

# **INVESTIGATIVE AUDIT REPORT**

## **Beech Elementary School**

**Sumner County School System**

**July 1, 2009, through September 15, 2010**



## **State of Tennessee**

**Comptroller of the Treasury  
Department of Audit  
Division of Investigations**



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DIVISION OF INVESTIGATIONS**

**Justin P. Wilson**  
Comptroller of the Treasury

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September 10, 2012

Director of Schools and Board of Education  
Sumner County School System  
695 East Main Street  
Gallatin, TN 37075

Ladies and Gentlemen:

This office was notified by officials of the Sumner County School System of suspected irregularities at Beech Elementary School. Subsequently, the Division of Investigations, in coordination with the Sumner County Sheriff's Department, conducted an investigative audit of the school which focused on the period July 1, 2009, through September 15, 2010. However, when warranted, this scope was expanded.

Presented in this report are the findings resulting from this investigative audit. Copies of this report are being forwarded to Governor Bill Haslam, 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 and may be viewed at [www.comptroller1.state.tn.us](http://www.comptroller1.state.tn.us).

Sincerely,

L. Rene Brison, CPA, CFE, Assistant Director  
Division of Investigations

LRB/RAD

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**INVESTIGATIVE AUDIT OF SELECTED RECORDS OF  
BEECH ELEMENTARY SCHOOL – SUMNER COUNTY SCHOOL SYSTEM  
FOR THE PERIOD JULY 1, 2009, THROUGH SEPTEMBER 15, 2010**

**CASE SUMMARY**

The Comptroller of the Treasury, Division of Investigations, performed an investigative audit of Beech Elementary School, Sumner County School System. The audit focused primarily on the period from July 1, 2009, through September 15, 2010. However, when necessary, this scope was expanded. The investigative audit revealed the following:

- The former Beech Elementary School bookkeeper, Penny Knight, misappropriated school money totaling at least \$17,422:
  - Ms. Knight issued school checks totaling at least \$13,219 to make payments on personal bills and loans, as well as to pay for personal purchases of electronics, groceries, and other items.
  - Ms. Knight removed school cash collections totaling at least \$4,203 for her personal use.
  - Ms. Knight created false invoices, altered existing invoices, falsified other disbursement documentation, forged administrator and staff signatures on checks and disbursement documentation, and altered and falsified collection records to conceal the theft.
- Ms. Knight also misappropriated \$1,713 remitted to the school for the benefit of the school's picture vendor.
- The school principal failed to adequately separate duties, review supporting documentation, review school bank statements, and ensure staff members and other applicable individuals followed pertinent laws and regulations when accounting for school money.

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## INVESTIGATIVE FINDINGS

A schedule summarizing the misappropriation by the former school bookkeeper<sup>1</sup>, and the investigative findings resulting from this audit are shown below. These matters were referred to the local district attorney general. In April 2012, the Sumner County Grand Jury indicted Penny Knight on two counts of theft, one count of money laundering, and nineteen counts of forgery.

### Summary Schedule of Misappropriation

<b>Source of Amounts Misappropriated from Beech Elementary School</b>	<b>Amount</b>
School checks disbursed for the personal benefit of Penny Knight	\$13,219
Missing cash collections	3,328
Cash for which unreceipted checks for the benefit of the school were exchanged	<u>875</u>
<b><i>Total amount misappropriated from Beech Elementary School</i></b>	<b><u>\$17,422</u></b>
<b>Source of Other Misappropriated Amounts</b>	
Collections withheld from school picture vendor (Lifetouch National School Studios, Inc.) by Penny Knight for her personal benefit	<u>\$ 1,713</u>
<b><i>Total amount misappropriated from school picture vendor</i></b>	<b><u>\$ 1,713</u></b>

1. **FINDING:** Misappropriation of school money totaling at least \$17,422

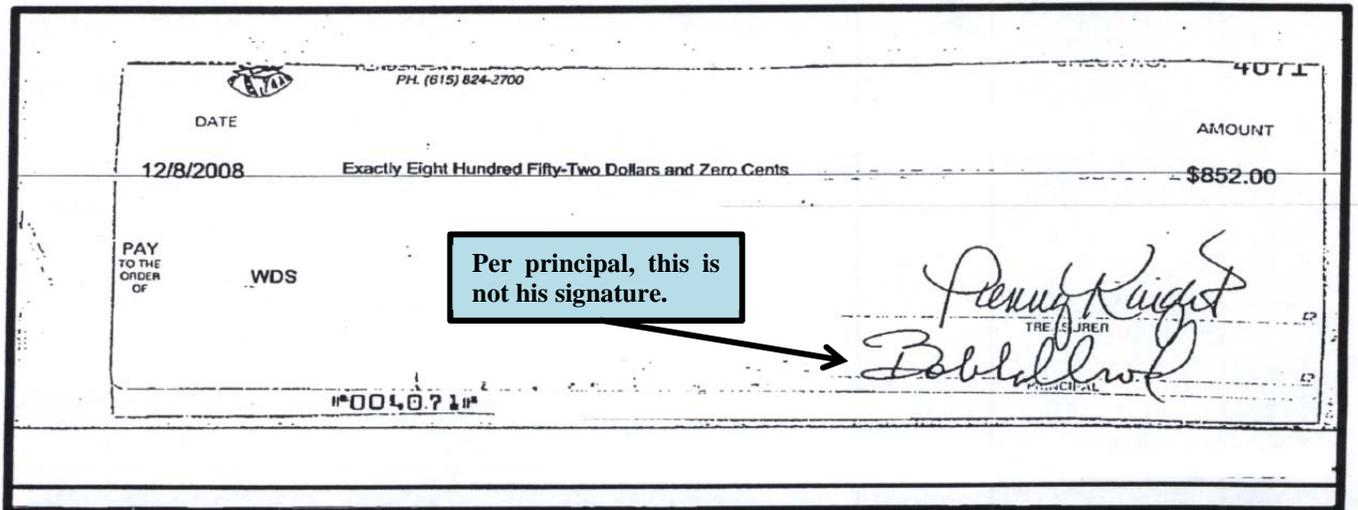
Our investigative audit revealed that during the period July 1, 2008, through September 15, 2010, the former school bookkeeper, Penny Knight, misappropriated school money totaling at least \$17,422. Ms. Knight used at least three schemes to perpetrate this misappropriation.

- Ms. Knight issued school checks totaling at least \$13,219 to make payments on personal bills and loans as well as to pay for personal purchases of electronics, groceries, and other items. The payee on many of these checks was an acronym, instead of a vendor name. To conceal these fraudulent disbursements, Ms. Knight created false invoices and other documentation and altered some vendor invoices. In addition, administrators and staff members stated that their signatures on some of the related checks, invoices, and receipts were forged.

<sup>1</sup> Former school bookkeeper refers to Penny Knight. Ms. Knight was the bookkeeper at Beech Elementary School from August 12, 1996, through September 15, 2010.

For example, as noted in the exhibits below, Ms. Knight issued school check #4071, dated December 8, 2008 to “WDS,” signed the check and forged the principal’s signature. [Exhibit 1] Ms. Knight created a false purchase requisition/authorization [Exhibit 2] and a false invoice [Exhibit 3] indicating the payment was to “Walt Disney Supplier,” for framed art. The investigation revealed that the check was actually transacted by Wachovia Dealer Services<sup>2</sup> and was a payment on a loan for a 2006 Nissan Titan in the name of Ms. Knight’s husband.

Exhibit 1



<sup>2</sup> During the scope of the investigation, Wachovia Dealer Services became part of the operations of Wells Fargo.

Exhibit 2

**PURCHASE REQUISITION/AUTHORIZATION**



*Beech Elementary School*

3120 Long Hollow Pike - Hendersonville, Tennessee 37075 - Telephone (615) 824-2700

5224

Purchased From W.D.S. Walt Disney Supplier Date 12/5/08

- 1-800-770-9990

Account to be Charged Instruction

QUANTITY	ITEM/SERVICE AND DESCRIPTION	UNIT PRICE	AMOUNT
	Disney-framed/mated portraits for library -		
6	Mickey Mouse	\$ 142.00	\$ 852.00
	Minnie Mouse		
	Donald Duck		
	Pluto		
	Goofy / Ducky / Louie / (Ducks)		
	Goofy		
			\$ 852.00

PAID

Requested by Becky Overby Date 12/5/08

This account has a sufficient balance to make this purchase.

Bookkeeper Penny Knight Date 12/5/08

Approved by Beth Brad Date 12-5-08

Date of Payment 12-5-08 Check No. 4071

Exhibit 3

WDS  
1-800-770-9998

INVOICE NO. 315001

FRAMED ART WORKS

SOLD TO: BEB  
ADDRESS: 3120 LONG HOLLOW  
CITY, STATE, ZIP: ELVINE IN 37075

SHIP TO:  
ADDRESS:  
CITY, STATE, ZIP:

CUSTOMER'S ORDER: SOLD BY: TERMS: F.O.B. DATE:

QUANTITY	DESCRIPTION	PRICE	AMOUNT
1	MICKEY MOUSE		142
1	MINNIE MOUSE		142
1	DONALD DUCK		142
1	PHOTO		142
1	HENRY, DEWEY, LOVEY DUCK		142
1	GOOFY		142
	Total		852

Thanks! Jim Morris

Per librarian, this is not her signature.

- Ms. Knight failed to record in the school’s computerized accounting system, and to deposit into the school’s bank account, school cash collections totaling at least \$3,328 turned over to her, keeping the cash for her personal benefit. For instance, Ms. Knight failed to deposit into the school’s bank account \$2,500 of Entertainment Book sale collections shown in the original record of collections she prepared for this fundraiser event. To conceal missing collections, Ms. Knight altered and falsified collection records. Due to inadequate recordkeeping by Ms. Knight and teachers, we were unable to determine if additional amounts were missing.
- Ms. Knight intercepted checks totaling at least \$875 payable to the school for certain school activities. She did not receipt or record these checks in the school’s computerized accounting system. Instead, Ms. Knight exchanged these checks for cash obtained from other school collections, keeping the cash for her personal use.

Because Ms. Knight had total control over school collections once they arrived at the school office, she was able to manipulate the school’s computerized accounting records. This total control allowed her to conceal the misappropriation from other school employees for an extended period of time.

2. **FINDING: Misappropriation of collections totaling \$1,713 remitted to school for the benefit of the school’s picture vendor**

During the period July 1, 2008, through September 15, 2010, Ms. Knight misappropriated collections totaling at least \$1,713 remitted to the school for the benefit of the school’s picture vendor, Lifetouch National School Studios, Inc. Some checks made payable to the vendor and/or Beech Elementary for school pictures were intercepted by Ms. Knight. She did not receipt or record these checks in the school’s computerized accounting system or remit them to the picture vendor. Instead, she exchanged these checks for cash obtained from other school collections, keeping the cash for her personal use.

**INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES**  
**FINDINGS AND RECOMMENDATIONS**

Presented below are findings and recommendations related to internal control and compliance deficiencies noted during the investigative audit that we believe warrant the attention of Sumner County School officials. In the accompanying responses, management has indicated they have corrected or intend to correct each of these deficiencies.

1. **FINDING: Principal failed to review supporting documentation prior to signing checks and failed to review school bank statements and related imaged checks and deposit slips**

The principal stated that, for most disbursements, he did not review the supporting documentation prior to signing the checks. As a result, the principal signed some checks for purchases of items that did not benefit the school. In addition, the principal stated that although he looked at school bank statements, he did not review them in detail, and therefore, did not note that his name had been forged on some checks that cleared the bank or that checks had been written to unknown vendors. The principal stated he completely trusted the former school bookkeeper to properly account for school money.

**RECOMMENDATION:**

The *Tennessee Internal School Uniform Accounting Policy Manual*, page 6–3, states: “Before signing checks, each signatory should review adequate supporting documentation (such as vendor invoices, purchase authorizations, etc.)” In addition, page 6-8 of the manual requires principals of schools that have limited office employees to document their monthly review of the bank statement(s) and related documents.

**MANAGEMENT’S RESPONSE:**

**Director of Schools and Members of the School Board:**

We concur. Additional financial training will be provided to school administrators to ensure administrators are aware of the importance of reviewing all supporting documentation.

**Principal:**

I concur.

**Bookkeeper:**

I concur.

2. **FINDING: Inadequate separation of duties**

School administrators failed to separate incompatible financial duties at the school. The former school bookkeeper opened some of the mail, received and counted collections, issued and signed checks, prepared bank deposits, maintained and updated the school’s accounting records, and reconciled the school’s bank statements. In addition, she was responsible for counting and recording collections for schoolwide fundraisers. The former school bookkeeper’s complete control over collection transactions once they reached the school office contributed to her ability to perpetrate and conceal the misappropriation of school money totaling at least \$17,422, allowing it to continue without detection for at least two years.

The *Tennessee Internal School Uniform Accounting Policy Manual*, page 4–8, states:

To the extent possible, the following duties should not be performed by the same individual: receiving cash, making bank deposits, maintaining the accounting records and reconciling bank accounts.... Bank reconciliations should be prepared and reviewed at least monthly by someone who is independent of the receiving and recording functions.

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, that disbursements are valid and benefit the students and the school, 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 School Board:**

We concur. Current procedures are in place to mitigate the risk associated with inadequate separation of duties. In addition, current procedures require someone other than the school bookkeeper to perform the first count on all collections and document the first count on a standard carbon collection log prior to remitting the funds to the bookkeeper. Additional training will be provided to school administrators and bookkeepers to stress the importance of this procedure.

**Principal:**

I concur.

**Bookkeeper:**

I concur.

3. **FINDING: Major deficiencies in former school bookkeeper's collection and deposit procedures**

The principal failed to ensure that the former school bookkeeper followed required procedures when collecting, receipting, and depositing school money. We noted numerous deficiencies which contributed to the former school bookkeeper's ability to perpetrate and conceal her misappropriation of school collections including the following:

- The former school bookkeeper failed to issue prenumbered receipts for, record in the school's accounting records, and deposit into the school's bank account certain collections remitted to her.

- The former school bookkeeper failed to deposit school collections intact. As noted in the Investigative Findings section, she removed some cash collections for her personal use before making related deposits. We also noted instances in which it appeared the former school bookkeeper used school collections to cash third-party checks from staff members for gifts for administrators, although documentation was insufficient to determine if the cash was used for its intended purpose.
- In some instances, the former school bookkeeper altered collection logs (records of collections) prepared and submitted with collections by staff members and others. In other instances, without their knowledge, it appeared that the former school bookkeeper prepared collection logs and signed the staff members' names.
- For schoolwide fundraisers, the former school bookkeeper prepared collections logs, but in many instances, indicated on the log that an officer of the school's Parent Teacher Organization (PTO) was responsible for collecting and counting the money.

The *Tennessee 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 *Tennessee Internal School Uniform Accounting Policy Manual* are established and followed. School personnel should deliver total collections to the cashier/school bookkeeper at least daily. The principal should ensure that the cashier/school 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. In addition, the principal should ensure that school employees comply with state law requiring deposits of all school collections intact within three days of initial collection.

**MANAGEMENT’S RESPONSE:**

**Director of Schools and Members of the School Board:**

We concur. Current procedures are in place for all bullet points listed above. Procedures will be reviewed with school administrators and staff to reiterate the importance of financial procedures.

**Principal:**

I concur.

**Bookkeeper:**

I concur.

4. **FINDING: Major deficiencies in teacher and other school staff members’ 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 school bookkeeper. Following are some of the significant collection deficiencies that contributed to management’s failure to promptly detect the misappropriation of over \$17,400 by the former school bookkeeper:

- Teachers and others failed to make and retain copies of collection logs and other collection documentation prior to turning collections over to the former school bookkeeper. Teachers stated that the former school bookkeeper told them to turn the collection logs in and she would be responsible for returning copies and/or carbons to them. One teacher stated the former school bookkeeper told her it was illegal to make copies prior to turning the collection log in to her. Teachers stated that in some instances, the former school bookkeeper failed to return copies of their collection logs to them. In addition, teachers stated that they did not review collection logs and other collection records when they were returned and, therefore, did not notice that some collection logs had been altered or rewritten.
- Faculty members failed to count and/or prepare and sign a recorded count of some school collections, including schoolwide fundraisers and other similar events prior to turning the collections over to the former school bookkeeper. As a result, for many collections, documentation was insufficient to determine if amounts recorded in the school’s accounting records by the former school bookkeeper were correct. As noted previously, the former school bookkeeper failed to record in the school’s accounting records, or deposit into the school’s bank account, some of the collections.

- Many teachers and other staff members failed to ensure that they received a prenumbered school receipt from the former school bookkeeper for all collections, and stated they did not always check to see if receipts provided by the former school bookkeeper agreed with the amount of money they remitted.
- Faculty members stated they did not always turn in money promptly. Instead, some teachers and other staff members stated that they retained collections until most or all collections for a particular purpose, such as a field trip, had been made.
- In some instances, teachers/others did not indicate method of payment (cash or check) on collection logs or other documentation.

The *Tennessee Internal School Uniform Accounting Policy Manual*, Section 5, sets forth required procedures for collection of school money by teachers/others. Page 6-2 of the manual requires that collections be deposited within three days.

**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 *Tennessee Internal School Uniform Accounting Policy Manual* are established and followed. School personnel should be required to count and complete a collection record for all collections, noting the method of payment, prior to turning them over to the school bookkeeper. In addition, teachers and other staff members should remit collections to the bookkeeper daily, and reconcile related prenumbered school receipts received from the school bookkeeper with their copies of collection logs and other collection records.

**MANAGEMENT'S RESPONSE:**

**Director of Schools and Members of the School Board:**

We concur. Current procedures require two-page, carbon, standardized collection logs to be used by all school personnel when receiving money. The person performing the first count documents the count on the collection log and is required to maintain the carbon copy of the log on file. The original log is remitted with the funds to the bookkeeper. The bookkeeper is required to issue a computer-generated receipt to the staff member, who is responsible for verifying the receipt amount to the log amount.

Additional training will be provided to all staff to ensure procedures are followed.

**Principal:**

I concur.

**Bookkeeper:**

I concur.

5. **FINDING: Failure to document fundraiser authorization, prepare profit analyses and fundraiser summary reports, and maintain adequate documentation for fundraising and other resale activities**

School personnel failed to comply with requirements of the *Tennessee Internal School Uniform Accounting Policy Manual* and with local board policies related to fundraising and resale activities.

We were unable to locate documentation that certain fundraisers, such as the sale of school pictures, Jump Rope for Heart, etc., were properly authorized. In addition, the principal failed to ensure that applicable personnel maintained adequate records of purchases, sales and inventory, and analyzed recorded collections to determine if expected collection amounts were receipted and deposited. As noted previously, the former school bookkeeper failed to deposit into the school's bank account at least \$2,500 collected for Entertainment Book sales. Because adequate records were not retained, this shortage in deposited collections was not detected by other school employees. We also noted overpayments and underpayments for fundraisers which were not detected promptly due to lack of proper profit analyses and reconciliations. Additionally, we found no documentation that fundraiser summary reports were prepared to show that proceeds were used for the intended purposes of the fundraisers.

The *Tennessee Internal School Uniform Accounting Policy Manual*, page 4–32, requires that

[t]he principal must obtain written approval from the director of schools or designee for all fundraising activities that involve participation of the general student population in the marketing process of the fundraising effort. All other fundraising activities must have written approval from the principal. Authorizations should include the following information:

1. a list of the proposed fundraising activities;
2. purpose of the fundraising activity;
3. proposed uses of funds raised; and
4. expected student involvement in fundraising activity (school wide or individual class or club).

The *Tennessee Internal School Uniform Accounting Policy Manual*, page 5–3, states:

Teachers, assistants, volunteers, and support staff who handle money should be made aware of the requirement for maintaining accurate and systematic records of all cash collected.... At the beginning of each school year, the principal should ensure that all individuals responsible for school collections are informed of the required procedures and forms and the consequences for noncompliance with the required procedures.

Related to all resale activities, pages 4–30 through 4–32 of the manual further states that

... profit analysis reports must be completed to document collections, expenses, and any losses of money or product.... The school must maintain detailed records to support all amounts recorded on these forms. If the profit analysis report indicates a shortage, an explanation must be given for the shortage.... To document that profits from fundraising activities conducted for designated purposes were expended for the purposes for which they were raised, a designated employee should prepare a fundraiser summary report. This report would include a summary of the expenditures showing how the profit was used.

**RECOMMENDATION:**

To ensure compliance with the manual and to establish accountability for fundraising and resale activities, the principal should ensure that required authorization is obtained prior to any fundraisers being conducted. In addition, the principal should require and ensure that adequate records of all fundraising and resale activities, such as collection records, are prepared and retained in the school's files. Sponsors should keep records of items given away or damaged, and inventory on hand. A profit analysis of each resale activity should be prepared comparing expected collections to actual collections, and any difference should be immediately followed up and explained. Amounts on profit analyses and other reports should be verified by someone other than the individual receiving the collections. For fundraisers conducted for designated purposes, a fundraiser summary report should also be prepared.

**MANAGEMENT'S RESPONSE:**

**Director of Schools and Members of the School Board:**

We concur. Current procedures are in place for all bullet points. Procedures will be reviewed with all school staff, bookkeepers, and school administrators.

**Principal:**

I concur.

**Bookkeeper:**

I concur.

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

The school’s files did not contain any supporting documentation for some disbursements. For certain disbursements, including purchases of groceries, supplies, etc., supporting documentation was inadequate to determine if the school received the benefit of the purchase. As noted previously, the former school bookkeeper used school money to make purchases for her personal benefit. The investigative audit also revealed that at least two personal phone bills of the bookkeeper totaling \$421.03, which were received in the mail at the school’s address, were inadvertently paid by other school personnel. Although the principal stated he discussed this issue with the former school bookkeeper, she never refunded the amounts to the school. Because records were inadequate and supporting documents were not examined by the cosigners of the checks, as noted in Finding 1 of this section, the misappropriation by the former school bookkeeper and the inadvertent payment of her personal phone bills were not detected promptly by school officials.

The *Tennessee Internal School Uniform Accounting Policy Manual*, page 5–15, requires that **“the bookkeeper should require and obtain adequate supporting documentation before disbursing any school money.”** Page 5–13 states: “Supporting documents (copy of check, invoice, purchase authorization, receiving report/delivery receipt, etc.) should be filed together or in such a way that they can be easily reassembled.” The former school bookkeeper should be requested to repay all amounts paid inadvertently on her behalf.

**RECOMMENDATION:**

To better control disbursements and document that they are allowable, the bookkeeper should require, obtain, and file adequate supporting documentation for every disbursement.

**MANAGEMENT'S RESPONSE:**

**Director of Schools and Members of the School Board:**

We concur. Current procedures require supporting documentation for all purchases to be maintained on file for five (5) years.

Additional training will be provided to school administrators and staff.

**Principal:**

I concur.

**Bookkeeper:**

I concur.

7. **FINDING: Purchase requisitions/authorizations not completed properly**

For almost every disbursement, related purchase requisitions/authorizations were completed entirely by the former school bookkeeper, including the signature of the staff member requesting the purchase and the signatures of the principal and assistant principal authorizing the purchase. This practice, which the principal allowed, enabled the former school bookkeeper to conceal her use of school checks to make personal purchases. The *Tennessee Internal School Uniform Accounting Policy Manual*, Section 5, Title 3, sets forth procedures for the purchase requisition/authorization process.

**RECOMMENDATION:**

To help ensure disbursements are appropriate and properly authorized, purchase requisitions should be completed by the staff member requesting the purchase. If sufficient money is available in the account to be charged, the bookkeeper should sign and date the form, and if the amount is over \$100, the form should be forwarded to the principal for approval. The principal should ensure that purchase requisitions/authorizations are included as part of the supporting documentation he/she reviews prior to signing checks.

**MANAGEMENT'S RESPONSE:**

**Director of Schools and Members of the School Board:**

We concur. In 2010, a new procedure requiring the use of a purchase request form was implemented. Additional training has been provided to all school staff to ensure that staff members complete and sign their own purchase request forms. The principal must

approve all purchase request forms prior to a purchase order number being issued by the bookkeeper.

**Principal:**

I concur.

**Bookkeeper:**

I concur.

8. **FINDING: Student activity fund money used to supplement the cost of administrator gifts and staff parties**

Student activity fund money, intended to benefit the students or school, was used to supplement gifts for school administrators as well as staff Christmas parties. School records indicated that a school check was issued December 18, 2008, for \$600 to a school employee for “Boss’ Christmas cash for gift from all staff.” However, school records indicated only \$530 in related collections were recorded and deposited into the school’s bank account by the former school bookkeeper. In December 2008, we noted a payment to the caterer for the staff Christmas party totaling \$540. However, only \$320 in related collections were recorded and deposited into the school’s bank account by the former school bookkeeper. In December 2009, we noted a payment to the staff party caterer for \$948. However, only \$577 in related collections were recorded and deposited by the former school bookkeeper. Profits from vending machines located in the teacher’s lounge were not sufficient to offset the difference in collections. In total, at least \$661 in student activity funds was used to supplement the cost of administrative gifts and staff parties. The *Tennessee Internal School Uniform Accounting Policy Manual*, pages 4-2 and 4-3, require that student activity funds be used for the general operations of the school or the welfare of the student body, or be used for the purpose or group for which the money was raised. Supplementing staff gifts and parties is not an appropriate use of student activity fund money.

**RECOMMENDATION:**

To ensure that money raised by student activity and fees is used appropriately, school officials should ensure that all student activity funds are used to benefit the school or the students.

**MANAGEMENT’S RESPONSE:**

**Director of Schools and Members of the School Board:**

We concur.

**Principal:**

I concur.

**Bookkeeper:**

I concur.

9. **FINDING: School fees not deposited into school's bank account**

Our investigative audit revealed that some school revenue, including school fees, were not deposited into the school's bank account, as required by state law, but were instead turned over to representatives of a school support organization. Beech Elementary School fee collections, totaling nearly \$20,000, were turned over to the Beech Elementary School Parent Teacher Organization (PTO) for deposit into the PTO's bank account. In addition, some fundraiser collections for which school employees were responsible were turned over to the Beech High School Foundation. Section 49-2-603, *Tennessee Code Annotated*, provides that collections for fees charged to students are considered student activity funds. Student activity funds belong to the school, and therefore, these collections should be deposited into the school's bank account. State law does not provide for the collection of student fees by school support organizations. In addition, the *Tennessee Internal School Uniform Accounting Policy Manual*, page 5-2, states that "[t]he school becomes accountable when money is initially received by employees, officials, or volunteers acting in their official capacity." All school money should be deposited into the school's bank account.

**RECOMMENDATION:**

To ensure that school money is properly accounted for and used for the purposes for which it is collected, all school collections should be receipted in the school's accounting system and deposited into the school's bank account. School money should never be turned over to outside organizations prior to receipt and deposit.

**MANAGEMENT'S RESPONSE:**

**Director of Schools and Members of the School Board:**

We concur. Additional training has been provided in the last 18 months to ensure that all school personnel understand the difference between school activity funds and school support organizations.

**Principal:**

I concur.

**Bookkeeper:**

I concur.

10. **FINDING: School failed to prepare and retain documentation of money turned over to local school support organizations**

We did not find any documentation in the school’s files to indicate the dates and amounts of cash remitted to school support organizations. In addition, certain school support organizations (SSO) were unable to provide documentation that collections remitted to them by Beech Elementary School were received by SSO representatives, receipted in the SSO’s accounting records, and deposited into the SSO’s bank account.

As noted previously, Beech Elementary School student fee collections were turned over to PTO representatives for receipting and depositing into the PTO’s bank account. However, we located documentation that indicated some fee payments made by check were deposited into the school’s bank account. The former school bookkeeper did not receipt these payments in the school’s accounting records, presumably turning over related amounts of cash to the PTO. We did not find any receipts or other documentation indicating the dates and amounts of money remitted by the former school bookkeeper to the PTO. The former president of the PTO stated that she occasionally received cash from the former school bookkeeper, Penny Knight, for fees, but stated her PTO records were insufficient to tell us the amount of cash given to her and when the cash was turned over.

The school also held a fundraiser to benefit a project ostensibly handled by the Beech High School Foundation. We did not find any documentation indicating the amount of money collected at the fundraiser. In addition, although repeated requests were made, Beech High School Foundation representatives failed to provide documentation that the foundation received and deposited the money. (It should be noted that the principal of Beech High School stated he remembered making a deposit on behalf of the foundation which he was told included about \$1,600 in collections from this fundraiser.)

State law requires school money to be deposited within three business days of collection. The *Tennessee Internal School Uniform Accounting Policy Manual*, page 5-2, states that “[t]he school becomes accountable when money is initially received by employees, officials, or volunteers acting in their official capacity.” Page 6-3 of the manual requires that “[a]ll money must be disbursed by prenumbered checks....”

**RECOMMENDATION:**

All money collected by school personnel acting in their official capacity should be accounted for in the school’s financial records and deposited into the school’s bank account. Disbursements should be made by prenumbered school check, and adequate

records of all payments retained by the school. School officials should remind all school support organizations that the organization must maintain adequate records in order to be officially recognized as a school support organization and must provide those records upon request by the director of schools, the school principal, and/or the Comptroller of the Treasury.

**MANAGEMENT'S RESPONSE:**

**Director of Schools and Members of the School Board:**

We concur. Training was provided to school administrators and school support organizations by Internal Audit in the fall of 2011. Additional training will be provided in the future.

**Principal:**

I concur.

**Bookkeeper:**

I concur.