

**SPECIAL REPORT ON THE LAUDERDALE
COUNTY SCHOOL DEPARTMENT
LAUDERDALE COUNTY, TENNESSEE**

FOR THE PERIOD MAY 1, 2014, THROUGH FEBRUARY 16, 2017



DIVISION OF LOCAL GOVERNMENT AUDIT





Justin P. Wilson
Comptroller

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 741-2501

Jason Mumpower
Chief of Staff

June 26, 2017

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

Ladies and Gentlemen:

During the course of our financial and compliance audit work for the period ended June 30, 2016, our auditors were informed by the director of schools that two former employees of the Lauderdale County School Department inappropriately continued to receive compensation after their employment was terminated. Subsequently, we expanded our audit procedures to review payroll transactions for these two individuals for the period May 1, 2014, through February 16, 2017. Our audit identified a cash shortage of \$42,644.64. This cash shortage resulted from a lack of management oversight and a failure of School Department personnel to follow department policies regarding the termination of employees.

We reviewed this finding with the Lauderdale County Director of Schools and the district attorney general. This finding, recommendation, and management's response are presented in this report.

Very truly yours,

Justin P. Wilson
Comptroller of the Treasury
Nashville, Tennessee

SPECIAL REPORT ON THE LAUDERDALE COUNTY SCHOOL DEPARTMENT

For the Period May 1, 2014, through February 16, 2017

Background

During the course of our financial and compliance audit work for the period ending June 30, 2016, our auditors were informed by the director of schools that two former employees continued to receive compensation after their employment was terminated. We expanded our audit procedures and determined that the two employees in question were overpaid \$42,644.64. We then notified the district attorney general of these improprieties.

The following deficiencies were noted:

FINDING 2016-001

TWO FORMER EMPLOYEES OF THE SCHOOL DEPARTMENT CONTINUED TO RECEIVE COMPENSATION AFTER THEIR EMPLOYMENT WAS TERMINATED

(Internal Control – Significant Deficiency Under *Government Auditing Standards*)

Two former employees continued to receive compensation after their employment was terminated. Devlyn Green, an educational assistant, and Milton Waller, a bus driver, terminated their employment with the Lauderdale County School Department during May 2014 and October 2016, respectively. Ms. Green continued to receive compensation through direct deposits to her personal bank account until December 19, 2016, resulting in salary overpayments of \$33,510.95. The School Department also paid the employer portion of Social Security and Medicare totaling \$2,563.59 and contributed \$1,769.78 to the Tennessee Consolidated Retirement System (TCRS) on behalf of Ms. Green. Mr. Waller continued to receive direct deposits to his personal bank account until February 16, 2017, resulting in salary overpayments of \$4,459.18. The School Department also paid the employer portion of Social Security and Medicare totaling \$341.14 for Mr. Waller. These overpayments resulted in a cash shortage totaling \$42,644.44 in the General Purpose School Fund as of the date of this report. A summary of the cash shortage is listed below:

Devlyn Green, Educational Assistant:	
Salary Overpayments	\$ 33,510.95
Employer portion of Social Security and Medicare	2,563.59
Employer TCRS Contributions	<u>1,769.78</u>
Sub-Total	<u>37,844.32</u>
Milton Waller, Bus Driver:	
Salary Overpayments	\$ 4,459.18
Employer portion of Social Security and Medicare	<u>341.14</u>
Sub-Total	<u>4,800.32</u>
Total Cash Shortage	<u>\$ 42,644.64</u>

This deficiency was the result of a lack of management oversight and a failure of School Department personnel to follow the procedures in place regarding the termination of employees. This deficiency is also the result of the failure of School Department staff to review timesheets to support payroll disbursements. It should also be noted that School Department staff became aware of the overpayments to the educational assistant on approximately December 20, 2016, but failed to notify the director of schools until February 15, 2017.

This matter was referred to the district attorney general who presented the shortage to the Lauderdale County Grand Jury on June 5, 2017. The grand jury returned indictments against Devlyn Green for the Class C Felony offense of theft over \$10,000 and against Milton Waller for the Class D Felony offense of theft over \$2,500. No trial date has been set as of the date of this report.

RECOMMENDATION

The School Department should pursue collection of the cash shortage. Adequate supervision should be provided throughout the payroll process, and employees should follow the department's procedures to correctly terminate employees. Timesheets should be reviewed to support all payroll disbursements. Employees should notify the director of schools immediately when errors are noted.

MANAGEMENT'S RESPONSE – DIRECTOR OF SCHOOLS

Management concurs with this finding. The director of schools reported these issues to the Division of Local Government Audit of the Tennessee Comptroller of the Treasury.

The two former employees who received directly deposited funds in error never reported these payments and kept the payments even though they knew they were not entitled to the same. Upon discovery of this situation, we immediately viewed this as a case of potential fraud by these former employees. Management opened an internal investigation into the matter in an effort to insure a current employee did not fraudulently disperse the funds to the former

employees. Upon completion of this internal investigation, it was determined that the continued payments were not made fraudulently by a current employee and were the result of unintentional and undetected clerical errors.

Management recently began the review of existing record-keeping procedures, which we have used for more than two decades. As a result of the internal review and implementation of increased internal controls, these two payroll errors were detected.

As a result of these self-reported findings, management has implemented a second internal audit process which will routinely cross-reference active personnel lists/timesheets submitted by each department with a Human Resource database which will finally be compared to the current payroll file. In addition, employees will be re-trained on separation practices, payroll audit, timesheet collection, reporting of potential fraud, and other related procedures in an effort to eliminate future errors of this nature. Management will routinely review internal controls and adjust procedures as necessary for an accurate and efficient system of record keeping and payroll.

School and district personnel will pursue the collection of the fraudulently accepted funds by the two former employees while assisting and cooperating with any law enforcement investigation into the matter. Management has already engaged with the Tennessee Consolidated Retirement System to request a full refund of contributions made.

The Lauderdale County School Department takes pride in being transparent and efficient in operations. Previous audits have proven this efficiency; however, the district is obviously not immune to these recent oversights. Every effort will be made to continue this transparency while improving efficiency and accuracy of operations.