

Investigative Report

Arkansas Legislative Audit

Review of Selected Transactions

Westside School District - Johnson County

July 1, 2013 through March 13, 2017



INTRODUCTION

This report is issued as a follow-up to the Westside School District (District) Regulatory Basis Financial Statements and Other Reports (Audit Report), issued March 9, 2017, by Arkansas Legislative Audit (ALA) for the year ended June 30, 2016. After ALA staff notified the Fifth Judicial District Prosecuting Attorney of questionable transactions discovered during the Audit Report engagement, he requested assistance from Arkansas State Police (ASP) to investigate issues of concern.

OBJECTIVES

Objectives of this review were to determine if:

- Revenues received were deposited in the District's bank accounts.
- Disbursements, including credit card payments, were authorized and properly documented.
- Internal control over the receipting and disbursement processes was adequate.

SCOPE AND METHODOLOGY

This review was conducted primarily for the period July 1, 2013 through March 13, 2017. Relevant District records, including bank statements, cancelled checks, credit card statements, invoices, Activity Fund deposit forms, District class/club sponsor accounting records, and bank account deposits, were examined. ALA staff also interviewed current and former District employees and assessed internal control over the receipting and disbursement processes for adequacy.

The methodology used in conducting this investigative review was developed uniquely to address the stated objectives; therefore, this review was more limited in scope than an audit or attestation engagement performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

BACKGROUND

The District, located in Johnson County, serves approximately 670 students at one elementary school and one high school. The District is subject to an annual audit by ALA. While conducting the annual financial audit for the fiscal year ended June 30, 2016, ALA staff discovered issues that required further, more extensive investigation. To comply with federal single audit requirements, the routine Audit Report was released on March 27, 2017, prior to the conclusion of this review.

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During an interview with ALA staff and ASP on March 13, 2017, District Treasurer Brandi Freeman, who was hired in January 2008, admitted to the misappropriation of cash receipts that were remitted to her by District personnel. She also stated she had used District credit cards to charge personal purchases and altered documentation to support these personal purchases. In addition, Freeman indicated making online vendor payments from the District's bank account to pay personal debt.

District management immediately placed Freeman on suspension, and she resigned from employment on March 21, 2017. The Superintendent¹ also resigned from employment effective June 30, 2017, and on June 1, 2017, the District Board of Directors (Board) transferred all Superintendent duties to an interim Superintendent.

RESULTS OF REVIEW

Review of District financial records and interviews with District personnel revealed internal control over the receipting, depositing, and disbursement processes was deficient. Additionally, the Superintendents and Board did not provide adequate fiscal oversight.

Freeman, the District Treasurer, was custodian of funds not deposited, charged personal purchases to the District's credit cards, received reimbursements for personal purposes, used District funds to pay for personal purchases and debt, and deposited a check issued to a fictitious vendor into her personal bank account. These improper transactions totaled **\$178,391**, as shown in **Exhibit I on page 3**. Because receipts were not issued for all revenue, ALA staff could not determine how much other cash was received but not deposited. Furthermore, some disbursement records were not available for the fiscal year ended June 30, 2014; therefore, the improper disbursement amount may not be all inclusive.

Review results are discussed below by topic.

Unaccounted For Revenues

A proper process to account for activity fund revenue is for the class/club sponsor to maintain collection logs for each activity or fundraiser, including the names of the individuals from whom funds were received, date, amount, and method of payment. The collection log should be totaled and a deposit form prepared. The class/club sponsor should then remit the funds, collection log, and deposit form to the district treasurer, who should issue a receipt to the class/club sponsor for the funds and deposit the funds to the district bank account. To provide control and protection over the transferring of funds from sponsor to district treasurer, the sponsor should attach the receipt to a copy of the collection log and deposit form and maintain on file for audit purposes.

The District's process to account for Activity Fund revenue was deficient due to lack of complete records in that not all class/club sponsors maintained their copies of collection logs, deposit forms, or receipts issued to them when remitting funds to the District Treasurer. Because sponsors sometimes dropped off funds without obtaining or requesting a receipt, the District Treasurer was given the opportunity to not issue a receipt or to issue a receipt for an amount that differed from the amount turned in and recorded on the sponsor deposit form.

After comparing available cash receipts issued to, and Activity Fund deposit forms prepared by, class/club sponsors with bank deposits, ALA staff determined that District revenue totaling \$110,422 was not deposited in a District bank account, as shown in **Exhibit I on page 3**. According to some class/club sponsors, it was sometimes difficult to obtain a receipt from

¹The review period encompasses the tenure of this individual and the prior Superintendent.

Freeman. ALA staff review also revealed that Freeman sometimes issued a receipt from an unofficial, generic receipt book. Because receipts were not issued for all revenue, ALA staff could not determine how much additional cash was received but not deposited.

It appears that Freeman removed cash listed on Activity Fund deposit forms prepared by class/club sponsors and completed a new Activity Fund deposit form on which the deposit amount was different and, in many instances, included only checks.

Checks were often not deposited until much later than received, which is typical of a check substitution for cash depositing scheme. A total of 78 stale dated checks, some found by ALA staff and some turned over by Freeman, were recovered, including one dated in February 2013.

Unauthorized Disbursements

Four types of unauthorized disbursements totaling \$67,969 were made by Freeman during the review period. These disbursements are discussed below and shown in **Exhibit I**. Furthermore, some disbursement records were not available for the fiscal year ended June 30, 2014; therefore, improper disbursements may not be all inclusive.

Credit Card Purchases

Using the District's credit cards from Arvest Bank and Wal-Mart, Freeman charged personal purchases totaling \$12,809 and \$14,817, respectively. Unauthorized credit card charges totaled \$27,626.

Exhibit I

Westside School District (District) Summary of Improper Transactions July 1, 2013 through March 13, 2017

Description of Improper Transactions	Fiscal Year Ended June 30,			July 1, 2016 - March 13, 2017	Totals
	2014	2015	2016		
Unaccounted for Revenues					
Cash receipts, not deposited	\$ 10,492	\$ 26,463	\$ 29,811	\$ 43,656	\$ 110,422
Unauthorized Disbursements					
Credit card purchases:					
Arvest Bank Card		11,248	1,561		12,809
Wal-Mart	1,725	6,891	4,727	1,474	14,817
Payments to:					
Freeman (District Treasurer)	253	3,245	2,634		6,132
Freeman's personal vendor accounts with					
Amazon			598		598
Kohl's		2,204			2,204
Overstock			2,057		2,057
Sam's Club			604		604
Sears			563		563
Staples	234				234
Wal-Mart			11,493	13,458	24,951
Freeman Farms (fictitious vendor)			3,000		3,000
Total Unauthorized Disbursements	2,212	23,588	27,237	14,932	67,969
Total Improper Transactions	\$ 12,704	\$ 50,051	\$ 57,048	\$ 58,588	\$ 178,391

Source: District financial records and interviews with District personnel (unaudited by Arkansas Legislative Audit)

Payments to Freeman

Freeman issued six checks payable to herself totaling \$6,132 as reimbursements for expenses that were not incurred or documented.

Payments to Vendors

Freeman issued 15 checks totaling \$31,211 as payments to seven vendors with which she had existing personal accounts and debt.

Payment to Fictitious Vendor

Freeman issued a check to a fictitious vendor for \$3,000 that was deposited into her personal savings account.

To conceal these unauthorized disbursements, Freeman primarily “documented” these disbursements by altering prior legitimate purchase orders, preparing and printing online orders that were placed in a shopping cart without actually completing the purchase, and creating purchase orders using the name of another District employee. She also created an addition to inventory form for items purchased but not located on District premises and created letters from vendors in an attempt to substantiate purchases.

Internal Control Deficiencies

The District failed to establish and maintain adequate segregation of duties, including the following:

- Bank statements were not reviewed by someone other than the employee issuing checks.
- The employee preparing checks and making deposits was also responsible for reconciling bank statements.
- Invoices or other disbursement documentation was not reviewed for proper authorization.
- Purchase orders were prepared and/or altered by the employee issuing the checks.

Other deficiencies included the following:

- Custody of District credit cards was not monitored; cards were passed from employee to employee without maintaining records.
- Credit card disbursements were not properly reviewed and authorized.
- Superintendent’s signature stamp was not safeguarded.
- Activity Fund class/club sponsors were not provided computer-generated account balances.
- Employee complaints concerning issues with class/club account balances were ignored by management.
- Revenues and disbursements were miscoded in the accounting system.

Additionally, the Board and the Superintendents did not provide adequate fiscal oversight of District operations.

RECOMMENDATIONS

ALA staff recommend that the Board and the Superintendent exercise proper fiscal oversight, segregate accounting duties to the extent possible, and establish and monitor internal control over the receipting and disbursement processes. At a minimum, bank and credit card statements should be reviewed by someone independent of the employee responsible for preparing deposits and issuing checks. Disbursements should be supported with an invoice or other form of documentation, and this documentation should be reviewed and approved before payment is made. Policies should be developed to control credit card usage and purchase order processing. Management should also ensure that procedures are implemented so that Activity Fund revenues are properly accounted for and deposited in a District bank account.

MANAGEMENT RESPONSE

The management response is contained in its entirety in **Appendix A**.

SUMMARY

ALA staff reviewed District financial records and transactions for the period July 1, 2013 through March 13, 2017, and discovered improper transactions totaling **\$178,391** as shown in **Exhibit I on page 3**. District revenue totaling \$110,422 was not deposited. These funds were in the custody of District Treasurer Brandi Freeman, who resigned from employment on March 21, 2017. Freeman made unauthorized and/or undocumented disbursements totaling \$67,969 for personal purchases charged to the District's credit cards, reimbursements to herself for expenses that were not incurred, payments on personal vendor accounts, and a payment to a fictitious vendor.

This report was forwarded to the Fifth Judicial District Prosecuting Attorney and ASP. The Prosecuting Attorney filed five felony counts of theft of property against Brandi Freeman on August 25, 2017.

APPENDIX A

Management Response

Appendix A

Management Response

Westside School District
Johnson County
August 31, 2017
Internal Control

Superintendent Shane Gordon was replaced by Dr. Vicki Hall, effective June 1, 2017. District Treasurer, Brandi Freeman resigned March 21, 2017 and was replaced by Ms. Alysha White.

Segregation of Duties: The district treasurer receipts in money and issues check warrants. The payroll clerk balances monthly statements. The superintendent also looks at and signs off on all bank reconciliations. The superintendent also accesses online banking accounts and generates reports on eFinance to check on expenditures.

Disbursements: All disbursements require an approved PO by the principal and superintendent, prior to making a purchase. Employees make the purchase, sign the receipt and write the PO number on the receipt. The receipt is turned in to the district treasurer and matched up to the PO. Superintendent initials each receipt/invoice to ensure proper documentation has been provided, prior to making a payment. The district treasurer runs a tape from the adding machine and attaches to each batch of disbursements, runs the checks, and the superintendent looks at each item on the check register to ensure it matches the batch of checks.

Credit Cards: Credit cards are kept in the superintendent's office and principals' offices. They may be checked out if the employee has an approved PO, which has been signed off on by the principal and superintendent. The last four digits of the credit card are written on the PO. After purchase has been made, employee returns receipt, which has been signed and has the last four digits of the credit card written on it, so it may easily be matched up to the correct credit card statement. The district treasurer, payroll clerk and superintendent have the authority to pre-load a credit card, if the employee brings an approved PO to the superintendent's office.

Bank and Credit Card Statements: Credit Card Statements are opened and POs are matched up to expenses by the treasurer. The superintendent looks at each credit card statement to ensure expenses were pre-authorized, which required a PO to be signed off on, prior to the purchase being made. Bank statements are reconciled within three days of receipt. The payroll clerk and district treasurer reconcile the statement together, the superintendent looks over it after reconciliation and signs off on it. The superintendent has access to online banking accounts and eFinance. The superintendent generates reports on eFinance on a daily basis and looks at information on bank accounts weekly.

Activity Fund Accounts: Money is counted by the activity sponsor, sponsor keeps a copy of the triplicate, turns money into district treasurer, the treasurer counts the money and sends a receipt back to the sponsor. If there is a discrepancy in the amounts, the sponsor comes to the treasurer for an explanation. Balances are e-mailed to the staff at the first of each month and each sponsor may reconcile their account. Activity sponsors initial a copy of the balance, generated from a board report in eFinance in the principal's office. These balances will not be totally reflected in eFinance until bonding money is receipted in from the check the school district will receive from the bonding company. Those amounts are on an excel spreadsheet and every employee has a copy.

