
STATE OF TENNESSEE

**SPECIAL REPORT ON THE
UNICOI COUNTY SCHOOL DEPARTMENT**

**FOR THE PERIOD JULY 1, 2009
THROUGH MAY 25, 2010**



Division of County Audit



**SPECIAL REPORT ON THE
UNICOI COUNTY SCHOOL DEPARTMENT
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June 28, 2010

To the Unicoi County Director of Schools, Board of Education,
County Mayor, and Board of County Commissioners
Unicoi County, Tennessee

On May 6, 2010, while performing interim audit procedures at the Unicoi County School Department, we noted a lack of documentation to support a disbursement to a vendor. We requested the School Department's Director of Finance, Ms. Angie Williams, provide us with documentation to support the disbursement in question. Ms. Williams told us that the disbursement was for personal expenses and that there were other such inappropriate payments. Since the misappropriation was perpetrated by management (the director of finance), we extended certain audit procedures to test every component of the department's accounting functions from July 1, 2009 through May 25, 2010, in search of additional personal expenses paid with School Department funds. This investigation included a review of other vendor accounts, payroll, sale of surplus property, receipting, billing, and accounting policies and procedures. Based on our extended procedures, a cash shortage of \$20,967.36 was determined to exist at May 25, 2010.

We reviewed the findings resulting from this special investigation with the director of schools, the county mayor, and the district attorney general. These findings, together with our recommendations, and the response of the director of schools are presented in this report.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Arnette".

Jim Arnette, Director
Division of County Audit

cc: Honorable Tony Clark, District Attorney General

**SPECIAL REPORT ON THE UNICOI COUNTY
SCHOOL DEPARTMENT
For the Period July 1, 2009 through May 25, 2010**

Findings and recommendations, as a result of our special investigation, are presented below. We reviewed these findings and recommendations with the director of schools, the county mayor, and the district attorney general. The written response of the director of schools is included in this report.

**FINDING 10.01 A CASH SHORTAGE OF \$20,967.36 EXISTED IN THE
GENERAL PURPOSE SCHOOL FUND AS OF
MAY 25, 2010**
(Internal Control – Material Weakness Under Government
Auditing Standards)

On May 6, 2010, while performing interim audit procedures, we noted a lack of documentation to support a disbursement to a vendor. We requested the School Department's Director of Finance, Ms. Angie Williams, provide us with documentation to support the disbursement in question. Ms. Williams told us that the disbursement was for personal expenses and that there were other such inappropriate payments. We immediately went back and tested disbursement records for the year July 1, 2008 through June 30, 2009; however, we found no evidence of personal expenses being paid for that period. Since the misappropriation was perpetrated by management (the director of finance), we extended certain audit procedures to test every component of the department's accounting functions from July 1, 2009 through May 25, 2010, in search of additional personal expenses paid with School Department funds. This investigation included a review of other vendor accounts, payroll, sale of surplus property, receipting, billing, and accounting policies and procedures. Based on our extended procedures, a cash shortage of \$20,967.36 was determined to exist. This cash shortage resulted from the disbursement of School Department funds for personal expenses of Ms. Williams totaling \$20,417.36 plus \$550 from her failure to pay the School Department for a laptop computer built for her by the Vocational Department.

The following table details the cash shortage identified by our investigation. Payees listed as Beneficial and HSBC are members of the HSBC Group, a large financial services corporation, which Ms. Williams used to finance her personal purchases.

Vendor	Date	Warrant Number	Amount
Beneficial	9-22-09	66260	\$ 4,454.39
HSBC	10-5-09	66432	2,021.00
HSBC	10-26-09	66732	1,463.64
Beneficial	11-4-09	66844	2,580.56
HSBC	11-17-09	67096	464.65
Beneficial	12-7-09	67349	2,358.28
N/A	12-10-09	(1)	275.00
N/A	12-10-09	(1)	275.00
Beneficial	2-16-10	68167	2,358.28
Beneficial	3-16-10	68472	2,358.28
HSBC	5-3-10	69009	2,358.28
Total Cash Shortage			<u>\$ 20,967.36</u>

(1) - Sale of a laptop computer that Ms. Williams had the Vocational Department build for her. We could not find any documentation of payment being made by Ms. Williams. The sale was separated into two invoices.

The director of schools suspended the finance director, Ms. Angie Williams, on May 7, 2010. Ms. Williams resigned her position as director of finance on May 25, 2010, and she liquidated the cash shortage of \$20,967.36 with personal funds on May 27, 2010.

A lack of management oversight and certain internal control deficiencies contributed to the opportunity for the cash shortage to occur and not be detected by School Department employees.

RECOMMENDATION

Steps should be taken to improve management oversight and internal controls as discussed in the following findings and recommendations to minimize the risks of misappropriation of School Department assets.

FINDING 10.02 DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICE OF DIRECTOR OF SCHOOLS
(Internal Control – Significant Deficiency Under Government Auditing Standards)

Duties related to accounting for transactions in the General Purpose School Fund were not adequately segregated among the official and employees in the Office of Director of Schools. The official and employees responsible for maintaining accounting records in the office were also involved in receipting, depositing, and/or disbursing funds. The director of finance caused disbursement warrants to be printed and also had access to the warrant-signing machine. This provided the opportunity for the inappropriate payments detailed in Finding 10.01 to be made without any documentation being filed to support those disbursements and for the disbursements to remain undetected. Although a list of vendor invoices was presented to and approved by the School Board on a monthly basis, that listing was not independently reconciled with the warrant register to ensure that all warrants were included. Consequently, the items listed in Finding 10.01 were left off the invoice lists that were presented to the School Board, and those omissions were not detected by other School Department personnel.

Accounting standards provide that internal controls be designed to provide reasonable assurance of the reliability of financial reporting and of the effectiveness and efficiency of operations. This lack of segregation of duties is the result of management’s decisions and is a significant deficiency in internal controls that increases the risks of unauthorized transactions.

RECOMMENDATION

Management should segregate duties to the extent possible using available resources. The person causing warrants to be printed should not have access to the warrant-signing machine and should not have access to warrants once they are signed. The executive committee (director of schools and chairman of the school board) should ensure that documentation has been submitted for each disbursement prior to approving the warrants to be signed. Invoice listings presented to the School Board should be reconciled with the warrant listing by personnel independent of preparing the warrants and invoice listings.

FINDING 10.03 DEFICIENCIES WERE NOTED IN INTERNAL CONTROLS RELATED TO OPERATIONS OF THE VOCATIONAL DEPARTMENT
(Internal Control – Significant Deficiency Under Government Auditing Standards)

The School Department operates Computer, Training, and Maintenance (CT&M), through the Vocational Department. CT&M provides training, construction, and maintenance of computers for the School Department and other entities utilizing Vocational Department personnel and students. CT&M invoices entities for sales

and services and accounts for their financial transactions through the General Purpose School Fund. We noted the following deficiencies in the operations related to CT&M:

- A. Subsidiary accounts receivable records were not maintained and reconciled with amounts received.
- B. Receipts were collected at multiple locations and were not reconciled with amounts invoiced.
- C. Inventory records were not maintained for parts and equipment on hand.

Due to the deficiencies noted in A. and B. above, CT&M did not have adequate records of amounts due from sales and services. Some invoices had been marked as paid when they were not paid, and some invoices were marked as unpaid even though receipts had been issued for their payment. These deficiencies also allowed the sale of a computer to the director of finance to occur and remain unpaid as noted in Finding 10.01.

Sound business practices dictate that accounting systems be adequately maintained to account for all billings, collections, and inventory.

RECOMMENDATION

Management should properly account for all transactions of CT&M. Subsidiary accounts receivable records and an accounts receivable aging report should be maintained. Those records should reflect all amounts invoiced, along with amounts paid including receipt numbers and dates paid. A central receipting location should be established, and a method created where amounts billed are reconciled with amounts received. Also, a perpetual inventory system should be developed and implemented to account for all parts and equipment.

FINDING 10.04 **DEFICIENCIES WERE NOTED IN THE COLLECTION AND RECEIPTING PROCESS**
(A. – Noncompliance Under Government Auditing Standards;
B. through F. – Internal Control – Significant Deficiency Under Government Auditing Standards)

Our examination identified the following internal control deficiencies related to collections and the issuance of receipts in the School Department:

- A. Funds were not deposited within three days of collection as required by Section 5-8-207, Tennessee Code Annotated.
- B. Collections were not deposited intact.

- C. Receipts were not issued at the time funds were received. Instead, receipts were issued in batches, as time permitted.
- D. Collections were not properly secured. Cash and checks were placed in an interoffice mailbox located in the main hallway at the central office.
- E. Original receipts or other documentation for voided receipts were not maintained.
- F. Mail is opened by several individuals, and no documentation is maintained of funds and/or payments received.

RECOMMENDATION

Management should institute more oversight in the collection and receipting processes. Funds should be deposited within three days of collection as required by state statute, deposited intact, and receipted at the time the funds are received. Collections should be adequately secured. Voided receipts should be sufficiently documented. Mail should be logged by one employee, and any funds received in the mail should be receipted by a second employee.

FINDING 10.05 **BAND BOOSTER CHARGES WERE MADE TO THE SCHOOL BOARD'S CREDIT CARD**
(Internal Control – Significant Deficiency Under Government Auditing Standards)

The School Department's director of finance utilized the School Board's credit card to make purchases totaling \$1,152.90 on behalf of the Unicoi County High School Band Boosters. These purchases had not been authorized by the School Department's executive committee or by the School Board.

To pay the credit card charges, Ms. Williams included checks issued from the Unicoi County Band Booster's bank account (for the booster purchases) along with a School Department warrant (for the School Department's purchases). It should be noted that Ms. William's husband is also the band director at the high school. Sound business practices dictate that a support organization's purchases should not be comingled with School Department purchases. The following table summarizes the unauthorized charges identified by our investigation.

<u>Vendor</u>	<u>Date</u>	<u>Amount</u>
Tie Dye USA	8-13-09	\$ 936.66
American Band Accessories	8-17-09	72.90
Tie Dye USA	9-9-09	<u>143.34</u>
Total		<u>\$ 1,152.90</u>

It should be noted that an investigation of the Unicoi County High School Band Boosters is presently being conducted by the Comptroller's Division of Municipal Audit. Any report as a result of that investigation will be separately issued.

RECOMMENDATION

School Department credit cards should only be used for School Department purchases.

MANAGEMENT'S CORRECTIVE ACTIONS

As a result of the findings and recommendations noted above, management has adopted the new policies noted below to strengthen internal controls:

Procedure for Internal Control on Cash Receipts – 2.700a

Any money from the schools MUST be brought to the Central Office by the principal or bookkeeper only. A log sheet must accompany any funds. The log sheet will be signed off by designated Central Office personnel. The designated Central Office personnel will write a receipt. The co-designee will give a copy of the receipt, along with the money, to accounting to reconcile and deposit.

Procedure for Processing Vendor Payment – 2.700b

Checks issued for vendor payment will be issued by the finance director. The payroll officer will print the checks and a designated third person will match the invoice to the checks for payment.

Procedures CT&M – 2.810a

An inventory log will be provided to the director of schools or designee monthly. The inventory will be due the fifth of each month for the previous month's inventory.

Billing and invoicing will be done by CT&M with payment remitted directly to the Central Office. Payment will be accepted only in the form of check or money order. The Central Office address for remittances will be listed on the invoice.

CT&M will submit a 90-day due report to the director of schools or designee. This report will reflect documentation of invoices and contacts to resolve delinquency.

MANAGEMENT'S WRITTEN RESPONSE

On June 23, 2010, Director of Schools Ms. Denise Brown provided the following written response to the audit findings and recommendations:

I am responding to the findings by County Audit that were reviewed with me on June 18, 2010. The Unicoi County School Board and I have already taken steps to address the findings of the audit report and will be in compliance with the recommendations of the audit.