

INVESTIGATIVE AUDIT REPORT

**RUTLEDGE MIDDLE SCHOOL
GRAINGER COUNTY SCHOOL SYSTEM
JULY 1, 2006, THROUGH DECEMBER 31, 2007**



State of Tennessee



**Comptroller of the Treasury
Department of Audit
Division of Municipal Audit**



STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Justin P. Wilson
Comptroller

STATE CAPITOL
NASHVILLE, TENNESSEE 37243-9034
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November 19, 2009

Director of Schools and Members of the
Board of Education
Grainger County School System
P. O. Box 38
Rutledge, TN 37861

Director of Schools and Board Members:

Presented herewith is the report on our investigative audit of selected records of the activity funds of Rutledge Middle School, Grainger County School System. This investigative audit focused on the period July 1, 2006, through December 31, 2007. However, this scope was expanded if 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 audit was to determine the extent of the school's compliance with certain laws and regulations, including those in this manual.

Our investigative audit revealed an apparent misappropriation of school funds. Ms. Charlotte Wynn, former bookkeeper, admitted that she had misappropriated these school funds totaling at least \$10,300. This matter was referred to the local district attorney general. On September 14, 2009, the Grainger County Grand Jury returned an indictment against Ms. Wynn on one count of Theft over \$10,000.

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.

Director of Schools and Members of the
Board of Education
Grainger County School System
November 19, 2009

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,

A handwritten signature in black ink, appearing to read "Justin P. Wilson", with a stylized flourish at the end.

Justin P. Wilson
Comptroller of the Treasury



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF MUNICIPAL AUDIT

Justin P. Wilson
Comptroller of the Treasury

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

November 19, 2009

Mr. Justin P. Wilson
Comptroller of the Treasury
State Capitol
Nashville, TN 37243-9034

Dear Mr. Wilson:

As part of our ongoing process of examining the records of the activity and other internal funds of schools, we have completed our investigative audit of selected records of the Rutledge Middle School, Grainger County School System. This investigative audit focused on the period July 1, 2006, through December 31, 2007. However, this scope was expanded if warranted.

Section 49-2-110, *Tennessee Code Annotated*, provides for student activity and other internal 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. Prior to July 1, 2008, state law specifically excluded funds raised by parent-teacher and parent-student support type organizations from accounting and recordkeeping requirements. Therefore, these funds were not included in our audit.

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

Our investigative audit revealed an apparent misappropriation of school funds. Ms. Charlotte Wynn, former bookkeeper, admitted that she had misappropriated these school funds totaling at least \$10,300. This matter was referred to the local district attorney general. On September 14, 2009, the Grainger County Grand Jury returned an indictment against Ms. Wynn on one count of Theft over \$10,000.

Mr. Justin P. Wilson
Comptroller of the Treasury
November 19, 2009

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

1. Inadequate separation of duties
2. Major deficiencies in former school bookkeeper's collection and deposit procedures
3. Major deficiencies in teacher/others collection procedures
4. Failure to prepare profit analyses and summary reports for applicable fundraising and resale activities
5. School collections inappropriately turned over to an outside organization

State law assigned specific responsibilities for school activity funds to the members of the board of education, the director of schools, and the principal. When the investigative audit began, Rutledge Middle School included both elementary school and middle school grades. Prior to the completion of the investigative audit, the principal retired, and work on a new school building was completed. The former Rutledge Middle School was converted to an elementary school and renamed Rutledge Elementary School with the new school now serving the middle school grades. Due to these significant changes in school structure and personnel, responses were requested only from the director of schools and members of the board of education. The responses are included in this report. It should be noted that requirements set forth in the *Internal School Uniform Accounting Policy Manual*, referenced throughout this report, apply to all schools with activity and/or other internal school funds.

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 THE RUTLEDGE MIDDLE SCHOOL
GRAINGER COUNTY SCHOOL SYSTEM
FOR THE PERIOD JULY 1, 2006, THROUGH DECEMBER 31, 2007**

When the investigative audit began, Rutledge Middle School included both elementary school and middle school grades. Prior to the completion of the investigative audit, the principal retired, and work on a new school building was completed. The former Rutledge Middle School was converted to an elementary school and renamed Rutledge Elementary School with the new school now serving the middle school grades. Due to these significant changes in school structure and personnel, responses were requested only from the director of schools and members of the board of education. It should be noted that requirements set forth in the *Internal School Uniform Accounting Policy Manual*, referenced throughout this report, apply to all schools with activity and/or other internal school funds.

LEGAL ISSUE

1. **ISSUE:** Apparent misappropriation of school collections totaling at least \$10,000

After receiving information regarding apparent discrepancies at Rutledge Middle School, our office conducted an investigative audit which revealed that during the period July 1, 2006, through November 30, 2007, the former school bookkeeper, Ms. Charlotte Wynn, apparently misappropriated school money totaling at least \$10,315. Ms. Wynn apparently used at least two schemes to obtain this school money without authorization for her personal benefit.

In at least three instances, the former bookkeeper wrote unauthorized checks totaling \$700 payable to herself. She apparently signed the principal's name on one of the checks and used the principal's signature stamp on the other two checks, all without the principal's knowledge or consent. School officials stated that when confronted, the former bookkeeper admitted to forging the principal's name. A family member apparently went to the bank and repaid the \$700.

In other instances, the former bookkeeper failed to record in the school's accounting records and deposit into the school's bank account school cash collections of at least \$9,615 turned over to her, apparently keeping the cash for her personal benefit. For instance, she failed to record any collections for at least three fall 2007 football games and several field trips, and shorted the amount of collections she receipted for other activities, such as yearbook sales. The principal stated that when he asked the former

bookkeeper about missing concession money belonging to the booster club, she admitted that she misappropriated the concession money and informed him that some school football gate money was also missing. According to the principal, the family member repaid the missing concession money totaling \$480.

Because the former bookkeeper had total control over school collections once they reached the school office, and because she circumvented required internal controls (such as not providing receipts to school personnel when they remitted collections to her), she was able to conceal the apparent misappropriation from management and other employees for an extended period of time.

As noted below, because some school records were missing, and others had apparently been altered and/or falsified, available records were inadequate to determine total collections received by school personnel. As a result, the misappropriation total above does not include any possible additional shortages arising from certain collections, including those related to Cheerleading, Honor Club, and Beta Club.

Missing, altered, and falsified school records

We were unable to locate numerous collection logs and other collection documentation which school personnel stated they prepared and remitted to the former bookkeeper. Auditor review of available school records indicated that the former bookkeeper apparently personally created many of the collection records attached to copies of prenumbered receipts she entered into the school's computerized accounting system. Because most school personnel did not keep copies of collection records they remitted, we were unable to verify that the amounts on many of the records prepared by the former bookkeeper were correct. We did note that dates on collection logs did not always agree with the date the event or related collection took place.

At the conclusion of fieldwork, auditors spoke with Ms. Wynn regarding the apparent misappropriation of school funds. Ms. Wynn admitted at that time that she had misappropriated approximately \$10,300. This matter was referred to the local district attorney general. On September 14, 2009, the Grainger County Grand Jury returned an indictment against Ms. Wynn on one count of Theft over \$10,000.

FINDINGS AND RECOMMENDATIONS

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

School administrators failed to separate incompatible financial duties at the school. The former school bookkeeper received cash; prepared bank deposits; maintained and updated the school's accounting records; requested, prepared, and signed checks; and reconciled the school's bank statements. The former bookkeeper's complete control over collection transactions once they reached the school office, and a corresponding lack of oversight by school administrators, contributed to the former bookkeeper's ability to perpetrate and conceal the apparent misappropriation noted in the Legal Issue, allowing it to continue undetected over an extended period. As noted in the Legal Issue, the former bookkeeper apparently falsified collection and accounting records to agree with amounts she actually deposited into the school bank account.

The *Internal School Uniform Accounting Policy Manual*, page 4-6, states:

To the extent possible, the following duties should not be performed by the same individual: receiving cash, making bank deposits, maintaining the accounting records and reconciling bank accounts.... Bank reconciliations should be prepared and reviewed at least monthly by someone who is independent of the receiving and recording functions.

Page 5-2 of the manual emphasizes that

[t]he use of a cashier is necessary for optimal separation of duties. However, some schools may not have adequate personnel to allow someone other than the bookkeeper to collect money and write receipts. In these situations ... school personnel should develop alternative procedures that minimize the risks associated with this lack of separation of duties.... **WHEN AT ALL POSSIBLE, SOMEONE OTHER THAN THE BOOKKEEPER SHOULD COLLECT MONEY AND WRITE RECEIPTS.**

RECOMMENDATION:

To help ensure that all school collections are deposited into the school's bank account and that 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. The principal has implemented procedures which will require more than one person to have control over collected revenues. Adequate procedures are now in place to help alleviate irregularities and discrepancies in regard to handling of money received. Please see example.

Example – Collection of Field Trip Money

- A. Teacher collects, counts, and records amounts on collection log.
- B. Money will be turned in to the office in a timely manner and be counted, verified, and receipted.
- C. Prenumbered receipts and copy of collection log will be returned to teacher.
- D. After receipts are given back to teachers, they are asked to verify amounts with a signature and to keep all pertinent information. All discrepancies should be reported immediately to principal.
- E. All money is deposited within the three-day requirement. Generally, money is deposited the day it is received.

2. **FINDING: Major deficiencies in former school bookkeeper's collection and deposit procedures**

The former principal failed to ensure that the former school bookkeeper followed required procedures when receipting and depositing school money. We noted numerous deficiencies which contributed to the former bookkeeper's ability to perpetrate and conceal her apparent misappropriation of school collections totaling over \$10,000 (as noted in the Legal Issue) including the following:

- School personnel stated that in most instances, the former bookkeeper did not give them prenumbered receipts when they remitted money to her.
- The former bookkeeper failed to record some collections remitted to her in the school's accounting records.
- Numerous collection records which staff members stated they remitted to the former bookkeeper were missing. In addition, many of the records located in files maintained by the former bookkeeper were apparently fabricated, altered, and/or falsified by the bookkeeper.
- The former bookkeeper failed to deposit school collections within three business days of receipt by a school employee. School records revealed that dates on some

collection records had been falsified, apparently in an attempt to conceal the fact that collections were not deposited promptly.

- The former bookkeeper failed to deposit school collections intact. As noted in the Legal Issue, she apparently removed cash for her personal use before making some deposits.

The *Internal School Uniform Accounting Policy Manual*, Section 5, sets forth required procedures for collection of school money by cashiers and bookkeepers, including a requirement that money be counted and a prenumbered receipt issued at the time money is remitted, with the first copy of the receipt given to the payer. Regarding deposits, page 6-2 of the manual requires that

[c]ollections 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.

RECOMMENDATION:

To adequately account for all school money so that it benefits the students for which it was collected, and to help ensure that errors or irregularities are detected timely, school officials should ensure that required collection procedures as set forth in the *Internal School Uniform Accounting Policy Manual* are established and followed. School personnel should deliver total collections to the cashier at least daily. The principal should ensure that the cashier/bookkeeper issues and provides prenumbered receipts promptly to the individual remitting the money or the individual responsible for ensuring that the information on the receipt is accurate, and that school employees comply with state law requiring deposits of all school collections intact within three days of initial collection. Checks should be listed individually on the deposit slip or attached list. In addition, all duplicate deposit slips should be retained and deposit corrections documented separately. The principal should require account transaction reports to be provided periodically to responsible individuals and should require responsible teachers/others to verify the amounts on the report are correct.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur. The response is the same as for Finding 1 in regard to handling money received, plus each individual who has turned in money during the month will receive a monthly transaction report to be kept with other financial records until the end of the year when all financial records will be turned in to the office.

3. **FINDING: Major deficiencies in teachers/others collection procedures**

The former principal failed to ensure that teachers and other staff members followed required procedures when collecting school money and turning it over to the bookkeeper. Following are some of the significant collection deficiencies that contributed to management’s failure to timely detect the apparent misappropriation of over \$10,000 by the former school bookkeeper (as noted in the Legal Issue):

- In a few instances, teachers failed to prepare a collection log or other collection record documenting collections made and remitted to the bookkeeper. In most instances, when collection records were prepared, many teachers and other staff failed to retain copies of the collection records.
- Teachers and other staff did not always remit collections to the bookkeeper promptly.
- Teachers and other staff did not always remit collections to the bookkeeper intact. At least one school employee stated that because of concerns with the bookkeeping process, she withheld some collections to make purchases. Also, as noted in Finding 5, some collections made in the name of the school and accounted for by school personnel were turned over to school support organizations in violation of state law.
- Teachers and other staff often failed to obtain a prenumbered receipt from the former bookkeeper when they remitted collections. Therefore, they were unable to verify that the former bookkeeper issued prenumbered receipts for all amounts remitted or that the amount and other information on the receipts agreed with the related collection record.

The *Internal School Uniform Accounting Policy Manual*, Section 5, sets forth required procedures for collection of school money by teachers/others, and requires school personnel to retain copies of required collection records.

RECOMMENDATION:

To adequately account for and make certain all school money benefits the students for which it was collected, and to help ensure that errors or irregularities are detected timely, the principal should ensure that required collection procedures for teachers/others as set forth in the *Internal School Uniform Accounting Policy Manual* are established and followed. School personnel should be required to maintain copies of collection records, to reconcile receipts received with their copies of collection records, and to sign and return account activity reports to indicate completeness and accuracy. Noted discrepancies should be immediately reported to the principal or his designee (someone other than the individual(s) recording receipts and disbursements in the computerized accounting system).

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur. The response is the same as for Finding 1 in regard to handling money received, plus we have requested teachers to turn in all money collected the day it is received when possible. Teachers have also been advised that no purchases can be made with collected money prior to being turned in to the office.

4. **FINDING: Failure to prepare profit analyses and summary reports for applicable fundraising and resale activities**

The former principal failed to ensure the former school bookkeeper completed profit analysis reports for fundraising activities, including the school's yearbook sale. The yearbook sponsor indicated that the former bookkeeper collected the yearbook money, and maintained possession of all yearbook receipts to students as well as the actual yearbooks. Because a profit analysis report was not prepared, verified, and reviewed, the principal and other school officials and employees were not aware of the over \$1,300 discrepancy between amounts receipted as being collected from students and amounts the former bookkeeper recorded in the school's accounting records and deposited into the school's bank account.

The *Internal School Uniform Accounting Policy Manual*, Section 4, sets forth detailed procedures for resale activities, including completion of profit analysis reports.

RECOMMENDATION:

To establish accountability and adequately account for collections and inventory, and to help ensure that errors or irregularities are detected timely, the principal should establish and ensure compliance with all required procedures related to resale activities set forth in

the *Internal School Uniform Accounting Policy Manual*, including preparing profit analyses reports.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur. The response is the same as for Finding 1 in regard to handling money received. School officials are now preparing profit analysis for each fundraising event organized by the school.

5. **FINDING: School collections inappropriately turned over to an outside organization**

The former principal failed to ensure that all school collections were deposited into a school bank account. Instead, athletic concessions collections received and accounted for by school personnel were routinely turned over to the athletic booster club.

The *Internal School Uniform Accounting Policy Manual*, page 5-2, states:

Money within an individual school may be obtained from many sources including athletics, concessions, plays, publications, stores, gifts, vending machines, etc. Most often, this money may be handled by one or more persons before it is recorded in the cash receipts journal by the designated school employee. The school becomes accountable when money is initially received by employees, officials or volunteers acting in their official capacity.

Tennessee Code Annotated, Section 49-2-601, et seq, states that

“Student activity funds” include all money received from any source for school-sponsored student activities or school-sponsored events held at or in connection with a school, and specifically include, but are not limited to, any money ... raised by school-sponsored clubs involving students ... raised by school-sponsored fundraisers involving students who are under the supervision of a school employee ... raised from fees charged students....

This section also prohibits school representatives (as defined in the law) from acting as treasurer or bookkeeper for a school support organization.

RECOMMENDATION:

To ensure that all school money is properly accounted for, the principal should ensure that all money received by employees, officials, or volunteers acting in their official capacity is recorded in the school's accounting records and deposited into the school's bank account. Such money should never be turned over to an outside organization.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur. The response is the same as for Finding 1 in regard to handling money received, plus all money generated for Rutledge Elementary School (formerly Rutledge Middle School) by employees or volunteers will be deposited for Rutledge Elementary School in their school account.