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DIVISION OF MUNICIPAL AUDIT**

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May 12, 2005

Director of Schools and Members of the
Board of Education
Manchester City Schools
215 East Fort Street
Manchester, TN 37355

Ladies and Gentlemen:

As requested by the director of schools, we have completed our investigative audit of certain school activity funds deposited into a bank account at Coffee County Bank, under the name of the Westwood Elementary PAT. This investigative audit focused on the period July 1, 2003, through March 31, 2004. However, when warranted, this scope was expanded. The investigative audit was conducted in conjunction with the Tennessee Bureau of Investigation.

BACKGROUND

With the knowledge and authorization of the school principal, some school activity money was not deposited to the school's official bank account and was not recorded in the school's accounting records. Instead, the principal authorized deposit of this school money into a separate bank account titled "Westwood Elementary PAT" (referred to as old PAT in this document). The school principal, bookkeeper, and other individuals with ties to the old PAT account indicated that a now defunct parent/teacher organization had opened this bank account years earlier. A signature card on file at the bank revealed that as of January 12, 2000, the school principal, the former school receptionist (who was listed as PAT president), a Westwood Elementary schoolteacher, and another former PAT officer were authorized to sign checks.

According to the principal and bookkeeper, parents and teachers formed a new Westwood parent/teacher association (new PAT) during the fall of 2002. The new PAT president stated that the new organization established its own bank account. However, the school principal allowed the defunct PAT's bank account to be kept open and remain active. Money held in the

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old PAT bank account when the organization disbanded was retained in that account instead of being remitted either to the school activity fund or to the new PAT. The new PAT president stated that he did not become aware of the existence of the old PAT bank account until March 2004, and that he questioned the current director of schools about the account at that time. The director of schools told us that he was unaware of the existence of the old PAT bank account until it was brought to his attention by the new PAT president.

Once they became aware of the existence of the old PAT bank account, the Manchester City Schools Director of Schools and Director of Finance stated they requested all available account records be turned over to them. Former Westwood Elementary School receptionist, Rebecca (Becky) Volk, was the old PAT's last president. Ms. Volk acknowledged that she initiated the majority of the transactions recorded in the old PAT bank account after the organization ceased operations. The directors stated that when they requested the bank account information, Ms. Volk told them that she did not retain copies of all bank records. As a result, the finance director obtained deposit and disbursement records for the period June 10, 2003, through April 9, 2004, directly from the bank. After a preliminary review of the bank records and of other records provided by Ms. Volk, the director of schools requested that our office be contacted as required by the *Tennessee Internal School Uniform Accounting Policy Manual*.

Section 49-2-110, *Tennessee Code Annotated*, specifically exempts money raised by support organizations, such as booster clubs, from audit. However, our investigative audit revealed that for the period reviewed, deposits into the old PAT account consisted exclusively of school activity funds that should have been deposited into the official school bank account and accounted for in the school accounting records. The money deposited into and disbursed from the old PAT account was not recorded in the school's accounting records, and the related records were not submitted with other school records for audit.

The school principal, Sandra Morris, stated that she authorized the account to be used for the deposit of proceeds from selected student activities, including library book fairs and school picture sales, and that she directed certain school-related disbursements be made from the account. Ms. Morris also directed that the payment received by the Westwood Elementary School from the new PAT to provide each teacher with supply money be deposited into the old PAT bank account rather than the official Westwood Elementary School bank account. Principal Morris admitted that one of the reasons this separate bank account was maintained was to circumvent the accounting requirements of the *Tennessee Internal School Uniform Accounting Policy Manual*. Ms. Morris stated that she had no problem with her decision to use the old PAT account to deposit proceeds from certain school activities. Ms. Morris stated that the former director of schools had been aware of this practice and had approved it, and that the school bookkeeper had also indicated that this practice was acceptable. However, when asked about Ms.

Morris' statement, the former director of schools, Dr. Keith Brewer, stated that he had no knowledge of the school using a second bank account to deposit some school activity fund money in order to avoid the requirements of the accounting manual. He said that he would not have authorized this practice if he had been aware of it.

Our investigative audit revealed the following related to the school activity funds deposited into the old PAT bank account at Coffee County Bank:

LEGAL ISSUE

1. **ISSUE: Apparent misappropriation of at least \$6,898.59**

From June 10, 2003, through March 9, 2004, at least \$6,898.59 of school funds authorized by the school principal to be deposited into the old PAT bank account, was apparently misappropriated. The individual primarily responsible for handling transactions related to the old PAT account during this period was the former Westwood Elementary School receptionist, Becky Volk. Ms. Volk is no longer employed by Manchester City Schools. The school activity fund money was apparently misappropriated through disbursement and collection transactions as detailed in the following:

- From September 3, 2003, through February 6, 2004, 12 checks totaling \$3,831.82 were issued payable to Becky Volk and apparently deposited into Ms. Volk's personal bank account. The checks were also apparently signed by and endorsed by Ms. Volk. Adequate records to document the purpose of those disbursements were not available. Although several of the checks included a memo noting a school purpose for that disbursement, the noted explanation did not correspond with actual expenses the principal and bookkeeper stated were incurred in the school activity. The teacher whose name was used as the second signatory on 8 of these checks (totaling \$2,301.82) stated that she did not sign her name on these checks and had not authorized anyone else to sign her name.

Ms. Volk refused a request to meet with auditors from the Division of Municipal Audit. However, in a phone conversation, Ms. Volk stated that she issued these checks to repay herself for loans to the old PAT she made out of her personal funds and for school expenses paid from her personal credit card in the 2000-2001 school year. Ms. Volk stated that she had no record of the amount she had paid herself, but said she was sure it was less than the amount she loaned. Ms. Volk stated that she had

some old PAT records documenting her loans, but stated that she did not have and would not provide any personal bank records to verify her statements.

Ms. Volk provided auditors with copies of seven receipts for deposits made into the old PAT bank account at Coffee County Bank. The deposit receipts were dated August 30, 2000, through November 17, 2000. Ms. Volk stated that each of these records represented a loan of her personal funds to the old PAT bank account. Handwritten notes on these deposit receipt copies purported to support that Ms. Volk was the source of the money being deposited. However, detailed deposit records obtained from the bank revealed that these deposits actually included donations from other individuals to Westwood Elementary School and checks to Westwood Elementary School and Westwood Elementary PAT for a coupon book fundraiser. We found nothing in the bank account records that substantiated Ms. Volk's claim that these deposits included loans made by her. **In fact, during the months of August and September 2000 alone, at least two checks totaling \$875 from the old PAT account, issued payable to Becky Volk, were deposited into Ms. Volk's personal account.**

The school principal and the school bookkeeper stated they were not aware Ms. Volk had ever made personal loans to the old PAT and were not aware Ms. Volk was issuing checks to herself for repayment of any such loans. Both individuals stated that they would **not** have authorized disbursements from school activity funds to repay such loans if they had been aware of these disbursements.

- From June 11, 2003, through February 5, 2004, three checks totaling \$350 were issued payable to "Cash" and transacted. The checks were apparently signed by Ms. Volk, and at least one of the checks was apparently endorsed by Ms. Volk. Clarity was insufficient to determine the endorsements on the other two checks issued to cash. Adequate records to document the purpose of those disbursements were **not** available and we were unable to determine that the proceeds of these checks were used for any legitimate school purpose.
- Our investigative audit revealed at least \$1,799.54 of school library book fair collections could not be accounted for. The school librarian and her assistant prepared and maintained records of collections made during the fall and spring book fairs held at the Westwood Elementary School library during October 2003 and February 2004. According to these individuals, all such collections were turned over to Becky Volk for deposit into the old PAT bank account.

- Our investigative audit revealed that at least \$317.23 of school library collections for memorials, donations, etc., made from July 2, 2003, through March 9, 2004, could not be accounted for. The school librarian and her assistant prepared and maintained records of library collections made for memorials, donations, lost books, etc. According to these individuals, all of these collections were turned over to Becky Volk for deposit into the old PAT bank account.

- We were unable to account for any school basketball game collections made in December 2003. According to the school bookkeeper who counted the collections, at least \$600, and possibly as much as \$1,200 was collected for admissions and concessions at basketball games held in December 2003 at Westwood Elementary School. The school bookkeeper stated that she turned these collections over to Becky Volk for deposit into the old PAT bank account.

A summary of the apparent misappropriation of at least \$6,898.59 of Westwood Elementary School money authorized by the principal to be deposited into the separate, unaudited, old PAT bank account is shown below:

| | |
|--|--------------------------|
| Checks issued payable to Becky Volk with no documented school activity fund purpose | \$3,831.82 |
| Checks issued to cash with no documented school activity fund purpose | 350.00 |
| Unaccounted for library collections which school personnel stated they turned over to Becky Volk | 317.23 |
| Unaccounted for fall and spring book fair collections which school personnel stated they turned over to Becky Volk | 1,799.54 |
| Unaccounted for basketball game admissions and concessions collection which the school bookkeeper stated she turned over to Becky Volk | <u>600.00</u> |
| Total | <u>\$6,898.59</u> |

This matter was referred to the local district attorney general. On March 14, 2005, the Coffee County Grand Jury indicted Rebecca P. Volk on one count of Theft over \$1,000 and eight counts of Forgery under \$1,000.

FINDING AND RECOMMENDATION

1. **FINDING: School activity funds not properly accounted for**

From July 1, 2003, through March 9, 2004, more than \$16,758.54 of school money was not deposited into an official school bank account and not accounted for in the school accounting records. As stated previously, with the knowledge and authorization of the school principal, selected school money was deposited into a separate bank account. The principal did not require responsible employees to account for this money in accordance with requirements of the *Tennessee Internal School Uniform Accounting Policy Manual*. In fact, the principal stated that one of the reasons she authorized the use of the separate bank account was to circumvent these requirements. In addition, the principal failed to provide adequate oversight to ensure that related collections and disbursements benefited the students or the school.

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 *Tennessee Internal School Uniform Accounting Policy Manual*.

In addition, Section 49-2-110, *Tennessee Code Annotated* states:

(d) The principal of each school shall have the duty of instituting and following the reasonable regulations, standards, procedures, and the accounting manual adopted by the board of education having jurisdiction over the school.

(1) 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 sources of such funds, or the purpose for which they were raised.

The principal should ensure that all money raised by student activities, school services, and school events is deposited into a school bank account and related transactions are accounted for in accordance with requirements set forth in the *Internal School Uniform Accounting Policy Manual*.

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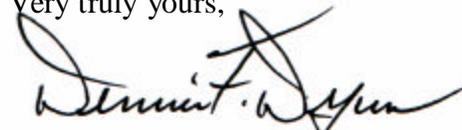
ADDITIONAL NOTES

The director of schools stated that after he learned of the existence of the separate, unaudited old PAT bank account, he requested that all activity related to the account cease. The following matters related to the school money deposited into this separate, old PAT bank account should also be noted:

- a. Although Westwood Elementary School library book fair collections had been deposited into the old PAT bank account, the school used other student money, held in the official Westwood Elementary School bank account, to pay the 2004 spring book fair invoice totaling \$2,774. The old PAT bank account balance was insufficient to pay this invoice.
- b. The new PAT organization turned over two checks totaling \$3,722 to Westwood Elementary School during the fall of 2003 for distribution to teachers for the purchase of classroom supplies. The principal authorized these checks to be deposited into the old PAT bank account. Documentation indicated that as of March 31, 2004, over \$2,000 of this money had not been distributed to teachers.

If you have any questions concerning this matter, please contact me.

Very truly yours,



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

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