

INVESTIGATIVE REPORT

OF

SELECTED RECORDS OF
WAYNE COUNTY SCHOOLS
FOR THE PERIOD JULY 1, 2009, THROUGH
FEBRUARY 28, 2013



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
FINANCIAL AND COMPLIANCE INVESTIGATIONS**

Justin P. Wilson
Comptroller of the Treasury

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July 29, 2014

Director of Schools and Members of
the Board of Education
Wayne County School Department
419 South Main Street
Waynesboro, Tennessee 38485

Ladies and Gentlemen:

Our office performed an investigation of selected records of the Wayne County School Department, in conjunction with the Tennessee Bureau of Investigation, the Federal Bureau of Investigation, and the Internal Revenue Service after comptroller auditors discovered discrepancies during their annual audit of the Wayne County School Department for the fiscal year ended June 30, 2012. Auditors noted unusual payroll checks to School Department bookkeepers and to a grants coordinator that were misclassified in the accounting records. These payments were in addition to the budgeted salary for both the grants coordinator and the bookkeepers. Also, auditors noted questionable purchases using the School Department's Wal-Mart credit cards. As a result of these discrepancies, we performed an investigation focusing on the period July 1, 2009, through February 28, 2013. Our investigation revealed a cash shortage of \$319,134.58. We also noted several internal control and compliance deficiencies.

Presented in this report are the findings and recommendations resulting from our investigation. Copies of this report are being forwarded to Governor Bill Haslam, the State Attorney General, the United States Attorney's Office for the Middle District of Tennessee, and the District Attorney General for the 22nd Judicial District, certain state legislators, and various other interested parties. A copy is available for public inspection in our office and may be viewed at <http://www.comptroller.tn.gov/ia/>.

Sincerely,

A handwritten signature in black ink, appearing to read "Justin P. Wilson".

Justin P. Wilson
Comptroller of the Treasury

JPW/kbh

**INVESTIGATION OF SELECTED RECORDS OF
THE WAYNE COUNTY BOARD OF EDUCATION
FOR THE PERIOD JULY 1, 2009, THROUGH FEBRUARY 28, 2013**

Case Summary

Auditors with the Comptroller's Division of Local Government Audit discovered discrepancies during their annual audit of the Wayne County School Department for the fiscal year ended June 30, 2012. Auditors noted payroll checks to School Department bookkeepers and to a grants coordinator that were classified as payments for regular instruction teachers as well as teachers providing after-school help under state and federal grants. These payments were in addition to the budgeted salary for both the grants coordinator and the bookkeepers. Also, auditors noted questionable purchases using the School Department's Wal-Mart credit cards.

As a result of these discrepancies, we performed an investigation of the School Department in conjunction with the Tennessee Bureau of Investigation, the Federal Bureau of Investigation, and the Internal Revenue Service. Our investigation focused on the period July 1, 2009, through February 28, 2013; however, when necessary, this scope was expanded. The investigative audit revealed a cash shortage of \$319,134.58 as follows:

- The former grants coordinator and three former bookkeepers received unauthorized payroll and classified the payments to teacher salary account codes. The former grants coordinator received \$67,676, the former General Purpose School Fund bookkeeper received \$72,892.50, the former School Federal Projects Fund bookkeeper received \$31,768.25, and the former part-time bookkeeper received \$5,420 in unauthorized salary. None of these employees worked in a teaching capacity.
- Unauthorized purchases of more than \$77,176.69 in gift cards and related fees, as well as \$58,483.64 in groceries and personal items were made using the School Department's Wal-Mart credit cards assigned to or available to the former General Purpose School Fund bookkeeper.
- The former General Purpose School Fund bookkeeper (\$4,971.42) and the former School Federal Projects Fund bookkeeper (\$746.08) received additional payroll checks totaling \$5,717.50 that were marked as "void" in the accounting system; however, the payroll checks were actually cashed.

Findings and recommendations, as a result of our investigation, are presented below. These findings and recommendations have been reviewed with management to provide an opportunity for their response. In January 2013, employment was terminated for the General Purpose School Fund bookkeeper, the School Federal Projects Fund bookkeeper, the grants coordinator. The part-time bookkeeper never returned to work. Also, these findings and recommendations have been reviewed with the United States Attorney's Office for the Middle District of Tennessee, and the District Attorney General for the 22nd Judicial District.

INVESTIGATIVE FINDINGS

FINDING 1 **A CASH SHORTAGE TOTALING \$319,134.58 EXISTED AT FEBRUARY 28, 2013**

Our investigation for the period July 1, 2009, through February 28, 2013, revealed a cash shortage totaling \$319,134.58 as detailed below:

- A. We noted unauthorized payroll checks totaling \$177,756.75 to four former School Department employees: the grants coordinator, the General Purpose School Fund (GPS) bookkeeper, the School Federal Projects Fund (SFP) bookkeeper, and a part-time bookkeeper. These payroll checks were issued without authorizations from the director of schools and were classified to the teacher salary line-item account code. The teacher salary line-item account code includes payroll for regular instruction teachers as well as teachers providing after-school help for needy students under a state and a federal grant.
1. The grants coordinator¹ received payroll totaling \$67,676 that was not authorized. The grants coordinator worked as an independent contractor; however, we found no written contract between the grants coordinator and the School Department. The prior Director of Schools, Wanda Johnston, stated that she had a verbal agreement with the grants coordinator to be paid \$1,200 per month. Furthermore, the current Director of Schools, Gailand Grinder, stated that he had a verbal agreement with the grants coordinator to be paid \$20,000 from professional fees as budgeted by two grants, \$10,000 from each grant. Since the grants coordinator received \$67,676 in additional payments coded as teacher salaries, his actual salary remained concealed from the Board of Education and grant authorities until discovered by auditors. Time sheets submitted by the grants coordinator were not signed by the director of schools indicating approval. The grants coordinator acknowledged that he directed payments for himself to the line-item account code for teachers by giving written instructions to the GPS bookkeeper on his timesheets.
 2. The GPS bookkeeper was paid \$72,892.50 for hours not properly authorized and not adequately documented. Although the GPS bookkeeper performed work on the school grants in addition to her normal job duties, the grants coordinator told auditors the GPS bookkeeper agreed to receive \$500 every two weeks for her grants work. That amount is generally consistent with the grant expenditure reports prepared under the direction of the grants coordinator, which were the basis for reimbursement to the School Department by the state Department of Education. However, the actual pay received by the GPS bookkeeper does not match either the time sheets of the GPS bookkeeper or the payments to the GPS

¹ This individual used the title of grants consultant. He described his duties as grant writer and monitor of the implementation of the grants including developing a budget and maintaining an accurate accounting system including monitoring purchases, expenditures, and time sheets in compliance with grant regulations. He was paid as an independent contractor. Based upon his duties, we used the title of grants coordinator for the purpose of this report.

bookkeeper recorded in grant expenditure reports. The grants coordinator approved the amount of payment and directed the misclassification of amounts to be coded as teacher salaries. In addition, the grants coordinator stated he had never actually reviewed the time sheets of the GPS bookkeeper and did not know how many hours the bookkeeper actually worked. He did acknowledge the bookkeeper was not a teacher. The GPS bookkeeper has admitted to being paid for hours she did not work.

3. The SFP bookkeeper was paid \$31,768.25 for hours not properly authorized and not adequately documented. Although the SFP bookkeeper received payroll payments under state and federal grants, the grants coordinator denied ever having seen the time sheets of the SFP bookkeeper. He stated that his signature appeared to have been copied, pasted, and recopied on the time sheets provided to auditors by the SFP bookkeeper. The SFP bookkeeper was not involved in a teaching capacity. In addition, the GPS bookkeeper prepared grant reimbursement requests based on expenditure reports allocated under the direction of the grants coordinator. The SFP bookkeeper was not mentioned in these expenditure reports except for limited work for the summer program. The GPS bookkeeper further advised auditors that she did not work with the SFP bookkeeper on the grants and had not received the SFP bookkeeper's time sheets for work on the grants.

4. A part-time bookkeeper, who worked as an independent contractor, was paid \$5,420 for hours not properly authorized and not adequately documented. The part-time bookkeeper was not involved in a teaching capacity and provided no documentation to support work with the grant.

The following payments received by the grants coordinator and the bookkeepers exceeded the expenses for administration allowed under the grants and were classified as payments to teachers providing after-school help for needy students. These payments were among payments to many other individuals and concealed the actual salary of the grants coordinator, the bookkeepers, and the actual cost of administering the grants. This enabled the grants coordinator and the bookkeepers to receive extra pay without any verification, supervision, or approval of actual hours worked.

Unauthorized Payroll

	FY 2010	FY2011	FY 2012	FY 2013	Total
Grants Coordinator	\$ 14,200.00	\$ 23,226.00	\$ 28,625.00	\$ 1,625.00	\$ 67,676.00
GPS Bookkeeper	6,592.50	21,910.00	28,690.00	15,700.00	72,892.50
SFP Bookkeeper	5,038.25	9,535.00	11,840.00	5,355.00	31,768.25
Part-time Bookkeeper	345.00	3,290.00	1,215.00	570.00	5,420.00
Total Unauthorized Payroll	\$ 26,175.75	\$ 57,961.00	\$ 70,370.00	\$ 23,250.00	\$ 177,756.75

- B. We determined that unauthorized purchases of at least \$135,660.33 were made using the School Department's Wal-Mart credit cards. After the GPS bookkeeper's employment was terminated, school officials received a monthly billing statement from Wal-Mart detailing charges made on multiple Wal-Mart credit cards, some of which were highly questionable. Auditors searched the records of the School Department and were unable to find any monthly statements on file for the period of July 2008 through December 2012. The director of schools requested replacement statements, and an analysis of those statements and other supporting documents was performed. We determined that gift cards and related fees totaling \$77,176.69 plus personal purchases, including out-of-state purchases, miscellaneous groceries, and baby items totaling \$58,483.64, were made for which no valid purpose was noted. These purchases totaling \$135,660.33 (\$77,176.69 plus \$58,483.64) were made with credit cards assigned to or available to the GPS bookkeeper.
- C. We noted four payroll checks totaling \$5,717.50 that were processed through the School Department's bank account; however, these checks were marked as void in the School Department's accounting records. The checks were not included on the employee's Form W-2, and appropriate income, Social Security, and Medicare taxes were not withheld. Three of the checks totaling \$4,971.42 were written to and cashed by the former GPS bookkeeper, and one check totaling \$746.08 was written to and cashed by the former SFP bookkeeper. These checks were shown as void in the accounting system in an attempt to conceal the unauthorized payments.

The following table summarizes the above-noted cash shortage:

Summary of Cash Shortage

A.	Unauthorized Payroll	\$ 177,756.75
B.	Unauthorized Purchases	135,660.33
C.	Voided Checks that Cleared the Bank	<u>5,717.50</u>
Total Cash Shortage		<u>\$ 319,134.58</u>

RECOMMENDATION

Officials should take immediate steps to recover the \$319,134.58 cash shortage. Management should strengthen internal controls to ensure disbursements are authorized and documented properly.

MANAGEMENT'S RESPONSE – GAILAND GRINDER, CURRENT DIRECTOR OF SCHOOLS

We concur with the cash shortage as stated regarding unauthorized payments, unauthorized purchases from Wal-Mart, and payroll checks that were unauthorized and voided in the bookkeeping system presumably to avoid detection in the system. After this was discovered and reported by comptroller auditors, we took immediate action to terminate the employment of the GPS bookkeeper, the SFP bookkeeper, and the grants coordinator. The part-time bookkeeper did not return to work after the three terminations mentioned above. When the unauthorized purchases from Wal-Mart were discovered, all of the Wal-Mart cards in use were collected and cancelled to prevent any additional charges. For the personnel terminated, we collected their keys and computer passwords and escorted them from the building with instructions to schedule a time to come back to get any of their personal belongings. Existing computer passwords for system login were deactivated immediately to prevent further compromise of the bookkeeping system. The state Department of Education fiscal consultant assisted us with correcting our bookkeeping system. We also contracted with a bookkeeper from another school system to assist us until new bookkeepers could be hired.

FINDING 2 **QUESTIONABLE EMPLOYEE BENEFITS TOTALING \$74,459.77 WERE PAID BY THE SCHOOL DEPARTMENT**

Health insurance benefits for the General Purpose School Fund (GPS) bookkeeper and the School Federal Projects Fund (SFP) bookkeeper were paid entirely by the School Department, contrary to the standard policies adopted by the Board of Education of paying only a portion of employee health insurance benefits. According to the current director of schools, the medical insurance coverage arrangement for the GPS bookkeeper and the SFP bookkeeper was based on a verbal agreement with the former directors of schools. The most recent former director of schools advised us that she was aware of these benefits being paid by the department. We were unable to find any record that these fully funded benefits had been approved by the Board of Education. Current board members were not aware that these two employees were receiving benefits in addition to or differently from those received by other employees.

In addition to the department-paid health insurance benefits, the GPS bookkeeper was also enrolled in dental, cancer, and disability insurance policies, which were partly funded by the Board of Education. The SFP bookkeeper was also enrolled in dental, cancer, and disability insurance policies, which were partly funded by the Board of Education. There was no documentation authorizing these payments, and current board members were not aware of these payments. We did not include these benefits as part of the cash shortage noted in Finding 1 since the former director of schools acknowledged that she knew of the medical insurance benefit arrangement.

Questionable Employee Benefits Paid by the School Department

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>Total</u>
GPS Bookkeeper					
Medical Insurance	\$ 12,894.96	\$ 14,008.74	\$ 14,869.68	\$ 8,806.14	\$ 50,579.52
Other Insurance	438.36	438.36	885.90	278.43	2,041.05
Total	\$ 13,333.32	\$ 14,447.10	\$ 15,755.58	\$ 9,084.57	\$ 52,620.57
SFP Bookkeeper					
Medical Insurance	\$ 5,166.36	\$ 5,447.22	\$ 5,686.80	\$ 3,937.48	\$ 20,237.86
Other Insurance	34.50	282.52	913.06	371.26	1,601.34
Total	\$ 5,200.86	\$ 5,729.74	\$ 6,599.86	\$ 4,308.74	\$ 21,839.20
Total Paid	\$ 18,534.18	\$ 20,176.84	\$ 22,355.44	\$ 13,393.31	\$ 74,459.77

RECOMMENDATION

Officials should determine whether these department paid employee benefits should be considered part of the cash shortage and recovered. Policies regarding employee benefits should be consistently applied. Any deviation from policy should be approved and documented properly.

MANAGEMENT’S RESPONSE – GAILAND GRINDER, CURRENT DIRECTOR OF SCHOOLS

We concur that health insurance was paid for the GPS bookkeeper and the SFP bookkeeper based on agreements with former directors of schools. I was not aware that dental, cancer, and disability insurance was being paid for the GPS bookkeeper and the SFP bookkeeper. The Board of Education is not paying health insurance for either of the two new bookkeepers, and only the correct amount authorized for the county’s contribution toward dental, cancer, or disability insurance is being paid presently.

INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES

Findings and recommendations related to internal control and compliance deficiencies noted by auditors with the Division of Local Government Audit are reported in detail in Wayne County’s annual audit reports for the fiscal years ending June 30, 2012, and June 30, 2013, and can be accessed at www.comptroller.tn.gov. Our investigative report provides additional support for those findings. In addition, we noted the following conditions, which contributed to the failure of management to detect the unauthorized payroll, unauthorized benefits, and unauthorized use of Wal-Mart credit cards.

FINDING 3

INADEQUATE CONTROLS OVER THE DUTIES OF THE BOOKKEEPERS EXISTED

The following internal control deficiencies were noted regarding the duties of the General Purpose School Fund (GPS) and School Federal Projects Fund (SFP) bookkeepers. These deficiencies can be attributed to a lack of management oversight.

- A. The insurance benefits received by the bookkeepers were not properly approved and reconciled with the employees' election forms and payroll withholdings. Therefore, insurance benefits, as selected on the employee benefit election form, did not match approved employee/employer percentages, or the actual insurance coverage received by the GPS and the SFP bookkeepers.
- B. The functions of payroll were not adequately segregated. The same individual was able to input and code expenses, generate checks, void checks, and print checks using the check signature stamp, in addition to reconciling the payroll and related accounts with no management oversight. The same individual was also responsible for maintaining the employee benefit election forms and noting any changes, even those of her own. We found no evidence that the time sheets of the GPS and the SFP bookkeepers were reviewed and approved.
- C. General ledger payroll liability accounts were not reconciled with subsidiary payroll records and payments monthly. In the course of our investigation, we noted a deficit of more than \$215,000 in the account used by the School Department to pay for medical insurance as of March 31, 2014. Withholdings and contributions for medical insurance were \$215,000 less than medical insurance payments, according to the account specified for medical insurance. The failure to regularly reconcile payroll liability accounts allowed errors to remain undiscovered and uncorrected. Accounting records were insufficient to readily determine how much was a true shortage and how much was an error.
- D. We were unable to find any documentation that the SFP bookkeeper performed any grant work separate and apart from her normal duties except for limited work performed for a summer program. Also, the hours worked on grant projects for the GPS bookkeeper did not match the checks issued for work on those projects. Documentation for the 21st Century Community Learning Program and the state Lottery for Education After-School Program grants specified the pay to be received by the GPS bookkeeper for work on those grants. That documentation did not match time sheets or the checks received by the GPS bookkeeper for grant work.
- E. There were inadequate controls and policies over the use of credit cards. The same individual was in charge of receiving the billing statements, reviewing and reconciling the statements, paying the bills, writing and printing the checks, and was also in charge of ordering new credit cards and collecting and turning in the old credit cards. This same individual was also responsible for maintaining appropriate documentation and authorization to support the expenditures.

RECOMMENDATION

Management should ensure that insurance benefits are properly approved and reconciled with employees' election forms and payroll withholdings. Management should review the responsibilities of payroll employees to ensure that no employee has complete control over payroll duties and that duties related to payroll are adequately supervised. General ledger payroll liability accounts should be reconciled monthly with payroll reports and payments, and errors should be corrected promptly. All grant disbursements should be properly documented. Management should review and authorize appropriate policies and procedures for the use of all credit cards. Credit card purchases should be reconciled with monthly statements and reviewed by supervisory personnel. Authorization, purchases, and review of purchases should be performed by persons independent of the transactions.

MANAGEMENT'S RESPONSE – GAILAND GRINDER, CURRENT DIRECTOR OF SCHOOLS

- A. Insurance benefits are now reconciled with billing statements and employee election forms to prevent a re-occurrence.
 - B. Time sheets are now submitted to the appropriate supervisor for approval and a signature. Bookkeepers have been instructed to not share passwords so all transactions can be attributed to a specific individual. Supervisors code expenses for input and check generation by the bookkeepers.
 - C. The general ledger payroll liability accounts are now monitored closely. Cash is being reconciled monthly with the county trustee and signed by the director. Check logs are maintained and reviewed periodically. All insurance payments have been paid, and no insurance funds are missing. Journal entries to correct errors have been made and approved by the Board of Education and the County Commission. In addition, any payments made for life, dental, or disability insurance have been placed in their respective budget line to allow for specific tracking of any payments made.
 - D. We concur.
 - E. Credit card procedures were changed immediately once we were aware of irregularities. All billing statements are received by the office manager and checked for accuracy. I review all credit card statements. The department supervisors then review purchases for proper coding before presenting them to the bookkeeper for payment.
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FINDING 4

THE GRANTS COORDINATOR FAILED TO PERFORM HIS DUTIES

The grants coordinator knowingly applied expenditures to the incorrect accounting codes, submitted false documents to the Tennessee Department of Education for reimbursement of grant expenditures, and exceeded his agreed upon salary. He also failed to review and adequately document approval of time sheets and payments to the bookkeepers out of the grant funds he was administering. In addition, he exceeded his agreed upon consulting fee without authorization, and he failed to keep management informed of the true expenditures of the grants in his care. The School Department repaid the Tennessee Department of Education \$32,631.65 to cover this misspending for the fiscal year ended June 30, 2012. The grants coordinator also failed to retain appropriate approved documentation of payroll and other grant expenditures.

Finding 2013-021, reported in Wayne County's Annual Financial Report for the fiscal year ended June 30, 2013, attendance reported to the state for the state Lottery for Education After-School Program grant was 8,342 attendance days for the 2012-13 fiscal year. Attendance records for the same period showed 2,252 actual attendance days. Similarly, attendance reported to the state for the 21st Century Community Learning Program grant was 5,884 attendance days for the 2012-13 fiscal year. Attendance records for the same period showed 4,428 actual attendance days.

RECOMMENDATION

Management should take immediate action to correct deficiencies in the use of state and federal grant funds.

MANAGEMENT'S RESPONSE – GAILAND GRINDER, CURRENT DIRECTOR OF SCHOOLS

We concur. Regarding Finding 2013-021 and after school attendance, the grantor has accepted our documentation for a portion of this finding reducing the questioned costs from \$9,750 to \$4,880. We plan to pay this amount back on or before the required date of September 30, 2014. Grant duties have been segregated further to prevent a re-occurrence. A separate facilitator at each school approves time sheets at each site and enters appropriate data for system attendance. Two separate individuals in our office are responsible for approving payments and requesting reimbursements for the 21st Century Community Learning Program Grant.