

INVESTIGATIVE AUDIT REPORT

SWISS MEMORIAL ELEMENTARY SCHOOL
GRUNDY COUNTY SCHOOL SYSTEM
JULY 1, 2007, THROUGH JUNE 30, 2008



State of Tennessee



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



STATE OF TENNESSEE

Justin P. Wilson
Comptroller

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

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-9034

PHONE (615) 741-2501

November 19, 2009

Director of Schools and Members of the
Board of Education
Grundy County School System
P. O. Box 97
Altamont, TN 37301

Director of Schools and Board Members:

Presented herewith is the report on our investigative audit of selected records of the activity funds of the Swiss Memorial Elementary School, Grundy County School System. This investigative audit focused on the period July 1, 2007, through June 30, 2008. 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 that between July 1, 2007, and June 30, 2008, the former bookkeeper apparently diverted at least \$6,753 from the school to which she was not entitled. This matter has been referred to the local district attorney general.

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
Grundy 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

BANK OF AMERICA PLAZA
414 UNION STREET, SUITE 1100
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 532-4460
FAX (615) 532-4499

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 Swiss Memorial Elementary School, Grundy County School System. This investigative audit focused on the period July 1, 2007, through June 30, 2008. 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 that between July 1, 2007, and June 30, 2008, the former bookkeeper apparently diverted at least \$6,753 from the school to which she was not entitled. This matter has been referred to the local district attorney general.

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. Inadequate accounting for fundraising activities
3. Collection records incomplete
4. Prenumbered receipts not issued to teachers or other individuals remitting money
5. Deficit bank balance
6. Premiums from school vendor
7. Concession operators paid with cash collections

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,

A handwritten signature in black ink, appearing to read "Dennis F. Dycus". The signature is fluid and cursive, with a large initial "D" and "F".

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

**INVESTIGATIVE AUDIT OF SELECTED RECORDS OF THE
SWISS MEMORIAL ELEMENTARY SCHOOL
GRUNDY COUNTY SCHOOL SYSTEM
FOR THE PERIOD JULY 1, 2007, THROUGH JUNE 30, 2008**

LEGAL ISSUES

1. **ISSUE: Unauthorized disbursements**

Our investigative audit revealed that during the period July 1, 2007, through June 30, 2008, Billie Campbell, the former school bookkeeper, issued at least five (5) unapproved and unauthorized school checks that she or a family member transacted totaling \$3,323. Ms. Campbell was responsible for preparing the school's checks and reconciling the bank account statements.

2. **ISSUE: Apparent forgery**

Our investigative audit found that of the five checks noted above, four contained on their face an apparent forged signature. The school employees whose names appeared as one of the signatures on the checks told state auditors that it was not their authentic signatures, and had been used without their consent or authority. School checks must contain two authorized signatures. One of those signatures was typically the bookkeeper, Billie Campbell, while the second signature was usually made by either the principal or vice-principal. In these cases, the bookkeeper's signature appeared to be authentic while the principal's or vice-principal's signature was apparently forged.

3. **ISSUE: Falsification of government records**

In an apparent attempt to disguise or conceal the unauthorized and unapproved payments, Ms. Campbell made false or misleading entries in the school's accounting records. For instance, she indicated in school records that a \$1,000 school check that she transacted had been voided. In addition, she presented an invoice that was actually paid for by the board of education as supporting documentation for a \$1,000 school check that was cashed.

4. **ISSUE:** **Unreceipted cash collections not deposited**

Our investigative audit revealed that between July 1, 2007, and June 30, 2008, Billie Campbell, the former school bookkeeper, failed to properly deposit at least \$3,430 in cash collections. This included collections for a book fair, the spring doughnut sale, a Valentine Day sale and the spring candle sale. The former bookkeeper did not issue prenumbered receipts for these collections.

Summary of Apparent Misappropriations	
Method	Amount
Unauthorized disbursements	\$3,323
Doughnut sale proceeds	1,463
Book fair collections	1,055
Valentine Day sale collections	507
Spring candle sale collections	<u>405</u>
Total shortage	<u>\$6,753</u>

These matters have been referred to the local district attorney general.

FINDINGS AND RECOMMENDATIONS

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

The former principal failed to ensure that incompatible financial duties at the school were separated. The former bookkeeper was solely responsible for counting, reconciling, receipting, and recording all school collections. She also prepared and issued school checks as well as reconciled 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.

RECOMMENDATION:

To help ensure that all school collections are deposited into the school's bank account, payments are issued for authorized and proper purposes, 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 new general fund bookkeeper at Swiss Memorial Elementary has been trained and instructed in using the *Internal School Uniform Accounting Policy Manual*. The ledgers and statements have been balanced and checked monthly.

Principal:

I concur. Mrs. Brown and I sign all bills and checks. I have at least two people count all money that is collected and deposited. Mrs. Brown provides me with a copy of the monthly financial report and I provide central office with a copy.

2. **FINDING:** Inadequate accounting for fundraising activities

The former principal did not require school employees to adequately account for fundraisers. School personnel did not prepare and maintain profit analysis reports for

resale activities or fundraiser summary reports for applicable fundraising activities. The *Internal School Uniform Accounting Policy Manual*, page 5-3, states:

Prior to authorizing or requiring any collections, the principal must evaluate the ability of school personnel to provide the required accountability.... **The principal should never authorize or require any collection which cannot be adequately accounted for.** [Emphasis added.]

The *Internal School Uniform Accounting Policy Manual*, page 4-27, states:

For ongoing resale activities ... monthly profit 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. 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. For ... activities that are not perpetual in nature, profit analysis reports may be completed at the conclusion of the activity.

Regarding fundraiser summary reports, page 4-27 of the manual also states:

To document that profits from fundraising activities conducted for designated purposes were expended for the purposes for which they were raised, a designated employee should prepare a fundraiser summary report. This report would include a summary of the expenditures showing how the profit was used. This form should be prepared and filed in the school office as close as possible to the time that the money is expended.

Page 5-3 of the manual 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.... At the beginning of each school year, the principal should ensure that all individuals responsible for school collections are informed of the required procedures and forms and the consequences for noncompliance with the required procedures.

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."

RECOMMENDATION:

To establish accountability and adequately account for fundraising collections and inventory, the principal should require that

- a) required written authorization is obtained and filed;
- b) sponsors keep adequate records of the amounts owed by and received from each person;
- c) sponsors follow up amounts owed to the school at the end of the fundraising activity;
- d) sponsors keep adequate records of items distributed to each seller, items given away or damaged, and of inventory on hand;
- e) sponsors give copies of their records to the bookkeeper when the fundraising event is completed;
- f) for fundraisers involving resale activities, a designated employee (**not involved in collecting or recordkeeping**) prepares a profit analysis to determine if the intended profit was made and reports results in writing to the principal and any variance from expected collections is investigated;
- g) the school remits sales tax to the vendor or use tax to the Tennessee Department of Revenue for applicable purchases of products and services to be resold; and
- h) a fundraiser summary report is prepared to document that profits were expended for the purpose(s) for which they were raised.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur.

- (a) Required and written authorization will be obtained and filed;
- (b) Sponsors will keep records of the amounts owed by and received from each person;
- (c) Sponsors will follow up on amounts owed to the school at the end of the fundraising activity;
- (d) Sponsors will keep adequate records of items distributed to each seller, items given away or damaged, and of inventory on hand;

- (e) Sponsors will give copies of their records to the bookkeeper when the fundraising event is completed;
- (f) For fundraisers involving resale activities, a designated employee (**not involved in collecting or recordkeeping**) will prepare a profit analysis to determine if the intended profit was made and reports results in writing to the principal and any variance from expected collections is investigated;
- (g) The school will remit sales tax or use tax to the Tennessee Department of Revenue for applicable purchases of products and services to be resold; and
- (h) A fundraiser summary report will be prepared to document that profits were expended for the purpose(s) for which they were raised.

Principal:

I concur. A proposed fundraising request must be completed and approved by me and Mr. Hargis. I have also strived to eliminate the excessive amount of past fundraising activities here at Swiss. All fundraising collections must be counted by at least two people and then turned in to Mrs. Brown to be counted before it is deposited.

3. **FINDING: Collection records incomplete**

School files did not include all collection logs or complete collection records for several school activities.

The *Internal School Uniform Accounting Policy Manual*, pages 5-3-5, state:

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 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.... The cashier must count the money and issue a prenumbered receipt to the teacher/other at the time the collections are remitted. In addition, the cashier should record the amount, receipt number, receipt date on the collection log, and initial the information on the

collection log.... On the final collection date, the teacher should bring the collection log to the bookkeeper and retain a copy.

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 document all collections, teachers/others who collect and handle money at the school should record all collections on collection records prescribed by the principal. If collection logs are used, the collection 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 bookkeeper with the collections. Teachers should retain a copy of each of their collection logs (initialed by the bookkeeper) along with the respective receipt issued by the bookkeeper. The teachers' unaltered collection logs should be maintained in the school office for audit purposes. For an activity in which the whole class should participate, such as a field trip, the collection log should list the names of all students in the class. The teacher should note beside each student's name the amount paid or the reason for nonpayment, such as being eligible for fee waiver. The bookkeeper should require and ensure that all collections remitted by school personnel are accompanied by correct and complete records.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur. Swiss Memorial Elementary school files will include all collection files and collection records for school activities.

Principal:

I concur. All faculty and staff must now use proper collection records and issue prenumbered receipts.

4. **FINDING: Prenumbered receipts not issued to teachers or other individuals remitting money**

The former bookkeeper did not always prepare and issue prenumbered receipts for school collections. As noted in Issue 4, school collections totaling at least \$3,430 were not deposited into a school bank account. The investigative audit revealed that the former bookkeeper did not issue prenumbered receipts for these collections.

The *Internal School Uniform Accounting Policy Manual*, page 5-7, requires that “The cashier must count the money and issue a prenumbered receipt at the time the money is remitted.”

RECOMMENDATION:

To provide records for documenting that all school collections have been recorded and deposited, the bookkeeper should immediately issue and provide a copy of a prenumbered receipt to the individual who counted and remitted the money. School personnel who remit money should ensure that the amounts of money listed on the receipts received from the bookkeeper agree with the amounts of money remitted. A copy of the receipt should be retained for their records. Any discrepancies should be documented and resolved.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur. Swiss Memorial Elementary will issue [receipts] to teachers and other individuals remitting money.

Principal:

I concur. Prenumbered receipts are now issued for every transaction.

5. **FINDING: Deficit bank balance**

Our investigative audit revealed that, in July 2008, the former bookkeeper issued checks in excess of the school’s checking account balance. As a result, the school incurred overdraft and nonsufficient funds charges. The *Internal School Uniform Accounting Policy Manual*, Section 5, makes it the bookkeeper’s and principal’s responsibility to ensure that there is a sufficient balance prior to issuing checks.

RECOMMENDATION:

To avoid overdraft charges and ensure sufficient money is available to pay properly approved school purchases, the principal and bookkeeper should determine that there is a sufficient balance prior to issuing each school check.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur. The principal and bookkeeper will determine before issuing checks that there is a sufficient balance prior to issuing each school check.

Principal:

I concur. Mrs. Brown, the director of schools, and I receive copies of monthly reports.

6. **FINDING: Premiums from school vendor**

Documentation in school files indicated school personnel received premiums from several vendors. When employees or officials receive gifts from vendors, it increases the risk that purchasing decisions will not be made based on the school’s needs and interest.

Section 4 of the *Code of Ethics, Grundy County, Tennessee*, states:

An official or employee ... may not accept, directly or indirectly, any gift, money, gratuity, or other consideration or favor of any kind from anyone other than the county:

(1) For the performance of any act, or refraining from performance of an act, that he would be expected to perform, or refrain from performing, in the regular course of his duties.

RECOMMENDATION:

To avoid the possibility of actual or apparent undue influence, the board should make its employees aware of the provisions of the county’s code of ethics. This includes prohibiting employees from accepting gifts from vendors.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur. The board of education will make employees aware of the provisions of the county’s code of ethics. This will include prohibiting employees from accepting gifts from vendors.

Principal:

I concur. Premiums from vendors do not affect the decisions to purchase needed materials. The lowest cost is the major factor affecting purchases.

7. **FINDING:** **Concession operators paid with cash collections**

Our investigative audit revealed concession operators were paid from cash collections. The *Internal School Uniform Accounting Policy Manual*, page 5-8, states, “Using daily collections for cashing checks or making purchases is prohibited.”

RECOMMENDATION:

To properly account for all collections, the principal should prohibit employees from using daily collections to make purchases or disbursements of any kind.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur. The principal will prohibit employees from using daily collections to make purchases or disbursements of any kind.

Principal:

I concur that concession operators were paid with cash collections. Timesheets are filled out and operators are paid with checks.