

INVESTIGATIVE AUDIT REPORT

WHITTLE SPRINGS MIDDLE SCHOOL
KNOX COUNTY SCHOOL SYSTEM
JULY 1, 2006, THROUGH JUNE 30, 2007



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 37243-0260

PHONE (615) 741-2501

April 30, 2009

Director of Schools and Members of the
Board of Education
Knox County School System
P. O. Box 2188
Knoxville, TN 37901-2188

Director of Schools and Board Members:

Presented herewith is the report on our investigative audit of selected records of the activity funds of Whittle Springs Middle School, Knox County School System. This investigative audit focused on the period July 1, 2006, through June 30, 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 that during the period July 1, 2005, through June 30, 2007, the former school bookkeeper, Sherrie Stanley, apparently misappropriated school collections totaling at least \$36,933. This matter was referred to the local district attorney general. On March 10, 2009, the Knox County Grand Jury returned an indictment against Ms. Stanley 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
Knox County School System
April 30, 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

April 30, 2009

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

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 Whittle Springs Middle School, Knox County School System. This investigative audit focused on the period July 1, 2006, through June 30, 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 that during the period July 1, 2005, through June 30, 2007, the former school bookkeeper, Sherrie Stanley, apparently misappropriated school collections totaling at least \$36,933. This matter was referred to the local district attorney general. On March 10, 2009, the Knox County Grand Jury returned an indictment against Ms. Stanley on one count of Theft over \$10,000.

Mr. Justin P. Wilson
Comptroller of the Treasury
April 30, 2009

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

- Inadequate separation of duties
- Major deficiencies in former bookkeeper's collection and deposit procedures
- Major deficiencies in teachers/others collection procedures
- Failure to obtain required written authorization for some fundraisers, and to prepare profit analyses and summary reports for applicable fundraising and resale activities
- Property inventory records not complete and up to date, and some school property purchased with school funds could not be located
- Failure to maintain invoices and other adequate supporting documentation to determine that disbursements were proper and benefited the school
- No documentation that the board of education approved ending accounts payable
- Purchase requisitions/authorizations used incorrectly
- Sales tax not remitted for some applicable purchases
- School fundraiser collections inappropriately turned over to an outside organization, and athletic collections apparently receipted improperly by former bookkeeper

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 SELECTED RECORDS
OF THE WHITTLE SPRINGS MIDDLE SCHOOL
KNOX COUNTY SCHOOL SYSTEM
FOR THE PERIOD JULY 1, 2006, THROUGH JUNE 30, 2007**

NOTE TO READER: Unless otherwise noted, former bookkeeper refers to Ms. Sherrie Stanley. Ms. Stanley was the bookkeeper at Whittle Springs Middle School from March 4, 2002, through July 7, 2007. Also, it should be noted that the current principal was assigned as principal during the 2008-2009 school year. She was an assistant principal during the scope of the investigative audit. She and the current bookkeeper responded to applicable findings.

LEGAL ISSUE

1. **ISSUE: Apparent misappropriation of school collections totaling at least \$36,933**

Our investigative audit revealed that during the period July 1, 2005, through June 30, 2007, the former school bookkeeper, Sherrie Stanley, apparently misappropriated school collections totaling at least \$36,933. The former bookkeeper apparently used at least two schemes to obtain these collections.

In some instances, the former bookkeeper failed to record in the school accounting records and deposit into the school bank account some school cash collections turned over to her, apparently keeping the cash for her personal benefit. For instance, the former bookkeeper failed to record any collections for an in-school basketball game. Teachers and other employees stated that they collected money from students in the classroom and also collected admission from parents at the door to attend this game, and that these collections were turned over to the former bookkeeper. Apparently, in an effort to conceal these missing basketball admission collections, the former bookkeeper indicated on the basketball game schedule she turned over to contract auditors that there was no charge for the in-school game. (Refer to Exhibit 1.)

In other instances, the former bookkeeper intercepted and set aside checks payable to the school, including a \$5,000 check donated by a local company, numerous vending commission checks, and several checks from the Knox County Schools Central Office. The former bookkeeper did not receipt or record these checks in the school's computerized accounting system. Instead, she exchanged these checks for cash obtained from other school collections, apparently keeping the cash for her personal use. For example, a deposit of \$752.30 was made into the school's bank account on January 23, 2007. Related receipts entered into the school's computerized accounting system by the former bookkeeper, and other collection records, indicated that \$403 was from a January 18, 2007, basketball ball game against Powell, and that \$349.30 was from library collections. Both of these collections should have consisted primarily of cash. However, the deposit actually did not include any cash. Instead, the deposit consisted of unreceipted vending commission checks from Coca-Cola Bottling Company and Star Vending, as well as unreceipted checks for yearbooks, dues, basketball fees, a math book, etc. These checks were apparently deposited by Ms. Stanley to replace cash collections she removed for her personal benefit.

In addition, documentation indicated that collections for school fees totaling over \$2,400 were made by school personnel and remitted to Ms. Stanley. Over \$1,900 of these collections were paid by checks which Ms. Stanley deposited into the school bank account. However, Ms. Stanley did not receipt/record any of these fee collections in the school's accounting system. Instead, it appears she removed the cash fee collections for her personal benefit. In addition, it appears she used the fee checks to replace cash collections from other sources that she removed for her personal benefit. Ms. Stanley failed to turn over to contract auditors any teacher collection records documenting school fee collections when she remitted school records to be audited near the end of the 2007 school year. Instead, the original teacher school fee collection records were discovered in Ms. Stanley's office by Knox County Schools Central Office employees after Ms. Stanley left for her summer break.

The former bookkeeper, Sherrie Stanley, told state auditors that she always receipted the money in the school's computerized accounting system before she made the deposit, and that she never remembered depositing any money without it being receipted in the computer. Ms. Stanley also stated that she took almost all of the deposits to the bank. Therefore, Ms. Stanley would have been aware of what cash and checks were included in the deposits, that deposited items did not agree with what she actually receipted, and that these deposited fee collections were never receipted by her.

Because the former bookkeeper had total control over school collections once they reached the school office, she was able to manipulate the school's computerized accounting records. This total control allowed her 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 by school personnel. As a result, the misappropriation total above does not

include any possible additional shortages arising from collections for certain field trips, fees, resale activities, etc. In addition, the misappropriation total does not include amounts related to questionable disbursements from the school bank account for which we were unable to determine the school received the benefit. These disbursements included reimbursements Ms. Stanley paid to herself, several silk flower arrangements purchased and picked up by Ms. Stanley, numerous purchases of food and supply items, etc.

Missing, altered, and falsified school records

We were unable to locate numerous collection logs, prenumbered receipt books and other collection documentation which school personnel stated they prepared and remitted to Ms. Stanley. Auditor review of available school records indicated that Ms. Stanley apparently personally created many of the collection records attached to copies of prenumbered receipts she entered into the school's computerized accounting system. These collection records and receipts created by Ms. Stanley often did not agree with the copies of original records provided by teachers and other staff members.¹ We also noted that when original collection records were attached to the former bookkeeper's computerized receipts, collection dates sometimes appeared to have been altered, or were not included at all on many of the forms.

Because many school records were missing or inadequate, or had been falsified or altered, we were unable to determine additional shortages as noted above. For instance, in May 2007, Whittle Springs Middle School honor roll students were rewarded with the opportunity to participate in a field trip to a local karaoke restaurant. According to school personnel and documentation located, each student was charged \$8 to attend the field trip and related collections were made and remitted to the former bookkeeper. The school paid over \$1,000 to the restaurant. However, school accounting records prepared by Ms. Stanley did not show any receipted collections for this trip. Because collection records could not be located, we were unable to determine the amount of missing collections related to this trip.

This matter was referred to the local district attorney general. On March 10, 2009, the Knox County Grand Jury returned an indictment against Ms. Stanley on one count of Theft over \$10,000.

¹As noted in Finding 3, many staff members failed to retain copies of collection records turned over to Ms. Stanley. As a result, we were unable to determine the extent of this discrepancy.

THIS PAGE LEFT BLANK INTENTIONALLY.

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 and counted 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 altered and 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. Knox County Board of Education Policies and Procedures require two individuals to review transactions. Teachers making deposits must sign “Fees and Dues Listing.” Funds are then verified by the bookkeeper and the receipt is issued. Checks require the signature of one administrator and bookkeeper. Purchase orders are approved by an administrator. In this instance, required procedures were not properly followed.

Principal:

I concur. Additional staff is needed.

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

The principal failed to ensure that the former bookkeeper followed required procedures when receipting and depositing school money. We noted numerous deficiencies which contributed to Ms. Stanley’s ability to perpetrate and conceal her apparent misappropriation of school collections totaling over \$36,933 (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.
- When receipts were issued, the former bookkeeper often failed to issue receipts to the actual payer, or responsible individual. For example, receipts for basketball gate admissions were issued to the basketball coach, instead of the ticket sellers or athletic director/assistant principal actually responsible for counting the money.
- The former bookkeeper failed to record some collections remitted to her in the school’s accounting records.
- Some teachers and other school personnel were provided manual prenumbered receipt books in which to record collections from students and others. The former bookkeeper apparently failed to reconcile collections documented in these receipt books with amounts remitted to her by these staff members. Also, we were unable to verify that the former bookkeeper properly recorded in the school’s computerized accounting system and deposited into a school bank account some collections she received directly and documented in manual receipt books she retained.

- 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 by the bookkeeper, altered, and/or falsified.
- 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 altered and falsified, apparently in an attempt to conceal the fact that collections were not deposited promptly. In a meeting, the bookkeeper told Comptroller auditors that she was unable to timely complete her work because she often had to perform the work of at least two other employees who were either out or arrived late.
- The former bookkeeper stated she used some cash collections for cash prizes and to make purchases of supplies, but failed to retain any documentation to support these cash payments. In a letter, Ms. Stanley stated that \$658.89 of coupon book sale collections were “used on cash daily prizes and for materials in daily activities.” We located no documentation to verify this statement.
- 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, and also substituted unreceipted checks for school cash collections she apparently removed for her personal benefit.
- The former bookkeeper failed to include an itemized listing of checks for most deposits.
- The former bookkeeper failed to periodically provide account transaction reports to responsible staff members. Some school personnel stated that the former bookkeeper failed to provide these records even when specifically requested, although she would sometimes provide them with manually written account balances. As a result, teachers and others were unable to verify and reconcile amounts recorded by the former bookkeeper in the school’s computerized accounting system, with amounts they collected and remitted, or with authorized disbursements.

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 assign responsibility for reconciling amounts recorded in manual receipt books with amounts recorded in the school's accounting records. 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. School collections should not be used to make purchases.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur. The bookkeeper did not properly follow established policies and procedures. Central office administration has discussed and will continue to stress the importance of following approved accounting procedures with current school staff.

Principal:

I concur. Prenumbered receipts are issued from computer for all money turned in.

Bookkeeper:

I do concur. When I receive a deposit from a teacher, a prenumbered receipt is generated from the computer to the teacher. The original receipt is kept in the office and the yellow copy of the deposit form is attached to the duplicate copy of the computer-generated receipt and put back in the teacher's mailbox, usually the same day. All receipts are issued to the teacher that made the deposit. The teacher keeps these receipts in a large brown folder until the end of the year and they check them out with me. If a receipt from

the teacher has a mistake on it, it is corrected in red and both the bookkeeper and teacher initial the change.

I NEVER deal in cash under any circumstances. We first issue a purchase order then a check is written.

At the end of each month, a computer printout of each account is printed and given to the sponsor of that account with a handwritten note stating, "If you do not agree with this account balance, notify me immediately."

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

The 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 \$36,933 by the former school bookkeeper (as noted in the Legal Issue):

- Although, according to school personnel, collection records were generally prepared, many teachers and other staff failed to retain copies of collection records.
- Collections were not always counted and reconciled prior to being turned over for deposit. For instance, collections for basketball admissions were not counted and recorded by the ticket sellers prior to being turned over to the athletic director/assistant principal. The athletic director stated that in most instances, he counted the collections on the following school day with the bookkeeper, Ms. Stanley. However, he stated that in some instances, Ms. Stanley was already in the process of counting the money when he arrived in her office, and at other times, he assigned another employee to assist Ms. Stanley. Also, he stated that he did not receive a receipt from Ms. Stanley related to these collections.
- Located collection records that were prepared by teachers and other staff often failed to include the date or other important information, such as the method of payment. In fact, for the 2006-2007 school year, the collection log form that teachers and other staff at the school used did not have a designated space for a collection date.
- 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 cash reimbursements to students

and to purchase some supplies. Another employee stated that she was directed to turn over certain cash collections to pay for pizza delivered for participants in an unrelated school event. Still another employee stated that the former bookkeeper gave her cash to purchase prizes for a fundraiser.

- 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 bookkeeper did not properly follow established policies and procedures. In the event that an office receipt is not returned within three business days, school personnel have been informed that the issue should be discussed with the bookkeeper. In the event that an office receipt is not returned within two business days subsequent to the discussion with the bookkeeper, school personnel have been informed that the issue should be addressed with the principal. In the event that an office receipt is not returned within three business days subsequent to the discussion with the principal, school personnel have been informed that the issue should be addressed with the Supervisor of Accounts Payable.

Principal:

I concur. Gatekeeper counts money, verified by principal and bookkeeper, then receipted.

Bookkeeper:

I concur. Receipts from the computer are written to the gatekeeper and the concession worker. The gatekeeper files a ticket report which is reviewed and signed by bookkeeper and principal. As I stated before, I never use cash to make any type of purchase. If the concession stand runs out of pizza, I pay for them (additional pizzas) personally and reimburse myself the next day from that receipt. Teachers are issued a prenumbered receipt book at the first of the year and it is turned in at the end of the year for the local auditors.

4. **FINDING:** **Failure to obtain required written authorization for some fundraisers, and to prepare profit analyses and summary reports for applicable fundraising and resale activities**

The principal failed to require personnel to complete profit analysis reports for fundraising activities and other resale activities, and also failed to obtain or document written authorization for some school fundraisers. In addition, applicable fundraiser summary reports were not prepared. Because profit analysis reports were not prepared, verified, and reviewed, the principal and other school officials and employees were not aware of discrepancies between amounts collected by staff members and remitted to the bookkeeper, and amounts recorded by the bookkeeper in the computerized school accounting records. In addition, because applicable fundraiser summary reports were not prepared, the school could not readily demonstrate that fundraiser profits were used for the intended purpose.

The *Internal School Uniform Accounting Policy Manual*, Section 4, requires written authorization be obtained and filed, and sets forth detailed procedures for fundraising activities, including completion of profit analysis reports and fundraiser summary reports.

RECOMMENDATION:

To establish accountability and adequately account for fundraising 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 fundraising and other resale activities set forth in the *Internal School Uniform Accounting Policy Manual*. These required procedures include obtaining prior authorization, preparing profit analyses, verifying commissions, and preparing fundraiser summary reports.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur. Established policies and procedures were not properly followed. The importance of following fundraising guidelines will be reemphasized to school personnel.

Principal:

I concur. All fundraisers are preapproved by principals and director of schools.

Bookkeeper:

I concur. All fundraisers are preapproved by the principals as well as the director of schools before the fundraiser can begin. Then when finished, the summary report is completed by the teacher and kept in the office for the auditors.

5. **FINDING: Property inventory records not complete and up to date and some school property purchased with school funds could not be located**

The school did not maintain complete, up-to-date inventory records of property owned, and some property items were not permanently marked or tagged. Also, school personnel could not locate two desktop computers, one laptop computer, and a printer purchased in the 2007 school year with school funds totaling over \$3,500. The *Internal School Uniform Accounting Policy Manual*, page 4-19, states, “It is essential to account for property (whether donated or purchased with individual school money) and to establish and maintain adequate internal controls for such property....” Pages 4-18–20, outline a school’s responsibility for controlling property, which includes maintaining up-to-date inventory records, permanently marking each piece of equipment, and conducting periodic inventories of recorded property.

RECOMMENDATION:

To establish better accountability and controls for school property, the principal should ensure complete property inventory records are maintained and that applicable property is permanently marked or tagged. All relevant inventory information should be included in the inventory record at the time property is received. To verify that recorded property is at the school and that property inventory records are accurate, property should be inventoried periodically. At least annually, the school should submit a detailed list of school property to the director of schools or the board of education.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur. Established policies and procedures were not properly followed. The importance of maintaining accurate and up-to-date inventory of school property will be discussed with school personnel.

Principal:

I concur. Inventories are counted and updated each year. Summer purchases (groceries) were purchases which I do not feel were for the benefit of the school.

Bookkeeper:

I concur. Inventory is taken each year and any purchases that were made during the school year is added to the list. Again, a purchase order has to be generated by the computer and approved by the principal and the bookkeeper. Sherrie Stanley purchased groceries during the summer months when we were not in school. I am sure this was not for the school's benefit.

6. **FINDING: Failure to maintain invoices and other adequate supporting documentation to determine that disbursements were proper and benefited the school**

The school's files did not include any supporting documentation for some disbursements. For other disbursements, supporting documentation was inadequate to determine if the school received the benefit of the purchase. We noted the following deficiencies:

- a. On numerous school checks, it appeared that the principal or the assistant principal's signature had been written by the former bookkeeper. The principal stated that he did not give the former bookkeeper permission to sign his name. The assistant principal stated that he had given the former bookkeeper permission to sign his name only a couple of times.
- b. As set forth below, checks totaling \$3,714.50 were paid for gift cards/certificates purportedly for school-related purposes:

Check or Charge Date	Check Number	Payee	Check Amount	Number and Amounts of Gift Cards
09-26-06	1665	Knoxville Center	\$ 322.00	4 @ \$25, 2 @ \$50, 5 @ \$20, Handling Fee 11 @ \$2 each
12-19-06	1707	Knoxville Center	1,332.50	50 @ \$20, 5 @ \$50, Handling Fee 55 @ \$1.50 each
12-21-06		Sam's Club	300.00	4 @ \$25, 4 @ \$50
01-16-07	1710	Knoxville Center	464.00	12 @ \$20, 4 @ \$50, Handling Fee 16 @ \$1.50 each
01-16-07	1735	Sherrie Stanley	240.00	Attached documentation was for \$464 gift cards from Knoxville Center. Comptroller auditors were able to determine cards on document were purchased with school check.
01-16-07	1060*	Sherrie Stanley	800.00	Purpose line indicates gift certificates. No documentation located.
05-01-07	1829	Sherrie Stanley	<u>256.00</u>	8 @ \$30, Handling Fee 8 @ \$2 each (Paid with Visa)
		Total	<u>\$3,714.50</u>	

*Check from Whittle Springs PTSO account for which Ms. Stanley apparently maintained checkbook.

The related purchase order for the \$1,322 check to Knoxville Center indicated “50 gift certificates for students with first honors” and “5 – 50 dollar gift certificates for custodians.” However, the school principal stated that gift cards were not given to first honor students. Instead, many school staff members remembered receiving a gift card around the winter holiday break. In December 2006, the school had over 70 full-time personnel including custodial and janitorial staff. (Auditor’s Note: 79 gift cards were purchased directly with school checks in December 2006.) Staff members working with the school accreditation team (SACS) stated they were also given gift cards near the end of the school year.

School files and records contained no documentation of who actually received the gift cards. In addition, we were unable to determine that the \$800 and \$240 reimbursement checks paid to Ms. Stanley were for gift cards or other purchases for which the school received a benefit.

- c. For some purchases for supplies, decorations, numerous food items, etc., the purpose was not indicated. Therefore, documentation was insufficient to determine if the school or school system actually received the benefit of these purchases. For instance, although we spoke with almost all school employees, no one could remember the school receiving two silk floral arrangements in August 2006, paid for with a school check totaling \$208.99, or four additional silk floral

arrangements in December 2006 paid for with a school check totaling \$280.50. In addition, school personnel were unable to verify that the school received other decorative items, including wall sconces, candle holders, and other items purchased from Kirkland's in July 2006 for which the former bookkeeper received reimbursement.

- d. Some disbursements were supported by monthly summary statements only. In most instances, detailed billings were not included for credit card and store credit purchases. For example, state auditors had to contact the Sam's Club corporate office to request and obtain complete billing statements for the school's account.
- e. Checks were signed without review of adequate supporting documentation. Both the principal and assistant principal admitted that in most instances, they did not review supporting documentation prior to signing checks.
- f. Although it appeared that related purchase orders were sometimes stamped to indicate payment, invoices were not marked in any way to indicate payment.
- g. The former bookkeeper paid many invoices up to six months late, resulting in late fees and finance charges totaling over \$500 for the 2006-2007 school year.

The *Internal School Uniform Accounting Policy Manual*, pages 5-13-15, set forth purchasing procedures, which include maintaining adequate supporting documentation for all disbursements.

Section 6-3 of the manual states that “[b]efore signing checks, each signatory should review adequate supporting documentation (such as vendor invoices, purchase authorizations, etc.).”

RECOMMENDATION:

To help ensure and provide evidence that each disbursement was for a valid school purpose, school officials should ensure that adequate documentation is maintained in the school's files. Documentation should include the purpose of the purchase and should be sufficient to determine that the school received the benefit of the payment. Invoices should be paid timely and marked to indicate payment. Check signers should review adequate supporting documentation as necessary prior to signing checks, and should never give permission for their signature on checks to be written by the bookkeeper or any other individual. The principal or his designee should review bank statements and returned or imaged checks to ensure that all canceled checks were authorized and appropriate.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the School Board:

We concur. Knox County Board of Education Policy and Procedures require proper documentation to be submitted prior to the issuance of a check with the appropriate information verified prior to the signing of the check. The importance of following these policies and procedures will be stressed with school administration.

Principal:

I do concur. Gift cards and cash are never given to any employee.

Bookkeeper:

I do concur. Gift cards/certificates are never purchased for employees. This is considered income and needs to be taxed. The school does not buy decorations, Christmas trees, wreaths, etc., for school use. Each billing statement is attached to the purchase order when payment is made. When I write checks, I attach the purchase order, invoice, and check for the principal to review. She and I discuss what this check is for, and then she signs the check. We always pay the full amount of the bill to avoid service charges.

7. **FINDING: No documentation that the board of education approved ending accounts payable**

The school’s records did not indicate that the local board of education or the board’s designee approved year-end accounts payable and the subsequent related expenditures. Knox County Schools’ central office employees stated that numerous delinquent invoices totaling about \$12,000, which had not been paid by the former bookkeeper in the 2006-07 school year, were paid in the subsequent school year. In addition, the audit revealed that the former bookkeeper failed to pay 2005-06 invoices totaling at least \$2,400 until the 2006-07 school year. The principal and central office personnel stated that the former bookkeeper failed to inform them of these unpaid invoices. The *Internal School Uniform Accounting Policy Manual*, page 5-16, states, “The local board must approve accounts payable that will not be liquidated during the current fiscal year.”

RECOMMENDATION:

To ensure that the board of education is aware of the school's liabilities, the principal should obtain board approval for outstanding accounts payable at the end of the school year.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur. The bookkeeper is required to provide the school administrator with an end-of-year listing of all outstanding purchase orders to be submitted to the board for approval.

Principal:

I do concur. No accounts payable are carried over.

Bookkeeper:

I do concur. No accounts payable are carried over.

8. **FINDING: Purchase requisitions/authorizations used incorrectly**

School personnel did not correctly use purchase requisitions/authorizations. Most purchase requisitions/authorizations, including related signatures in the “Requested by” line appeared to have been completed by the former bookkeeper. Several requisitions/authorizations were incomplete as to vendor, items/services description and purpose, account to be charged, etc., and some which were completed, did not encompass significant portions of the purchase. Most purchase requisitions/authorizations were dated subsequent to the related invoice. For some requisitions, the school employee listed as the requester stated that they had no knowledge of the purchase. In addition, we noted some instances in which amounts had been altered. The *Internal School Uniform Accounting Policy Manual*, pages 5-12–13 state:

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.... [T]he principal should not authorize payments in any amount for purchases that: are not appropriate; or are to be paid out of accounts that do not have sufficient balances.... When the bookkeeper receives or originates a purchase requisition, the bookkeeper should review the account balance to be charged to determine if sufficient money is available.

Page 5-12 of the manual states that “[t]he purchase requisition should include the date of request, the name of the individual requesting the purchase, the fund/account to be charged, the items/services to be purchased and the amount of each item/service.”

Pages 5-13–15 of the manual also provide guidance on where the various copies of the purchase requisitions/purchase authorizations are to be filed.

RECOMMENDATION:

To better control expenditures, school personnel should correctly and consistently use and file a purchase requisition/authorization for each order of goods and services over \$100 or a lesser amount if designated by school policy. The purchase orders should be approved by the principal or the principal’s designee before the obligation for purchase is made and should be properly filed.

MANAGEMENT’S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur. It will be stressed to school administrators that, in the future, school administrators themselves, and not designees, should approve all purchase requisitions and purchase orders.

Principal:

I do concur. Sponsors, principal and bookkeeper sign purchase orders.

Bookkeeper:

I do concur. The sponsor of the account signs “Requested by,” and the bookkeeper only signs where the bookkeeper line is. I do not sign anyone’s name to anything. A purchase order is filled out for any purchase even if it is under \$100.

9. **FINDING: Sales tax not remitted for some applicable purchases**

In several instances, the school did not remit sales tax to the vendor or use tax to the Tennessee Department of Revenue for applicable purchases of products intended for resale, including t-shirts, items purchased for concessions, etc.

Section 67-6-102, *Tennessee Code Annotated*, sets forth sales and use tax requirements (with specific exemptions) for businesses who sell to schools. Vendors may collect and remit sales tax to the state on the sale of tangible personal property or taxable services to a public school, grades K-12, if the school intends to resell the property or services. However, if for any reason the vendor does not collect and remit sales tax to the state under these circumstances, the school is liable for use tax based on the purchase price of the item.

RECOMMENDATION:

To avoid liabilities for sales tax due to the state and any related penalties, the school should comply with state sales tax statutes by remitting sales tax to the vendor or use tax to the Tennessee Department of Revenue for applicable purchases of products intended for resale.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur. The importance of following sales tax guidelines has been discussed with school administration.

Principal:

I do concur. The school pays sales tax on everything unless it is for school uses, i.e., basketball uniforms, etc.

Bookkeeper:

I do concur. The school pays sales tax on everything unless the item stays in the building. Anything we resell, sales taxes are paid. The school is only tax exempt on items that are kept in the building.

10. **FINDING:** **School fundraiser collections inappropriately turned over to an outside organization, and athletic collections apparently received improperly by former bookkeeper**

In addition to the amount noted in the Legal Issue, the former bookkeeper failed to deposit additional school collections totaling over \$17,000 from a student-involved fundraiser into the school bank account. Instead, these collections were turned over by the former bookkeeper to the treasurer of the Whittle Springs PTSO for deposit into the organization's bank account. The treasurer of the organization stated that she was unaware of the fundraising activity until requested by the former bookkeeper to pick up the money.

Also, apparently in an attempt to mislead auditors, the former bookkeeper indicated on the basketball schedule she submitted to contract auditors the following: "Concessions – Done by Athletic Boosters." (Refer to Exhibit 1.) However, the athletic director, coaches and other school employees stated that Whittle Springs Middle School did not have an athletic booster club, and that in fact, Ms. Stanley was in charge of operating the concession stand at basketball games on behalf of the school. The investigative audit

revealed that all or part of the concession collections from at least three games could not be accounted for.

In addition, bookkeeper receipt no. 293, issued to the boy's basketball coach, Mr. Hancock, for \$3,244.47, indicated that the collection was "Given by Boosters." Coaches stated that they had no knowledge of money received from any booster club, and that the receipt was apparently for money related to a candy fundraiser, basketball fees, warm-up suits, athlete insurance, etc., collected from students by coaches and other school employees which had been recorded in manual receipt books maintained by the coaches. Other related collection documentation which coaches stated they prepared and remitted to the former bookkeeper could not be located.

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 fundraisers involving students who are under the supervision of a school employee....

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 accounting records and deposited into the school bank account. Such money should never be turned over to an outside organization. In addition, to ensure that all collections are used to benefit the school and students and are used for their intended purpose, collection information and prenumbered receipts issued by the bookkeeper should correctly reflect the source of all collections.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

We concur. School administration is required to follow approved guidelines for booster/support organizations.

Principal:

I do concur. All money is receipted by bookkeeper. The bookkeeper and principal reconcile the bank statement each month.

Bookkeeper:

I do concur. All money is receipted by the bookkeeper and a computer-generated receipt is issued to the teacher that made the deposit. I advise teachers if they do not receive a receipt within a couple of days, to let me know. Also periodically, I run a copy of all receipts in the computer and compare it with my deposits made by the bank. They balance to the penny. I share this information with the principals.

THIS PAGE LEFT BLANK INTENTIONALLY.

EXHIBIT

THIS PAGE LEFT BLANK INTENTIONALLY.

2006-2007 Middle School Basketball

Playing Dates

Date	School	Place	Time
Tues. Nov. 14	Gresham	Away	4:30
Mon. Nov. 20	Vine	Away	4:30
Thurs. Nov. 30	Northwest	Home	1:30
Mon. Dec. 4	Karnes	Home	4:30
Thurs. Dec. 7	Carter	Home	4:30
Mon. Dec. 11	Cedar Bluff	Away	4:30
Thurs. Dec 14	South Doyle	Home	4:30
Mon. Dec. 18	Bearden	Away	1:00
Thurs. Dec 21	Gresham	Home	4:30
Thur. Jan 11	Halls	Away	4:30
Thurs. Jan 18	Powell	Away	4:30
Mon. Jan 22	West Valley	Away	4:30
Thurs. Jan 25	Farragut	Home	4:30
Mon. Jan 29	Holston	Away	4:30
Tues. Jan 30	Carter	Away	4:30
Mon. Feb. 6	Berean	Away	4:00

no charge in school

Per school personnel, students and adults were charged admission and these collections were turned over to the former bookkeeper. These collections were unaccounted for.

Tentative Tournament Dates: Feb. 9,10,13,& 15

Practic Times: TBA

Concessions - Done by Athletic Boosters

*\$ 1350.00
1400.00
~~2750.00~~*

Whittle Springs Middle School Basketball (Practice week of Oct 23)

Per school personnel, no athletic booster organization at WSMS; the former bookkeeper, Sherrie Stanley, was in charge of concession operations. All or part of concession collections from at least three games were unaccounted for.