



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

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June 6, 2012

Director of Schools and Members  
of the School Board  
Carter County School System  
305 Academy Street  
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Ladies and Gentlemen:

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 Valley Forge Elementary School, Carter County School System. This investigation was initiated after school officials notified this office of several discrepancies they had identified. The investigative audit focused on the period July 1, 2009, through December 31, 2010. However, when necessary, this scope was expanded.

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 internal school 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.

Internal school funds must be accounted for according to the *Tennessee 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.

### Case Summary

The Comptroller of the Treasury, Division of Municipal Audit, performed an investigative audit of the Valley Forge Elementary School, Carter County School System. The audit focused primarily on the time period from July 1, 2009, through December 31, 2010. However, when necessary, this scope was expanded. Our investigative audit revealed the following:

- The former Valley Forge Elementary School bookkeeper apparently misappropriated school money totaling at least \$8,542.
- The former bookkeeper created false entries in the school's accounting records in an apparent attempt to conceal her activity.
- The former bookkeeper failed to receipt, record, or deposit adequate collections for other fundraising events, based on expected collections, of at least \$2,317.

In addition, auditors noted several internal control deficiencies that allowed the apparent misappropriation to occur without detection by school management.

- Inadequate separation of duties.
- Failure to properly analyze fundraisers and resale activity
- Failure to deposit collections within three business days of collection.

### Legal Issues

- **Misappropriated school collections and manipulated school records**

During the period July 1, 2008, through December 31, 2010, Tabitha Street, the former school bookkeeper apparently misappropriated school collections totaling at least \$8,542. Ms. Street apparently used at least three schemes to obtain these collections, while at the same time manipulating school records in an apparent attempt to conceal her activity. She did not receipt certain checks payable to the school. However, she deposited the unrecorded checks into the school's bank account, and exchanged them for cash obtained from other school collections, apparently keeping the cash for her personal use. In addition, the investigation found that the former bookkeeper issued pre-numbered receipts for other collections;

however, she either did not record those receipts in the school’s accounting records, or she recorded them at an amount less than what was turned over to her, apparently keeping the unrecorded cash. Finally, our investigation revealed that school collections confirmed by documentation from other vendors, including the school’s photographer and book fair vendor, were not receipted, recorded, or deposited by the former school bookkeeper.

- **Other unaccounted for fundraiser collections**

Our investigative audit also revealed that between July 1, 2008, and December 31, 2010, Ms. Street failed to properly account for and deposit at least \$2,317 in cash collections related to other fundraiser activities. For instance, in 2010, the school participated in a chocolate bar sale. The candy vendor provided an accounting of the chocolate bars delivered to the school. However, based on the per-unit cost of the chocolate bars, the former school bookkeeper did not receipt, record, or deposit sufficient sale collections.

Event	Amount unaccounted for
<b>Misappropriated Collections</b>	
Unrecorded checks exchanged for school cash	\$ 4,259
School photographs–November 2009	1,164
Yearbook–2010	1,345
Book fair–October 2010	1,099
School photographs-April 2010	675
Total misappropriated collections	<u>\$ 8,542</u>
<b>Other Unaccounted for Fundraiser Collections</b>	
Gourmet fundraiser–2009	\$ 409
Candy sale–Spring 2010	1,908
Total other unaccounted for fundraiser collections	<u>\$ 2,317</u>
<b>Total unaccounted for school funds</b>	
	<u><b>\$10,859</b></u>

These matters were referred to the local district attorney general. On May 14, 2012, the Carter County Grand Jury indicted Tabitha Street on one count of Theft over \$1,000 and one count of Official Misconduct.

### **Internal Control Deficiency**

Auditors identified several deficiencies in the school's internal controls that contributed to the questionable activity noted above.

- **Lack of adequate separation of duties**

School administrators failed to separate incompatible financial duties at the school. The former bookkeeper received and counted cash, prepared bank deposits, maintained and updated the school's accounting records, and reconciled the school's bank statements. The former bookkeeper's complete control over collection transactions once they reached the school office contributed to her ability to conceal the activity noted in the Legal Issues from school management.

The *Tennessee Internal School Uniform Accounting Policy Manual*, page 4-8, 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.

- **Lack of accountability and analysis of fundraising and resale activity**

School personnel did not maintain adequate records of fundraisers and failed to prepare and maintain profit analysis reports for resale or fundraiser activities. The *Tennessee Internal School Uniform Accounting Policy Manual*, page 4-30, 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,

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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.

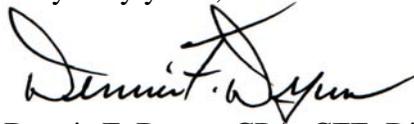
- **Failure to turn over collections promptly**

The former bookkeeper failed to deposit receipted collections within three business days. In at least one instance, she did not deposit collections for over two months. The *Tennessee Internal School Uniform Accounting Policy Manual*, page 6-2, requires that “[c]ollections should be deposited daily, if possible, but no more than three days after the initial collection.”

Auditors noted that several of the deficiencies had already been addressed by school officials. However, the principal, director of schools, and members of the board of education should take immediate action to ensure that any unresolved deficiencies are corrected.

If you have any questions concerning the above, please contact me.

Very truly yours,



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

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