

**BOARD OF EDUCATION  
OF THE  
MEMPHIS CITY SCHOOLS**

**INTERNAL AUDIT REPORT  
EAST HIGH SCHOOL**

**May 25, 2010**

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EXTERNAL AUDITORS  
INTERNAL AUDIT FILE**

**TO:** AUDIT COMMITTEE  
BOARD COMMISSIONERS  
DR. KRINER CASH, SUPERINTENDENT  
MR. FREDERICK CURRY, PRINCIPAL

**RE:** REGULAR AUDIT OF EAST HIGH SCHOOL

A regular audit of the financial records of East High School was performed by the Division of Internal Audit. The period of the audit was from 9/1/09 to 4/21/10. Our examination was made in accordance with generally accepted internal auditing standards, the School Activity Accounting Manual, and the Memphis Board of Education Policy Manual, and accordingly included such tests of the accounting records and procedures and other related records in the school.

The audit of East High School included, but was not limited to, the following procedures. We . . .

- ... evaluated internal controls.
- ... counted and traced cash on hand to the official receipt books.
- ... verified the bank reconciliation.
- ... traced a representative sample of cash receipts to the bank statement.
- ... examined disbursements, on a test basis, for proper documentation, authorization, account coding, and mathematical accuracy.
- ... verified the outstanding indebtedness listing as of the audit date.
- ... verified the implementation of a purchase order system.
- ... analyzed the major fund-raising project for a reasonable profit margin.
- ... verified, on a test basis, that athletic ticket reconciliation forms were complete and accurate.
- ..... traced 100% items on the Equipment Inventory Report to the physical location.

This report, by its nature, is critical in that it contains comments and recommendations only on weaknesses in internal control and not the strong internal control features observed during this examination. The following comments and recommendations are intended to supplement and improve the existing controls.

#### **COMMENT 1**

The school's bank reconciliations were not prepared in a timely manner. This was a comment in the prior audit review dated August 31, 2009. Section 3-5 of the School Activity Accounting Manual, states that the bank reconciliation should be prepared monthly, in duplicate, with the original being sent to the Division of Internal Audit and a copy retained at the school. The bank reconciliation report requires the principal's signature, verifies the accuracy of the school's and the bank's financial records. If bank reconciliations are not prepared on a timely basis, the school cannot verify that the school's and the bank's financial records agree. Also, the school's financial position is questionable.

#### **RECOMMENDATION**

Bank reconciliations should be prepared on a monthly basis by the financial secretary; reviewed and signed by the principal.

#### **MANAGEMENT RESPONSE (PRINCIPAL)**

Memphis City Schools and the Division of Internal Audit changed the accounting system from SAA to SFO (School Funds Online) web-based software. I attended the training on January 20-21, 2010. The following day, January 22, 2010, the new software was downloaded and I began using it.

After familiarizing myself with the new software, I started working on the January 2010 bank reconciliation in February 2010 but was unable to complete it. I was having some problems understanding some of the procedures. I made several calls to the Division of Internal Audit in February but was unable to speak to anyone because they were out training other school personnel on the new software.

There is no excuse for me not performing the duties as charged. This is only an explanation as to why they were not done in a timely manner.

In the future, all bank reconciliations will be done in accordance to **Section 3-5 of the School Activity Accounting Manual**.

#### **COMMENT 2**

The teacher courtesy account was overdrawn by \$1,323.20 at June 30, 2009. As of the audit date April 21, 2010 the account was overdrawn \$1,223.20. **The Tennessee Internal School Uniform Accounting Policy Manual, Administration of Internal School Funds- Section 4** states that restricted funds are used for a specific group (club, class, etc.). All expenditures of restricted fund account money must be for the purpose or group which the money was raised. The restricted fund consists of accounts which include both revenues and expenditures, and each account maintains its own identity. Expenditures in each restricted fund account must not exceed the beginning balance plus current year revenue. A deficit balance in a restricted fund account is not allowable.

#### **RECOMMENDATION**

Restricted fund account balance should be closely monitored by the principal to ensure that there is a sufficient balance in the account before the expenditure is approved.

#### **MANAGEMENT RESPONSE (PRINCIPAL)**

The Teacher Courtesy account became overdrawn \$1,768.88 after adjustments were added during the audit held on June 30, 2009. Since that time, there have been no expenditures from that account; only income. We have been using proceeds from the vending machine to bring the account current.

No General Funds have been used to finance activities for teachers. All activities held for teachers were funded by teachers on a voluntary basis since June 30, 2009.

All accounts are monitored and reviewed weekly. Before expenditures are approved, the account(s) are checked for available funds by the financial secretary.

We will be looking at different ventures to bring this account current by the end of the 2009-10 fiscal year.

#### **COMMENT 3**

Some teachers were not submitting money collected from students to the financial secretary on a timely basis. **Section 5-1A of the School Activity Accounting Manual** states that money collected in the school is to be turned in to the financial secretary on daily basis. By holding funds for extended periods, there is a greater chance of the funds being lost or stolen.

#### **RECOMMENDATION**

Teachers should be informed that all money collected in the school should be submitted to the financial secretary on a timely basis.

#### **MANAGEMENT RESPONSE (PRINCIPAL)**

Teachers receive regular in-service training on receipting, documenting and turning in funds. Teachers are not issued a receipt book until they have received in-service. Teachers have been instructed that monies collected should be turned in the same day. In some instances money collected after school should be turned in by 12:30 pm. Teachers collecting monies will be closely monitored and progressive discipline forms will serve to remind repeat infractions.

#### **COMMENT 4**

Based on projected revenue of \$3440.00 for a fundraising project, there was \$560.86 in revenue which was unaccounted for. This is 16.30% of projected revenue. **Section 4-13 of the School Accounting Activity Manual** states the procedure to be followed while conducting a fundraising project. The school did not benefit from the total projected revenue because of unaccountable merchandise. School personnel are not following prescribed procedures pertaining to fundraising activities.

#### **RECOMMENDATION**

An accounting should be made for the \$560.86 difference between actual and projected revenue.

## MANAGEMENT RESPONSE (PRINCIPAL)

The loss of funds from the Old Fashion Candy fundraiser sponsored by the majorettes was due to an indebtedness of \$484.90 generated from money and/or merchandise not returned. An indebtedness list was available for this amount. The unexplained shortage of \$560.86 was due to students who participated in the fundraiser and did not turn in money and/or merchandise but were not on the indebtedness list.

A full accounting will be made for the \$560.86 difference between actual and projected revenue and an effort to collect the money from those students on the indebtedness list will be implemented.

In future, all candy fundraisers will be limited to a pre-sales basis or eliminated altogether.

## COMMENT 5

The accountability and check-out system maintained in the school on audio-visual equipment is inadequate. This was a comment during the audit review dated September 2, 2008. According to the **School Activity Accounting Manual** the responsibility rests with the principal, as trustee, to be accountable for the school's investment in equipment by means of an accurate check-out system.

During the audit review we noted that several laptops were missing or unaccounted for. These laptops appeared to be from the Epic Learning System assigned to East High School in September 2007. Our review of the Epic Learning System laptops revealed the following discrepancies:

- We observed that some laptops were stored in a location that was accessible by two classrooms which was insecure and unlocked.
- Some of the laptop carts were stored in unlocked classrooms; the cart locks had the generic combination number which was issued by the manufacturer and was readily known by students. Some carts were secured with heavy duty twist ties.
- The Annual Equipment Inventory report submitted to the Office of Asset Management in May 2008 appeared inaccurate. The school reported "no discrepancies", however, in January 2008, the school had reported to the Office of PreK-16 Innovation and Reform that 209 laptops were missing or unaccounted for. The 209 laptops were replaced and delivered to the school in November 2008.
- The Annual Equipment Inventory report submitted to Asset Management in May 2009 was filed late and incomplete, therefore, it was returned to the school by the Office of Asset Management for completion.
- The school did not follow procedures for reporting losses to the Office of Risk Management.
- The school received 570 Epic Learning System laptops in September 2007; 209 were reported missing/unaccounted for in January 2008 and were replaced in November 2008. As of April 22, 2010, the Division of Internal Audit verified 181 laptops on the premises. This represents a total of 598 Epic Learning System laptops missing or unaccounted for the period September 2007 through April 22, 2010.
- During the audit the Division of Internal Audit contacted the Department of Facilities Maintenance and Warehousing to immediately change the door locks necessary to secure a location to protect the equipment.

A 100% review of the school's equipment inventory was performed by the Division of Internal Audit and representatives from the Office of Asset Management. During the audit several pieces of equipment could not be located. According to the Office of Asset Management, **Inventory Management Procedure Manual, Section I**, new equipment costing \$5,000.00 or more and sensitive items costing \$100.00 or more require that a MCS ID tag is clearly affixed to each piece of equipment. Stolen/missing equipment should be immediately reported to the Office of Risk Management and a report filed with the Memphis Police Department. Any changes affecting equipment inventory, (i.e. addition, transfer, disposal, or theft) requires an Asset Disposition Form to be completed and forwarded to the Office of Asset Management and a copy maintained by each school or office. Additional review of the school's equipment inventory revealed the following discrepancies:

- The Annual Equipment Inventory reports were not filed accurately, complete and/or timely for reports due May 2008 and May 2009.
- The school did not follow established procedures for adding new equipment to inventory; transferring/disposing equipment; and reporting stolen equipment.
- The school did not follow proper protocols to ensure a safe, secure location to protect equipment from theft and/or damages.

## RECOMMENDATION

The school should adhere to established procedures provided in the Student Activity Accounting Manual and the Office of Asset Management, **Inventory Management Procedure Manual** governing the proper management of equipment inventory. The school should also follow the Office of Risk Management guidelines for reporting lost, stolen, damaged or missing equipment. Finally, the school should adhere to the security plan outlined in the Epic Learning Re-Launch 2008-2009 Implementation and Security Plan for securely storing laptops to minimize the risk of loss.

## MANAGEMENT RESPONSE (PRINCIPAL)

My ability to respond with fidelity was compromised by my lack of access to people and documents:

- Repeated request for Internal Audit copy of East High School's inventory
- My computer access denied April 27, 2010
- Police report files missing from office, April 27, 2010
- Assistant Principal, (Inventory) Ricky Kizer resignation, April 9, 2010, therefore, could not verify stolen or disposed
- Teacher, Keith Booker, (Technical Inventory and Support) nonresponsive to inquiry
- EPIC laptop number inflated

East High received 570 EPIC laptops Sept 2007. In January 2008, 209 were reported missing/unaccounted for. These laptops should have been removed from our inventory May 2008 and should not have been included in the April 2010 audit. On May 4, 2010 we found another 15 EPIC laptops in classroom closets. On April 22, 2010, a student was charged with stealing 200 laptops (not included in this audit). I do understand that the responsibility to secure equipment rest with me as principal.

Since receiving the laptops in 2007 we have attempted to secure them by requesting lock changes and changing storage locations.

Devise a system to:

1. Log-in and ID incoming equipment.
2. Store equipment in locked room with 1 key.
3. Conduct quarterly equipment audits.

## COMMENT 6

Athletic ticket reconciliation forms for basketball and football events were not properly prepared to include the principal signature. Section 4-2 of the School Activity Accounting Manual states an Athletic Ticket Reconciliation form should be completed after each athletic event to include the principal signature that assures that funds collected from athletic ticket events are in accordance with number of tickets sold. After each athletic event the reconciliation form and all cash must be turned in to the financial secretary for receipting the next workday. There is no assurance that money collected from ticket sales agree with ticket reconciliation since the athletic ticket reconciliation form was not signed by the principal.

## RECOMMENDATION

Athletic ticket reconciliation form should be filled out completely for all athletic events. After each athletic event a reconciliation form should be completed. All money collected should be turned in to the financial secretary by the next business day and financial secretary should receipt and deposit the money into the school's bank account.

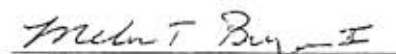
## MANAGEMENT RESPONSE (PRINCIPAL)

In accordance with Section 4-2 of the School Activity Accounting Manual all ticket reconciliation forms will be completed and signed by the principal immediately after tickets and money collected are reconciled and receipted.

These comments and recommendations are submitted to assist in strengthening internal controls and improving operating procedures. Audit findings and recommendations were discussed with and presented to Principal Curry upon completion of our field work. The Division of Internal Audit has reviewed written replies on corrective actions taken by management.

We extend our appreciation to the principal and employees for their cooperation and assistance during the performance of this audit.

DIVISION OF INTERNAL AUDIT

  
Melvin T. Burgess II, Director