



# BEAN STATION ELEMENTARY SCHOOL

**Investigative Report**  
February 26, 2015

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**Justin P. Wilson, Comptroller**





STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
FINANCIAL AND COMPLIANCE INVESTIGATIONS

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Gentlemen:

We performed an investigation of selected records of Bean Station Elementary School for the period of January 1, 2013, through June 30, 2014; however, we expanded the scope as necessary. Bean Station Elementary School is part of the Grainger County school system and is located in Bean Station, Tennessee. The investigation revealed the following deficiencies:

- A cash shortage of at least \$1,515.16 existed on June 30, 2014.
- The school had deficiencies related to accounting for collections.
- The school had purchasing deficiencies.

The 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. Also, these findings and recommendations have been reviewed with the district attorney general for the Fourth Judicial District.

**FINDING 1**            **A CASH SHORTAGE OF AT LEAST \$1,515.16 EXISTED AT JUNE 30, 2014**

A cash shortage of at least \$1,515.16 existed at June 30, 2014, at Bean Station Elementary School. This amount could be greater because several manual receipt books were missing; therefore, we could not determine if all yearbook collections were accounted for properly. Based on our interviews and examination of school records, we identified the following

deficiencies related to the cash shortage:

- A. Receipts totaling \$1,000.16 were unaccounted at June 30, 2014. The school bookkeeper had manual receipt books and a yearbook collection log that she maintained in her office for each teacher. We determined that receipts issued totaled \$1,654; however, deposits totaled only \$188. In addition, the bookkeeper deposited \$465.84 in checks collected from employees. The bookkeeper cashed these checks as a convenience for these employees with the cash she had in her office from other collections. Therefore, receipts totaling \$1,000.16 (\$1,654 less \$188 less 465.84) were unaccounted. Classroom teachers verified that once a yearbook payment was received, the bookkeeper would manually complete a receipt and give the teacher a copy of the receipt to give to the student. Additionally, the bookkeeper stated that she would fill out a deposit slip with the daily collections, put the collections in a money bag, and store the bag in a cabinet in her office prior to transporting the deposit to the bank; however, several school employees had access to the office and cabinet. Since multiple school personnel had access to the cash and a lack of internal controls existed over cash collections, we were unable to determine who may have taken the funds.
- B. On November 19, 2014, the school bookkeeper admitted to making unauthorized purchases using a School Department credit card. The bookkeeper used her school provided Walmart credit card to purchase gift cards totaling \$515 that she later used at Murphy's Oil Company to purchase fuel for her personal vehicle.

The following table reflects the unauthorized gift card purchases.

Purchase Date	Amount
9/17/2012	\$ 30.00
11/2/2012	40.00
12/12/2012	30.00
1/2/2013	30.00
2/5/2013	40.00
2/10/2013	30.00
5/9/2013	50.00
6/11/2013	50.00
8/5/2013	40.00
8/14/2013	25.00
8/27/2013	30.00
9/8/2013	30.00
9/26/2013	30.00
10/28/2013	30.00
4/1/2014	30.00
<b>Total Gift Cards</b>	<b>\$ 515.00</b>

The following table summarizes the cash shortage identified at June 30, 2014:

Item	Description	Amount
A.	Cash Collections Per Manual Receipts	\$ 1,654.00
	Less: Cash Deposited in Bank	(188.00)
	Less: Employee Cashed Checks on Hand	(465.84)
	Sub-total	<u>\$ 1,000.16</u>
B.	Gift Cards Used for Personal Purchases	<u>515.00</u>
Total Cash Shortage		<u><u>\$ 1,515.16</u></u>

It should be noted that the bookkeeper resigned her employment with the school on November 20, 2014.

**RECOMMENDATION**

Officials should take steps to recover the \$1,515.16 cash shortage. Management should segregate duties to the extent possible using available resources and should monitor the use of credit cards.

**MANAGEMENT’S RESPONSE – EDWIN JARNAGIN, DIRECTOR OF SCHOOLS**

Bean Station Elementary School and the Grainger County School System concur with the findings. When the local school system auditor alerted the school system that a qualified opinion would be issued following the internal school fund audit of Bean Station Elementary School’s records, I took the proactive action as suggested by the auditor and then directed the school principal to take the necessary steps to improve the financial management of Bean Station Elementary School. In addition, the bookkeeper working at the time of the findings is no longer employed by the Grainger County School System.

The school administration has taken necessary steps to correct the deficiencies noted by changing the lock on the bookkeeper’s door with keys only being issued to the bookkeeper and the school administrators. The bookkeeper no longer is allowed to cash checks from school funds. Management will segregate duties to the fullest extent possible and monitor the use of any credit card the school possesses. The credit card use has been under tighter scrutiny (limited access) and the principal will open and review all statements (mail) related to their use. The former bookkeeper has reimbursed the school \$295.

**FINDING 2                      THE SCHOOL HAD DEFICIENCIES RELATED TO ACCOUNTING FOR COLLECTIONS**

The following internal control and compliance deficiencies provided the opportunity for school funds to be misappropriated:

- A. The principal did not provide adequate oversight of the school’s financial activities. This lack of oversight directly contributed to the failure to properly account for school funds.

- B. The bookkeeper did not deposit some collections within three days of receipt. We noted several instances where collections were held up to three weeks before being deposited into the school bank account. The *Internal School Uniform Accounting Policy Manual* provides student activity and other internal school funds must be deposited in tact (in form and amount in which collected) daily, if possible, but no more than three days after the initial collection.
- C. Prenumbered receipts were not always issued in sequential order to record funds received at the school. In addition, receipts were not reconciled with deposits.
- D. School employees were allowed to cash personal checks from school funds. The *Internal School Uniform Accounting Policy Manual* states that student activity and other internal funds must not be used for any purpose that represents an accommodation, loan, or credit to anyone. Personal checks may be taken for payment of goods, services, or other school charges, but must not be cashed for the purpose of making change or as accommodation to individuals.
- E. For the school year 2012-13, files did not include teacher collection logs or complete collection records for yearbook sales. Although teacher collection logs were used to document other collections (field trips, fundraisers), our investigative audit revealed that teachers who collected yearbook sales did not prepare a collection record. According to school personnel, most students remitted their yearbook payments in a school provided envelope, which was forwarded to a school employee. The bookkeeper would then write the payment information on a collection log by teacher that she kept in her office, write a manual receipt, and place a copy of the receipt in the teacher's mailbox to give to the student. However, we were unable to locate several of the bookkeeper's manual receipt books or any collection envelopes. The *Internal School Uniform Accounting Policy Manual* provides that each school must maintain adequate records and follow acceptable procedures to properly account for all internal school funds.
- F. The principal failed to ensure that adequate procedures were followed regarding yearbook sales for 2012-13. The school did not prepare and maintain profit analysis reports for yearbook sales. The *Internal School Uniform Accounting Policy Manual* provides for ongoing resale activities...monthly 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. If no reasonable explanation can be given, each subsequent day's activities must be recorded and evaluated until the reason for the shortage has been identified and corrected. For activities that are not perpetual in nature, profit analysis reports may be completed at the conclusion of the activity. Additionally, we were unable to locate approximately 88 unsold yearbooks in the school office.

- G. The employee who was responsible for preparing deposits and reconciling bank statements was also responsible for receipting, disbursing, recording collections, and transporting deposits to the bank. The *Internal School Uniform Accounting Policy Manual* provides, 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 reviewing and recording functions.
  
- H. Several employees had access to collections prior to the collections being deposited. In addition to the bookkeeper, the school secretary had a key to the cabinet/office, and several school employees had a key to the bookkeeper's office. The bookkeeper stated that the cabinet was not always locked.

### **RECOMMENDATION**

The school principal should provide adequate oversight for the financial operations at the school. To safeguard funds, school personnel should deliver all collections to the bookkeeper at least daily, and all collections should be deposited in tact within three days of collection. Prenumbered receipts should be issued in sequential order, and receipts should be reconciled with deposits. School employees should not cash personal or third-party checks from school funds. To adequately document all collections, employees who collect and handle money should record all collections on the prescribed records, and these records should be maintained in the school's files for audit. For each resale activity, the principal should require the account sponsor or other designee to prepare an accurate profit analysis. Discrepancies in expected profits should be immediately reported to the principal and evaluated, and the reason for any shortage identified and corrected. Unsold inventory should be accounted for properly. Duties should be segregated adequately. Funds should be maintained in a secured location not accessible to all employees.

### **MANAGEMENT'S RESPONSE – EDWIN JARNAGIN, DIRECTOR OF SCHOOLS**

The principal has reviewed with staff and has made required adjustments to ensure collections and deposits follow the proper procedures. No longer are checks cashed with school funds. Deposits are made within three business days. The principal changed the collection process to enhance better records and accountability. These procedures are to be followed by staff and the bookkeeper. Staff must complete necessary logs and have an additional signature before yearbook collections are delivered to the bookkeeper. The bookkeeper and staff member(s) confirm accuracy before receipting. Profit analysis sheets are being completed and reviewed by the principal. Replacing the door lock and access limits access to the monies before being deposited.

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### **FINDING 3**                    **THE SCHOOL HAD PURCHASING DEFICIENCIES**

We noted the following deficiencies related to purchasing procedures:

- A. Our review of purchase orders disclosed that in some instances descriptions of

purchases were not listed on the purchase orders. The description of items on purchase orders are necessary to identify the items to be purchased. The failure to list descriptions on purchase orders increases the risk of unauthorized purchases.

- B. In some instances, the principal did not approve purchase orders. The principal periodically allowed the school bookkeeper to sign his name on purchase orders. The failure of the principal to approve the purchase orders increases the risk of fraud and abuse from unauthorized purchases.
- C. An employee made unauthorized purchases using a School Department credit card. The employee had possession of a Wal-Mart credit card and used this card to make multiple purchases of gift cards for her personal use. This employee was responsible for accounts payable and paid the credit card invoices. These unauthorized purchases remained undetected because of the lack of management oversight.

### **RECOMMENDATION**

The office should improve purchasing procedures by including the descriptions of items on the purchase orders. The principal should sign and review all purchase orders. The principal should control the use of all credit cards to ensure proper accountability of all credit card transactions. Credit card purchases should be reconciled with monthly statements and reviewed by the principal.

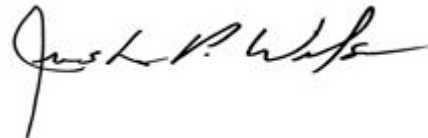
### **MANAGEMENT'S RESPONSE – EDWIN JARNAGIN, DIRECTOR OF SCHOOLS**

The principal has increased his financial oversight of school funds and training of staff on proper procedures on purchasing and collections to ensure better accountability. All purchases must be preapproved by the principal or assistant principal by submitting a purchase order and will include better detailed purchasing information. All statements/bills received will be reviewed by the principal before processing for payment.

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If you have any questions concerning the above, please contact this office.

Sincerely,



Justin P. Wilson  
Comptroller of the Treasury

JPW/kbh