until the board adopts a fundraising policy. Once a policy has been adopted, to establish accountability and adequately account for fundraising collections and inventory, all school-wide fundraisers must be approved by the director of schools and the principal must approve all others. The principal should require that sponsors keep adequate records of all fundraiser transactions, including collection logs. If applicable, the amount of expected collections should be compared to actual collections, and any difference should be explained. At the end of the fundraising activity, a summary report must be completed. On any required analysis or report, the amount listed as collected should be verified by a person independent of the fundraiser.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur with the finding. New policy has recently been approved but present procedure does not reflect the stated recommendation. Procedures will be implemented that are in compliance with both the stated recommendation and the policy manual. This implementation will begin August 11, 2003.

Principal:

I concur with the response of the director of schools and the board of education.

10. **FINDING: Inadequate controls over admissions to events**

The school did not have adequate procedures for admission to events. For some events with an admission charge greater than \$1, such as dances, tickets were not used. Although tickets were used for athletic events, other control weaknesses were identified as follows: (1) a separate ticket seller was not used, (2) collections were not counted and the count documented by the sellers, and (3) ticket reconciliations were not always completed or completed correctly. The *Internal School Uniform Accounting Policy Manual*, Page 5-5–6, sets forth detailed procedures for accounting for admissions to events.

RECOMMENDATION:

To adequately account for collections from admissions to events, the principal should require the following:

- a) The school should use prenumbered tickets for all events for which an admission of \$1 or more is charged and should account for all ticket numbers.
- b) A separate person should be assigned responsibility for collecting tickets at the point of admission.
- c) The bookkeeper should write a check to the individual responsible for the change for the amount of money needed for change. The individual responsible should turn in for redeposit the exact amount of the change as soon as feasible and should ensure that the deposit slip is marked "Redeposit."
- d) A person independent of ticket sales should record the beginning ticket numbers and change on the ticket reconciliation. Ticket sellers should verify this information before beginning sales and afterward should count the collections, and complete and sign the ticket reconciliation form prior to turning collections over for deposit.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur with the finding. Policies and procedures are currently in place that reflect compliance with both the stated recommendation and the policy manual.

Principal:

I concur with the response of the director of schools and the board of education.

Bookkeeper:

I concur with the response of the Lexington City Board of Education.

11. **FINDING: Inadequate accounting for concession operations**

The principal did not require concession operators to adequately account for concession sales and inventory. 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, 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 4-27 of the same manual states, “For ongoing resale activities such as . . . concessions . . . profit analysis reports must be completed to document collections, expenses, and any losses of money or product.”

RECOMMENDATION:

To provide adequate accountability for concession collections and inventory, the principal should require that

- a) adequate records are kept of concession items purchased, received, sold, given away, and left on hand after each event;
- b) inventory is safeguarded and stored in a secured area;
- c) collections are counted and recorded by two people before being turned over for deposit;
- d) an expected collection report is completed after each game by a designated employee to determine if expected collections are being deposited; and
- e) any variance from expected collections is investigated.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur with the finding. A new policy will be adopted that will reflect compliance with both the stated recommendation and the policy manual. The new policy and related procedures will be in place by October 20, 2003.

Principal:

I concur with the response of the director of schools and the board of education.

12. **FINDING: Board expenses paid by school**

During the audited period, fees for the annual audit of the school and cafeteria funds totaling \$3,750, which were an obligation of the board of education, were paid from school activity and cafeteria funds and were not reimbursed by the board. In addition, other expenses, which the board did ultimately reimburse, were apparently paid by the school because it was easier to obtain the required signatures for a school check than for a board check. However, board personnel delayed reimbursing the school until the end of

the school year. For the current school year, as of January 31, 2003, unreimbursed special education and board expenses totaled \$8,559.75. The *Internal School Uniform Accounting Policy Manual*, Pages A-2 and A-3, assigns responsibility for the annual audit to the board of education. In addition, the manual cited, Page 1-6, states:

Since Tennessee public schools are referred to as being “free” (Section 49-6-3001, *TCA*), money raised by students must be used to finance normal and legitimate extracurricular activities. Student activity funds should be used to supplement and not replace funds necessary to fulfill the local board’s obligation. . . .

Page 4-33 of the same manual states, “Student activity and other internal school funds must not be used for any purpose which represents an accommodation, loan, or credit to anyone.”

RECOMMENDATION:

The board should reimburse all audit fees paid from the internal school and cafeteria funds. So that student activity funds are not used to replace funds which the board of education is obligated to provide, the principal should ensure that the board of education is requested to pay expenses for which the board is obligated. If it is necessary in an emergency for the school to pay from activity funds an expense which is the board’s obligation, the principal should ensure that prompt reimbursement from the board is requested and received.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur with the finding. A new policy will be adopted that will reflect compliance with both the stated recommendation and the policy manual. The new policy and related procedures will be in place by October 20, 2003.

Principal:

I concur with the response of the director of schools and the board of education.

Bookkeeper:

I concur with the response of the Lexington City Board of Education.

13. **FINDING: Lack of controls over purchasing**

School personnel did not correctly use purchase requisition/purchase order authorization forms for most purchases. Forms were not signed by the bookkeeper to document that the balance in the account was sufficient to allow the purchase. In addition, for several purchases over \$100, the principal did not sign authorizing the purchase. The *Internal School Uniform Accounting Policy Manual*, Pages 5-12–13, states:

To initiate a purchase . . . a prenumbered purchase requisition should be completed. . . . The prenumbered purchase requisition is given to the bookkeeper. When the bookkeeper receives or originates a purchase requisition, the bookkeeper should review the account balance to be charged to determine if sufficient money is available. If sufficient money is available, the bookkeeper should sign and date the form, and, if the purchase is over \$100, forward it to the principal for approval. After the prenumbered purchase requisition form is signed by the principal, it becomes a **purchase authorization**. This form also can be used as a **purchase order**.

...

Pages 5-12–15 of the manual set forth other detailed procedures for the use and retention of school purchase requisitions/authorizations/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 all purchases, obtaining the principal's approval for purchases over \$100. If the exact amount of the purchase is not known at the time the purchase requisition/purchase order form is prepared, details of the items to be purchased should be recorded and an estimate or a limitation should be recorded on the form. The same requirements apply whether the school pays the vendor directly for the items purchased or reimburses a staff person for the purchases.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur with the finding. Policies and procedures are currently in place that reflect compliance with both the stated recommendation and the policy manual.

Principal:

I concur with the response of the director of schools and the board of education.

Bookkeeper:

I concur with the response of the Lexington City Board of Education.

14. **FINDING: Inadequate cafeteria purchasing policy**

Although the board had adopted a cafeteria procurement policy addressing bids, the policy did not require purchase orders. In addition, the policy did not address who was authorized to make purchases and who was to approve all purchases. The *Internal School Uniform Accounting Policy Manual*, Page 5-11, states the board of education should develop a detailed purchasing policy.

RECOMMENDATION:

To better control expenditures, the board should adopt a detailed purchasing policy for the cafeteria. The policy should require the use of purchase orders and should specify by position the persons authorized to make purchases, as well as the persons authorized to approve purchases.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur with the finding. Policies and procedures are currently in place that reflect compliance with both the stated recommendation and the policy manual.

Principal:

I concur with the response of the director of schools and the board of education.

Cafeteria Supervisor:

I concur with the reply of the director of schools and the board of education.

15. **FINDING: Inadequate supporting documentation**

The school's files for both activity and cafeteria disbursements did not include adequate supporting documentation for some transactions. For several disbursements, the files contained no documentation or contained only notes written on scraps of paper. The *Internal School Uniform Accounting Policy Manual*, Page 5-14, states:

The bookkeeper should require and obtain adequate supporting documentation before disbursing any school money. Periodic statements from vendors and copies of invoices are not adequate documentation to support disbursements. If a copy of an invoice must be used rather than the original, the bookkeeper should include a written explanation on the invoice stating the reason. When items/services are purchased for which vendors do not provide formal invoices (e.g., commencement speakers, officials for athletic contests, etc.), the school should prepare a document and have it signed by the vendor. When a vendor invoice or other invoice documentation is received, the bookkeeper should match the related purchase authorization and accompanying receiving report/delivery receipt with the invoice to verify that the items/services shown on invoice were actually ordered and received. . . . Payment should be made in time to take advantage of any discounts allowed for early payment.

RECOMMENDATION:

To document that each disbursement is for a valid school purpose, the principal should ensure that adequate documentation is maintained in the school's files. Before signing a check, authorized individuals should require that they be given adequate supporting documentation to determine that the disbursement is for a valid school purpose.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur with the finding. Policies and procedures are currently in place that reflect compliance with both the stated recommendation and the policy manual.

Principal:

I concur with the response of the director of schools and the board of education.

Cafeteria Supervisor:

I concur with the reply of the director of schools and the board of education.

Bookkeeper:

I concur with the response of the Lexington City Board of Education.

16. **FINDING:** No documentation that bids were obtained for applicable activity purchases

The school's files did not include any documentation that the required bidding procedures were followed for purchases over \$5,000. The *Internal School Uniform Accounting Policy Manual*, Page 5-15, states:

Each board of education should establish bid policies and procedures for student activity and other internal school funds within its jurisdiction. . . .

The policy of the Lexington City Schools Board of Education requires bids for all purchases in excess of \$5,000.

RECOMMENDATION:

To obtain the best price, school personnel should ensure that the required bidding procedures are followed for all purchases over \$5,000. As evidence that correct bidding procedures were followed, written documentation should be maintained in the school's files.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur with the finding. Policies and procedures are currently in place that reflect compliance with both the stated recommendation and the policy manual.

Principal:

I concur with the response of the director of schools and the board of education.

Bookkeeper:

I concur with the response of the Lexington City Board of Education.

17. **FINDING:** No documentation that receipt of goods or services was verified

School personnel, including cafeteria employees, did not always document, by signing the delivery receipt or invoice, that goods or services purchased by the school were received as ordered. The *Internal School Uniform Accounting Policy Manual*, Page 5-13, states:

If receiving reports and/or delivery receipts are used, they should be signed and dated by a designated individual to indicate that the items listed were received and accepted, and the report/receipt should be filed with other documentation. If receiving reports and/or delivery receipts are not used, the invoice should be signed and dated by the designated individual who received and accepted the items. When authorized services have been completed, a designated individual should sign and date the invoice . . . to indicate that the service was completed properly and accepted.

RECOMMENDATION:

To document that the school received the items and services for which it is paying, the employee responsible for the items or service or another employee designated by the principal should sign or initial the invoice or receiving report.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur with the finding. A new policy will be adopted that will reflect compliance with both the stated recommendation and the policy manual. The new policy and related procedures will be in place by October 20, 2003.

Principal:

I concur with the response of the director of schools and the board of education.

Cafeteria Supervisor:

I concur with the reply of the director of schools and the board of education.

Bookkeeper:

I concur with the response of the Lexington City Board of Education.

18. **FINDING: Supplemental compensation paid directly to employees**

Several school employees were employed to work in extracurricular school activities such as the concession operation and games; however, they were compensated directly from activity funds for these services. The *Internal School Uniform Accounting Policy Manual*, Page 5-22, states:

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. Each school should submit to the board of education on a regular basis a payroll record for each individual who is to receive a salary supplement. The payroll record should be signed by the employee, and the principal should include the name of the employee, the date(s) and type of work performed, and the pay rate. . . . The board of education will invoice the school for reimbursement of the total amount of the gross salary supplement and the employer's share of the related payroll withholdings.

RECOMMENDATION:

To comply with the requirements of the *Internal School Uniform Accounting Policy Manual*, all supplemental pay to board employees should be processed through the board of education.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur with the finding. A new policy will be adopted that will reflect compliance with both the stated recommendation and the policy manual. The new policy and related procedures will be in place by October 20, 2003.

Principal:

I concur with the response of the director of schools and the board of education.

Bookkeeper:

I concur with the response of the Lexington City Board of Education.

19. **FINDING: Failure to document required authorization**

Student authorization forms were not completed to document approval for club expenditures. The *Internal School Uniform Accounting Policy Manual*, Pages 5-11-12, states that purchases by student organizations should be approved by the membership of the organization. A student authorization form should be completed and given to the bookkeeper along with the purchase request. Permission for certain routine and recurring

expenses, such as refreshments for meetings, may be documented once for the entire year.

RECOMMENDATION:

To help ensure disbursements are for a valid purpose and have been authorized, all purchase requests by a student organization should be supported by a student authorization form signed by a representative of the organization.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur with the finding. A new policy will be adopted that will reflect compliance with both the stated recommendation and the policy manual. The new policy and related procedures will be in place by October 20, 2003.

Principal:

I concur with the response of the director of schools and the board of education.

Bookkeeper:

I concur with the response of the Lexington City Board of Education.

20. **FINDING: Noncafeteria expense paid by cafeteria**

The bookkeeper hired by the board maintained the records for both the cafeteria funds and the activity funds. However, the bookkeeper's entire salary was paid from cafeteria funds. The *Internal School Uniform Accounting Policy Manual*, Page 8-2, states, "Income accruing to the school food authority fund in any school . . . shall be used only for school food authority fund purposes."

RECOMMENDATION:

To ensure that cafeteria income is only used to pay cafeteria expenses, officials should determine the percentage of the bookkeeper's work that is related to the cafeteria and assess the cafeteria only that portion of the bookkeeper's salary.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur with the finding. A new policy will be adopted that will reflect compliance with both the stated recommendation and the policy manual. The new policy and related procedures will be in place by October 20, 2003.

Principal:

I concur with the response of the director of schools and the board of education.

Cafeteria Supervisor:

I concur with the reply of the director of schools and the board of education.

21. **FINDING: Inadequate controls over vending operations and picture sales**

The school had no written agreement on file with the snack vending company, the beverage vending company, or the photographer. Furthermore, the school did not verify that the correct amount of commission was received from either the snack and beverage vendors or the photographer. The *Internal School Uniform Accounting Policy Manual*, Page 4-23, states:

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 4-27 of the same manual states:

If the fundraiser involves an outside vendor (such as school pictures), the school should obtain a written agreement. The agreement should set forth the division of profits that result from the activity, payment of sales tax, delivery date(s), package prices or other charges, scheduled date(s) of service, etc. . . . If an outside vendor makes the collections, the school must independently verify total sales and total collections to ensure proper division of profits.

RECOMMENDATION:

The principal should obtain adequate written agreements for vending and pictures. The agreements should be dated and include the rate of commission the school is to receive. In addition, the principal should require a designated employee to verify that the school receives the correct amount of commission from the beverage and snack vendors and the photographer.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur with the finding. A new policy will be adopted that will reflect compliance with both the stated recommendation and the policy manual. The new policy and related procedures will be in place by October 20, 2003.

Principal:

I concur with the response of the director of schools and the board of education.

22. **FINDING:** **Daily collection reports not used for cafeteria collections**

Cafeteria collections were not summarized on a daily collection report. As a result, it was difficult to determine the total amount received each day by the cafeteria from various sources. The *Internal School Uniform Accounting Policy Manual*, Page 5-8, describes the use of a daily cash report, which summarizes each day's collections by type. This record is used by the bookkeeper for daily posting.

RECOMMENDATION:

To summarize collections from several sources, a daily collection report should be completed each day for cafeteria collections.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur with the finding. Policies and procedures are currently in place that reflect compliance with both the stated recommendation and the policy manual.

Principal:

I concur with the response of the director of schools and the board of education.

Cafeteria Supervisor:

I concur with the reply of the director of schools and the board of education.

23. **FINDING:** No signed agreements on file for noncooperative activities

Various organizations and individuals were allowed to use the school facilities. However, no written agreement was obtained. The *Internal School Uniform Accounting Policy Manual*, Page 4-24, states, "Prior to the commencement of a noncooperative activity, a written agreement must be made setting forth the fee, if any, to be charged as well as other pertinent information in accordance with the board of education's policy."

RECOMMENDATION:

The principal should ensure that before using the school's facilities, each individual or an official of each organization signs a written agreement setting forth all pertinent information and requirements for that use.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur with the finding. New policy has recently been approved but present procedure does not reflect the stated recommendation. Procedures will be implemented that are in compliance with both the stated recommendation and the policy manual. This implementation will begin August 11, 2003.

Principal:

I concur with the response of the director of schools and the board of education.

24. **FINDING:** No documentation that the board of education approved year-end accounts payable

The school's records did not include documentation that the local board of education approved the school's accounts payable, and thereby the subsequent, related expenditures, at June 30, 2002. The *Internal School Uniform Accounting Policy Manual*, Page 5-16, states, "The local board must approve accounts payable that will not be liquidated during the current fiscal year."

RECOMMENDATION:

To ensure that the board of education is aware of the school's liabilities at year end, the principal should obtain board approval for the school's accounts payable at year end.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur with the finding. New policy has recently been approved but present procedure does not reflect the stated recommendation. Procedures will be implemented that are in compliance with both the stated recommendation and the policy manual. This implementation will begin August 11, 2003.

Principal:

I concur with the response of the director of schools and the board of education.

Bookkeeper:

I concur with the response of the Lexington City Board of Education.

25. **FINDING: Inadequate property records**

The school did not maintain complete, up-to-date inventory records of property purchased. Serial numbers, date of purchase, and cost were not always recorded in the property records. Most property items were not permanently marked or tagged. Although the cafeteria maintained property records, the records were not updated when property was purchased. The *Internal School Uniform Accounting Policy Manual*, Page 4-19, states, "It is essential to account for property (whether donated or purchased with individual school money) and to establish and maintain adequate internal controls for such property. . . ." Pages 4-18-20, outline the school's responsibility for controlling property, which includes maintaining up-to-date inventory records, permanently marking each piece of equipment, conducting periodic inventories of recorded property, obtaining written approval of specific items removed from school property, and ensuring all removals are for official use only.

RECOMMENDATION:

To better account for and control school property, the principal should ensure that complete property inventory records are maintained for activity and cafeteria funds and that applicable property is permanently marked or tagged. All relevant inventory information, including the serial number, date of purchase, and cost of the item, should be included in the inventory record **at the time property is received**. For small, high-risk

items such as cameras, which will be used by various staff, a log should be used to establish responsibility for each item at all times.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur with the finding. New policy has recently been approved but present procedure does not reflect the stated recommendation. Procedures will be implemented that are in compliance with both the stated recommendation and the policy manual. This implementation will begin August 11, 2003.

Principal:

I concur with the response of the director of schools and the board of education.

Cafeteria Supervisor:

I concur with the reply of the director of schools and the board of education.

Bookkeeper:

I concur with the response of the Lexington City Board of Education.

26. **FINDING: Cafeteria credit limits not enforced**

The school cafeteria computer system had the following programmed charge limits which were listed in the school’s handbook approved by the board of education:

Adults and students paying full price	\$24
Students paying reduced-price	\$ 8

In practice, however, during the period audited, even after the programmed limits were reached, cafeteria personnel continued to allow students and adults to charge, requiring the bookkeeper to post separate entries to record the continuing charges in the cafeteria’s computerized system. Per a balance report dated February 19, 2003, two adult staff members had accumulated balances of \$46.00 and \$32.90, respectively. In addition, two students had balances of \$35.55 and \$31.00, respectively. Failure to enforce the board-approved charge policy is not fair to those students whose families pay before the balance owed exceeds the allowed amount. In addition, it is not sound business practice to allow staff members to receive the equivalent of 23 and 16 meals, respectively, without paying.

RECOMMENDATION:

To ensure that all cafeteria patrons are treated fairly, the charge limits established by the board of education should be enforced.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur with the finding. A new policy will be adopted that will reflect compliance with both the stated recommendation and the policy manual. The new policy and related procedures will be in place by October 20, 2003.

Principal:

I concur with the response of the director of schools and the board of education.

Cafeteria Supervisor:

I concur with the reply of the director of schools and the board of education.