

INVESTIGATIVE AUDIT REPORT

RUSH STRONG SCHOOL

JEFFERSON COUNTY SCHOOL SYSTEM

AUGUST 1, 2003, THROUGH DECEMBER 10, 2003



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

January 18, 2005

Director of Schools and Members of the
Board of Education
Jefferson County Schools
P. O. Box 190
Dandridge, TN 37725

Director of Schools and Board Members:

Presented herewith is the report on our investigative audit of selected records of the activity funds of Rush Strong School, Jefferson County School System. This examination focused on the period August 1, 2003, through December 10, 2003. 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 during the period August 11, 2003, through December 10, 2003, the former bookkeeper of Rush Strong School, Larissa Jeffers, failed to deposit school collections totaling at least \$6,837.05 into a school bank account. This matter was referred to the local district attorney general. On January 7, 2005, the Jefferson County Grand Jury indicted Ms. Jeffers on one count of Theft over \$1,000.

Director of Schools and Members of the
Board of Education
Jefferson County Schools
January 18, 2005

The findings and recommendations in this report also 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 funds of Rush Strong School, Jefferson County School System. This examination focused on the period August 1, 2003, through December 10, 2003. 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 was to determine the extent of the school's compliance with certain laws and regulations, including those in this manual.

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

Our investigative audit revealed that during the period August 11, 2003, through December 10, 2003, the former bookkeeper of Rush Strong School, Larissa Jeffers, failed to deposit school collections totaling at least \$6,837.05 into a school bank account. This matter was referred to the local district attorney general. On January 7, 2005, the Jefferson County Grand Jury indicted Ms. Jeffers on one count of Theft over \$1,000.

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

1. Prenumbered receipts not correctly issued
2. Deposits not made promptly and intact, some collections not remitted to bookkeeper for deposit, and some deposit slips not itemized
3. Inadequate control over vending operations
4. Inadequate separation of duties

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,

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

**INVESTIGATIVE AUDIT OF SELECTED RECORDS OF
RUSH STRONG SCHOOL
JEFFERSON COUNTY SCHOOL SYSTEM
AUGUST 1, 2003, THROUGH DECEMBER 10, 2003**

LEGAL ISSUE

1. **ISSUE: Apparent misappropriation of school collections totaling over \$6,800**

Our investigative audit revealed that during the period August 11, 2003, through December 10, 2003, the former bookkeeper of Rush Strong School failed to deposit school collections totaling at least \$6,837.05 into a school bank account. The former bookkeeper admitted that she had taken school money without authorization and used it for her personal benefit.

When state auditors arrived at the school on December 8, 2003, the bookkeeper revealed that she had not issued a school receipt since October 15, 2003, although collections were apparently remitted to her on a daily basis and several deposits had been made after that date. Because, the former bookkeeper was responsible for preparing bank deposit slips, delivering deposits to the bank, and reconciling the bank statement, she had complete control of the bank deposit transactions from beginning to end. As a result, the bookkeeper was able to conceal the cash shortage from management. Our investigative audit revealed the following shortages:

Activity/Document	Amount Apparently Misappropriated
Cash collections recorded on collection logs or teacher collection receipts and given to bookkeeper but not deposited into school bank account	\$3,318.80
Recorded ticket sale collections for the December 8, 2003, basketball games given to bookkeeper by athletic booster representatives, but not deposited into school bank account	813.00
Shortage in expected vending collections based upon vendor invoices	2,705.25
Total amount apparently misappropriated	<u>\$6,837.05</u>

FINDINGS AND RECOMMENDATIONS

1. **FINDING:** **Prenumbered receipts not correctly issued**

The former bookkeeper failed to immediately count the collections and issue prenumbered receipts when money was remitted to her. As noted in the Legal Issue, when our audit began on December 8, 2003, the former bookkeeper had not issued cash receipts since October 15, 2003, although she had made several deposits. As a result, the former bookkeeper had no record in the school's computerized accounting system of collections given to her by teachers and other employees after the above date.

The *Internal School Uniform Accounting Policy Manual*, Page 5-7, requires that "(a) The cashier must count the money and issue a prenumbered receipt at the time money is remitted." Page 5-8 requires "1(e) The receipt must identify the payer, the amount remitted, and date." Pages 5-9-10 of the manual state that "[t]he bookkeeper should obtain all applicable collection documentation . . . such as the bookkeeper's copies of the receipts and any other supporting documentation . . . All collection documentation should be filed in a manner which allows the bookkeeper to easily find requested documentation."

RECOMMENDATION:

To provide adequate accountability for collections, the bookkeeper and/or cashier should immediately count collections when money is turned in. The bookkeeper should issue a prenumbered receipt, at the time the collection is received, to the individual who counted and remitted the money. The prenumbered receipts should be completed with the name of the payer, the amount remitted, and the 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. The bookkeeper should record all receipts in the school's accounting records.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur with the finding. Management recognizes the TCA 49-2-110(c)(d) requirement to maintain proper records of receipts and disbursements in accordance with the *Internal School Uniform Accounting Policy Manual*. The *Jefferson County Board of Education Policy Manual* sets forth in section 2.900, "Student Activity Funds Management," the guidelines for addressing the violation in this finding. The board will continue to provide appropriate policy and the director of schools will continue to incorporate fiscal accountability in the principal's performance contract.

Principal:

The principal concurs with the finding. Effective August 6, 2004, the provisions of the *Internal School Uniform Accounting Policy Manual* will be enforced in regard to the use of prenumbered receipts.

Bookkeeper:

The bookkeeper concurs with the finding. A clear understanding of the requirement for the use of prenumbered receipts has been established. Effective August 6, 2004, prenumbered receipts have been used in the collection of funds at Rush Strong School.

2. **FINDING:** **Deposits not made promptly and intact, some collections not remitted to bookkeeper for deposit, and some deposit slips not itemized**

In addition to amounts apparently misappropriated which were never deposited into the school bank account (as noted in the Legal Issue), the former bookkeeper did not always deposit other school collections within three banking days. Our examination of school bank statements, collection logs, and teacher receipts revealed that apparently with the knowledge of the principal, some class fees and other money collected at the beginning of the school year were held for up to three weeks while the school changed depository banks. We noted several instances in which deposits were made only once a week, even though collections were generally remitted to the bookkeeper on a daily basis.

The investigative audit also revealed that some collections made for school activities were not remitted to the bookkeeper for deposit. In one instance, collections made by a coach were apparently used by the coach to purchase athletic uniforms. In another instance, fundraiser collections were apparently used to purchase additional resale items. School records also revealed that collection logs did not always list the form of collection (cash or check) and that some deposits slips were not itemized. We noted that for some deposits slips which were itemized, the names and amounts listed did not always agree with the names and amounts recorded on the related collection logs.

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. 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. The section of *Jefferson County Board of Education Policy Manual*, referenced in the response to Finding 1, also pertains to the violation in Finding 2. The director and board will continue to require the implementation of policy 2.900, "Student Activity Funds Management," in the management of funds at Rush Strong School.

Principal:

The principal concurs with the finding. The principal will work with the school bookkeeper to ensure that collection and deposit of funds procedures are practiced in a manner that is in compliance with board policy. The principal will review the deposit book bi-weekly to ensure that the bookkeeper complies with the state law and deposits all school collections intact within three days of initial collection. In addition, the principal will review documents to ensure that funds are deposited in the form and amount collected; each original collection log and/or receipt will indicate the form of payment as well as the amount. Checks will be listed individually on the deposit slip or on an attached list, and receipt numbers comprising the deposit will be listed on the deposit slip.

Bookkeeper:

The bookkeeper concurs with the finding. Deposits will be made in accordance with the board policy and state law, and details as enforced by the principal will be properly observed in the collection and deposit of funds.

3. **FINDING: Inadequate control over vending operations**

The school did not adequately control vending operations and did not perform a monthly vending profit analysis. The school's assistant principal stated he was responsible for stocking the beverage vending machines, using product purchased from the beverage vendor and stated that the snack machines were stocked by the snack vendor. School invoices indicated that both vendors billed for items stocked in the machines. Discussion with school personnel indicated that the former school bookkeeper was solely responsible for counting, recording, and depositing vending money, and for disbursing related vendor checks. Our analysis of the vending operation using vendor invoices and disbursement information provided by the bookkeeper revealed that between August 1, 2003, and December 10, 2003, recorded vending collections were at least \$2,705.25 short of expected collections. Because controls were inadequate, the misappropriation by the former bookkeeper from vending collections was not detected timely.

The *Internal School Uniform Accounting Policy Manual*, Page 4-27, states, "For ongoing resale activities such as bookstores, concessions, vending, etc., monthly profit analysis reports must be completed to document collections, expenses, and any losses of money or product." The reports must be filed with the other school records. If the profit analysis reports indicate a shortage, an explanation must be given for the shortage. If no reasonable explanation can be given, each subsequent day's activities must be recorded and evaluated until the reason for the shortage has been identified and corrected.

RECOMMENDATION:

To provide adequate accountability for vending sales and inventory, the principal should require that:

- a) Deliveries are checked in and vendor invoices are verified for accuracy;
- b) Any extra inventory that is not immediately stocked in a machine is stored in a secured area;
- c) If any items are given away for any reason, detailed records are kept;
- d) Money from the machines is collected and counted by two persons, who sign and date a record of the count, and retain a copy of the record (before the money is turned over for deposit);
- e) A **monthly profit analysis of vending transactions** is completed by a designated employee (not involved in collections or recordkeeping) to determine if expected collections are being deposited; and

- f) Any variance from expected collections is investigated. If no reasonable explanation can be given, **each subsequent day's activities must be recorded and evaluated until the reason for the shortage has been identified and corrected.**

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur with the finding. The *Jefferson County Board of Education Policy Manual*, section 2.900, "Student Activity Funds Management," will be maintained, and all school principals will be required to follow the provisions therein.

Principal:

The principal concurs with the finding. The vending machines at Rush Strong School have been removed. The former principal chose to utilize vending machines as a supplementary source of revenue. The current principal does not prefer to use vending machines, but if vending sales are reinstated, the principal assures that state law will be followed in regard to adequate accountability.

Bookkeeper:

The bookkeeper concurs with the finding. Adequate accountability procedures will be followed in the event vending machines are brought back to Rush Strong School.

4. **FINDING: 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.

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 with the finding. The *Jefferson County Board of Education Policy Manual*, section 2.900, “Student Activity Funds Management,” will continue to be maintained and kept in compliance with state law, regarding the separation of duties in management of funds.

Principal:

The principal concurs with the finding. While it is very difficult to comply with all safeguards in the separation of duties with a limited staff, the principal will strive to the extent possible to maintain separation of duties. The principal will arrange to assist in making bank deposits and reconciling bank accounts. Bank reconciliations will be prepared and reviewed at least monthly by an employee who is independent of the receiving and recording functions. An adequate system of internal controls will be observed that will prevent any employee from having control over a complete transaction.

Bookkeeper:

The bookkeeper concurs with the finding. The bookkeeper agrees to work with the principal to ensure that separation of duties will be maintained to the extent possible with a limited staff. The bookkeeper will accept assistance provided by the principal and employees assigned by the principal.

ADDITIONAL COMMENTS BY MANAGEMENT

The director of schools points out that the principal and the bookkeeper at Rush Strong School at the time of the apparent misappropriation of school funds no longer are employed by the Jefferson County Schools. The former principal followed through on his planned retirement, and the former bookkeeper was relieved of her duties immediately after she stated that she had taken school funds for personal benefit.

A workshop to help principals and bookkeepers increase their understanding of the *Internal School Uniform Accounting Policy Manual* has been conducted on December 13, 2004, by David W. Huss, Executive Director, Local Finance, Tennessee Department of Education. Principals and bookkeepers from all 10 schools attended the 3-hour professional development activity, as well as the director of finance, the accounts payable employee, and the director of schools. Additional, mandatory training sessions will be structured in January for teachers and staff in all schools.