

INVESTIGATIVE AUDIT REPORT

UNICOI ELEMENTARY SCHOOL UNICOI COUNTY SCHOOL SYSTEM

JULY 1, 2003, THROUGH JUNE 30, 2004



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

February 15, 2005

Director of Schools and Members of the
Board of Education
Unicoi County School System
600 North Elm Street
Erwin, TN 37650

Director of Schools and Board Members:

Presented herewith is the report on our investigative audit of the records of the activity funds of Unicoi Elementary School, Unicoi County School System. This examination focused on the period July 1, 2003, through June 30, 2004. However, this scope was expanded if the examination warranted.

Section 49-2-110, *Tennessee Code Annotated*, provides for student activity funds and establishes responsibility for those funds. This section requires local school systems to adopt the *Internal School Uniform Accounting Policy Manual* (prepared and approved as set forth in this code), and to maintain all activity fund books and records in accordance with the requirements of the manual. The purpose of our examination was to determine the extent of the school's compliance with certain laws and regulations, including those in this manual.

Our investigative audit revealed a total shortage of \$2,401.50. The school bookkeeper acknowledged to auditors that she took or used school funds that she was not entitled to for her personal benefit. This matter was referred to the local district attorney general. In January 2005, the Unicoi County Grand Jury indicted Tarena Irene Pate on one count of Theft over \$1,000 and one count of Official Misconduct.

In addition, the findings and recommendations in this report present those conditions that we believe warrant the attention of the school's officials and other responsible individuals. As a result, the responses to each of the findings and recommendations are included in the report.

Director of Schools and Members of the
Board of Education
Unicoi County School System
February 15, 2005

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**

February 15, 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 the records of the activity funds of Unicoi Elementary School, Unicoi County School System. This examination focused on the period July 1, 2003, through June 30, 2004. However, this scope was expanded if the examination warranted.

Section 49-2-110, *Tennessee Code Annotated*, provides for student activity funds and establishes responsibility for those funds. The board of education is responsible for providing reasonable regulations, standards and procedures, and adopting an activity fund accounting manual. The director of schools is responsible for ensuring that laws and rules of the state and of the board of education are faithfully executed. The principal's responsibilities include accounting for the safekeeping and handling of money collected for and raised by student activities and school services and events. State law specifically excludes funds raised by parent-teacher and parent-student support type organizations from accounting and recordkeeping requirements. Therefore, these funds were not included in our examination.

Student activity funds must be accounted for according to the *Internal School Uniform Accounting Policy Manual*. This manual was prepared by the Tennessee Department of Education and approved by the Comptroller of the Treasury and the Commissioner of Finance and Administration, in accordance with Section 49-2-110, *Tennessee Code Annotated*. The purpose of our examination 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
February 15, 2005

Our investigative audit revealed a total shortage of \$2,401.50. The school bookkeeper acknowledged to auditors that she took or used school funds that she was not entitled to for her personal benefit. This matter was referred to the local district attorney general. In January 2005, the Unicoi County Grand Jury indicted Tarena Irene Pate on one count of Theft over \$1,000 and one count of Official Misconduct.

In addition, our examination resulted in findings and recommendations related to the following:

1. Inadequate accounting for fundraising activities
2. School money used to cash personal checks
3. Collection records incomplete
4. Purchase authorization not correctly documented for all required purchases
5. Inadequate supporting documentation
6. Checks issued with only one signature
7. Inappropriate general fund expenditures

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 THE RECORDS
OF UNICOI ELEMENTARY SCHOOL
UNICOI COUNTY SCHOOL SYSTEM
FOR THE PERIOD JULY 1, 2003, THROUGH JUNE 30, 2004**

LEGAL ISSUES

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

Our investigative audit revealed that between July 1, 2003, and June 30, 2004, the school bookkeeper failed to properly deposit at least \$1,869 in cash collections. She did not issue prenumbered receipts for these collections.

2. **ISSUE: Unreceipted checks exchanged for cash**

Our investigative audit revealed that the school bookkeeper intercepted and set aside unrecorded checks payable to the school totaling at least \$456.25. She then exchanged these checks for cash through the school's cash drawer, keeping the cash for her own use. Since the bookkeeper controlled what collections were recorded in the school's records, she was able to conceal this scheme from management.

3. **ISSUE: Personal purchases charged to a school account**

Our investigative audit revealed that in June 2004, the school bookkeeper made personal purchases using a school account totaling at least \$76.25.

Scheme	Amount
Unreceipted cash collections	\$ 1,869.00
Unrecorded checks exchanged for cash	456.25
Personal purchases	76.25
Total Shortage	<u>\$2,401.50</u>

The school bookkeeper acknowledged to auditors that she took or used school funds that she was not entitled to for her personal benefit. This matter was referred to the local district attorney general. In January 2005, the Unicoi County Grand Jury indicted Tarena Irene Pate on one count of Theft over \$1,000 and one count of Official Misconduct.

FINDINGS AND RECOMMENDATIONS

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

The principal did not require school employees to adequately account for fundraisers. Collections for a candy bar sale fundraiser held during the year should have been \$12,800; however, related collections receipted and deposited by the bookkeeper were only \$10,930.76.

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*, Section 4, sets forth detailed procedures for fundraising activities, which include completion of a profit analysis and fundraiser summary report.

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 School Board:

We concur. Each teacher keeps a log of each student who participates in the fundraiser and the amount of money received from the student. The teacher writes each student a receipt for the money received. The teacher turns all collected money and receipt log to the bookkeeper. The bookkeeper verifies all money and writes teacher a receipt for the total money received in his/her class and initials collection log and gives copy to the teacher. All money is given to the fundraising company and company then writes a check to the school for their profit. The principal reviews and verifies all collection logs as in compliance with TCA 49-2-110(d)(1).

Principal:

After receiving permission to conduct a fundraising activity, the purpose and money collection procedures are reviewed with the faculty. The collection procedure consists of the following steps:

- (a) When children begin bringing in money, the homeroom teacher will collect the money from the student and provide the student with a receipt.
- (b) The teacher will log all money received onto a collection log. The log lists the student name, date received, and amount received.
- (c) The homeroom teacher will personally deliver the money and collection log to the bookkeeper or the bookkeeper can go room to room to collect the money. Upon receipt of the money from the teacher, the bookkeeper will receipt the teacher and make a copy of the collection log.
- (d) The bookkeeper will make daily deposits to the bank during the fundraising activity period. Deposits are made by another member of the office staff.
- (e) This procedure is monitored and verified by the principal.

Note: All fundraising activities conducted by the school's Parent/Teacher Organization (PTO) are handled separately and do not go through the school's bookkeeper or individual homeroom teachers. Two representatives from the PTO go room to room collecting money directly from the students and provide receipts. PTO money is not counted or handled in the school's office area. An individual who is employed by the school system may not be the treasurer of the PTO.

2. **FINDING: School money used to cash personal checks**

The bookkeeper used school money to cash personal checks for herself and other employees. In addition, she cashed third-party checks for employees. The *Internal School Uniform Accounting Policy Manual*, Page 4-33, states:

Student activity and other internal school funds must not be used for any purpose that represents an accommodation, loan, or credit to anyone. Personal checks may be taken for payment of goods, services, and other school charges, but must not be cashed for the purpose of making change or as an accommodation to individuals, including school personnel.

RECOMMENDATION:

To avoid risking the loss of funds, the bookkeeper should not cash personal or third-party checks with school money.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the School Board:

We concur. No checks are cashed (personal or third-party) with school funds.

Principal:

Under no circumstance are personal checks, payroll checks, or check from third parties cashed by the school’s bookkeeper using school funds of any kind.

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*, 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 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, and 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 School Board:

We concur. Each teacher has an assigned and numbered collection log that is kept in the school office. Money received by teachers is written on the log and receipt written to student. Bookkeeper writes receipt for money received from teacher and gives teacher a copy of the initialed collection log.

Principal:

It is not the normal practice to run school fundraising activities concurrently. However, if it did occur, separate collection logs would be maintained for each fundraising activity and accounted for in the same manner as detailed in Finding 1 above.

4. **FINDING: Purchase authorization not correctly documented for all required purchases**

School personnel did not document that the required purchase authorization was correctly obtained for some purchases. Purchase orders were not always complete and did not always contain the principal's authentic signature. The *Internal School Uniform Accounting Policy Manual*, Page 5-12, states:

A purchase authorization is a prior written authorization by the principal, or designee, approving the purchase of goods and services. A prenumbered purchase authorization is required for each purchase of goods and/or services of \$100 or more except for emergency repairs or purchases, reimbursements from restricted accounts not sponsored by the principal, and purchases of goods and services made under contract. . . . the principal should not authorize payment in any amount for purchases that: are not appropriate; or are to be paid out of accounts that do not have sufficient balances.

Pages 5-12–14 of the manual set forth 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 each order of goods and services over \$100 or a lesser amount if designated by school policy.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the School Board:

We concur. All purchases are preapproved by the principal. Each purchase is assigned a purchase order which is signed by the principal and the bookkeeper.

Principal:

A prenumbered purchase authorization (PO) is issued for ALL expenditures of the school with the exception of the phone bill. The purchase orders are maintained in a separate notebook in numerical order and contain receipts as needed to justify the expenditures. Individual teacher accounts with the school's bookkeeping system are also updated with each expenditure referenced by any purchase order.

5. **FINDING: Inadequate supporting documentation**

The school's files did not include adequate supporting documentation for some disbursements. The *Internal School Uniform Accounting Policy Manual*, Pages 5-13-15, set forth purchasing procedures, which include maintaining adequate supporting documentation for all disbursements.

RECOMMENDATION:

To help ensure and provide evidence that each disbursement was for a valid school purpose, the principal should ensure that adequate documentation is maintained in the school's files.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the School Board:

We concur. Each check that is written has a receipt and a purchase order stating what the purchase is and who made the purchase. The bookkeeper keeps a file on each teacher with copies of all receipts and purchase orders issued.

Principal:

Anytime that an invoice is paid or an expenditure made for the school, it is done by the issuance of a prenumbered school check. A record of each check is maintained in the checkbook referencing the date, amount, and purpose of the expenditure. There is no petty cash fund at the school.

6. **FINDING: Checks issued with only one signature**

The school issued a number of checks with only one authorized signature. The *Internal School Uniform Accounting Policy Manual*, Page 6-3, states, "Two signatures are required for all checks. In most cases, the principal or principal's designee together with at least one other person must be authorized as cosigners of checks of all internal school fund accounts."

RECOMMENDATION:

To help prevent the misuse of school funds, the bookkeeper should ensure that school checks are not issued unless signed by two authorized individuals. In addition, the principal should make arrangements with the bank so that checks will not be processed unless they include two of the authorized signatures listed with the bank.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the School Board:

We concur. All checks are signed by the principal and the bookkeeper.

Principal:

Each check issued by our school is signed by both the bookkeeper and the principal. We are the only two people who are authorized to sign school checks.

7. **FINDING: Inappropriate general fund expenditures**

The former principal used general fund money to purchase gift cards and Christmas cards for staff members at a total cost of \$520. The *Internal School Uniform Accounting Policy Manual*, Page 5-11, states:

All purchases must be for an appropriate purpose. . . . In determining appropriateness, the following questions should be considered . . .

2. Is this expenditure for a school purpose?
3. Is this expenditure for the welfare of the student body?

RECOMMENDATION:

To ensure that student activity general fund money is used in accordance with the *Internal School Uniform Accounting Policy Manual*, we recommend the principal determine that the purchase is appropriate prior to approval.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the School Board:

We concur. Principal reviews all requests for expenditures to ensure that the expenditures are being made in the best interest of the students and the needs of the school. There will be no purchases made for employees, employee’s gifts, flowers, and no credit card accounts.

Principal:

Each expenditure of school funds is reviewed and approved by the principal. In all cases, the principal determines if the expenditure is for a valid school purpose or for the welfare of the student body prior to approving the expenditure. In the case of uncertainty, the director of schools is contacted for clarification.