



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

John G. Morgan
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

January 9, 2009

Director of Schools and Board Members
Cannon County Board of Education
301 West Main Street
Woodbury, TN 37190

Director of Schools and Board Members:

We have concluded our investigative audit of selected records of Woodland Elementary School, Cannon County School System. The audit focused on the period July 1, 2007, through November 30, 2008. Our office received information regarding specific questioned purchases. The audit was primarily limited to an examination of records related to those purchases. However, when warranted we expanded the scope.

Our investigative audit revealed the bookkeeper made payments of over \$6,500 to a vendor for toner cartridges at prices that far exceeded the market and at quantities that exceeded the school's need. Based upon current usage rates, the on-hand inventory of toner cartridges for one copier could last 10 to 20 years. The bookkeeper stated she did not order the toner cartridges; the vendor periodically shipped cartridges without a request from the school. She admitted to state auditors that she accepted and negotiated for personal use approximately \$200 of Target gift cards from the same vendor. The vendor mailed these gift cards to her after they received the school's payments. She did not take adequate steps to stop the shipments and concealed the payments from her principal by using his signature stamp without permission.

When employees receive gifts from vendors, it increases the risk that purchasing decisions will not be made based on the school's needs and interest. Section 8-17-103, *Tennessee Code Annotated*, requires that county school districts adopt ethical standards before July 2007.

Section 4 of the Cannon School District Code of Ethics, states:

An official or employee ... may not accept, directly or indirectly, any gift, money, gratuity, or other consideration or favor of any kind from anyone other than the school district that a reasonable person would understand was intended to influence the vote, official action or judgment of the official or employee in executing decision-making authority affecting the school district.

While performing the audit, the following internal control deficiencies came to our attention:

1. School personnel did not document that the required purchase authorization was correctly obtained for some purchases. Purchase orders were not always prepared prior to the purchase and rarely contained the principal's 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. 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.

2. The school issued several checks with only one authorized signature. Single signature checks were a finding in the 2007 audit, to which management responded "This was an oversight." In addition, the principal and vice-principal signed blank checks prior to personal absences. 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" and "**Checks must not be signed in advance of their preparation and issuance.**" To help prevent the misuse of school funds, the bookkeeper should ensure that school checks are not issued unless signed by two authorized individuals. 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. Also, the principal and vice-principal should not sign blank checks.

3. The bookkeeper prepared checks, maintained custody of the principal's signature stamp, prepared purchase orders, received goods, and reconciled the bank statements. This lack of an adequate separation of duties allowed the unnecessary and excessive purchases of toner cartridges to continue undetected. 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 person: approving requisitions; preparing purchase authorizations; receiving goods or services; approving payment; preparing checks; signing checks; and preparing bank reconciliations." To decrease the risk of undetected errors and irregularities, the principal should review employees' responsibilities to ensure that no employee has control over a complete transaction.
4. The principal did not maintain an accurate list of school property including but not limited to copiers, printers, and digital cameras. Additionally, most such property was not identified as school property by marking or tagging. The *Internal School Uniform Accounting Policy Manual*, page 4-19, states, "It is essential to account for property and to establish and maintain adequate internal controls for such property...." To decrease the risk of property losses, the principal should at a minimum maintain an accurate list of property, inventory the property on a yearly basis, and mark equipment as school property.

The director of schools, board members, and the principal should take immediate corrective action to resolve these issues. If you have any questions or need additional information, please contact me.

Very truly yours,

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

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