



## THE OFFICE OF INTERNAL AUDIT

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Audit Advisory 2019-1 – High Fraud Risk Activities and State Reporting

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The Internal Audit Division continues to see significant indicators of potentially unlawful conduct, such as theft of cash and misappropriation of Internal School Fund monies (i.e. fraud). The Tennessee Internal School Uniform Accounting Policy Manual (State Manual) prescribes specific control measures to provide reasonable accountability for all monies. The current audit cycle and confidential reporting continue to show instances of noncompliance with the State Manual which represents fraud indicators. Internal Audit has identified the following areas as high fraud risks:

- Cheer, Majorette, Dance
- Fundraising
- Concessions
- Athletic events

We see high incidents of noncompliance with receipting protocols and disbursing monies, as well as with “off-the-books” activities such as daily school concessions. Oftentimes, the school cannot provide any accountability for cash shortages and disbursements (i.e. no receipts and cash payments) which may be viewed as theft of cash and/or misappropriation of monies. In some instances, we are made aware of unauthorized activities such as fundraisers and the concession/vending activities on school premises by athletic programs, band, and cheer. In such cases, the individuals exercised an unauthorized use of official power that could potentially be viewed as official misconduct; all of which are reportable events according to the State.

The State has reporting requirements that require any public official with a reasonable belief of unlawful conduct, T.C.A 8-4-503, Reporting Unlawful Conduct, to submit a written report to the State.

While this may seem alarming, School Operations and Compliance will continue its collaboration with Internal Audit to provide support to our Principals. Director Marc Edinbugh will assist Principals with filing State-mandated fraud reports in a timely manner. Internal Audit made substantial changes to audit procedures. The procedures will include a more thorough and comprehensive evaluation of the high-risk areas and no-notice audit procedures performed at random schools. These efforts are designed to help our Principals provide greater oversight of school activities, improved compliance, and to ensure greater stewardship of fiscal resources.

Please feel encouraged to reach out to Director William Fulton or Chief Leon Pattman at 416-5436 for questions and concerns. We thank you for your spirit of cooperation and teamwork.