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July 12, 2010

Officers of the Gateway Elementary School
Parent-Teacher Association
Gateway Elementary School
1524 Monticello Avenue
Madison, TN 37115

Director of Schools and Board Members:

We have completed our investigative audit of the Gateway Elementary School Parent-Teacher Association (PTA). The audit focused on the period July 1, 2006, through October 31, 2008. However, when warranted, we expanded the scope. This letter presents the results of our audit and findings about conditions found within the Gateway Elementary School PTA that allowed or could allow money to be unaccounted for or misappropriated. We became involved in this investigation after Metropolitan Nashville Public Schools Internal Audit notified our office of suspected irregularities.

Legal Issues

Misappropriation of at least \$2,167

- Between July 1, 2006, and November 26, 2007, a former Gateway Elementary School PTA officer, who served at various times as chapter president, treasurer, and fundraising coordinator, wrote eight checks to herself totaling \$6,693, purportedly reimbursement for personal out-of-pocket expenses she paid on behalf of the PTA.¹ However, auditors determined that at least four of the checks included transactions that were either fictitious or were paid directly by the PTA and not by the former PTA officer.

Subsequently, the former officer admitted to state auditors that she had withdrawn at least \$2,167 from the Gateway Elementary School PTA checking account, which the PTA did

¹ Auditors were unable to confirm the veracity of ANY of these payments. The absence of supporting documents is described later in this letter under "Internal Control Weaknesses."

not owe to her, without the consent of the PTA membership. The former PTA officer also admitted to inadequate recordkeeping. When asked about four of the remaining checks with a combined value of \$3,485 for which no support had been located, the former PTA officer replied that the reimbursement amounts were “probably not [completely] right.”

We have referred this matter to the office of the local district attorney general.

Unaccounted for collections of at least \$673

- During the fall of 2007, the Gateway Elementary School PTA conducted a cookie dough and holiday gift fundraiser. The sum of all bank deposits during September, October, and November 2007 was \$673 less than the amount that should have been collected and deposited from the fundraiser alone. It should be noted that the vendor instructed participating organizations to collect money when orders were placed, not when orders were delivered. It should also be noted that the actual shortage could be significantly larger since PTAs usually collect membership dues during the first part of each school year.

Worthless checks received from two former PTA officers

- On February 1, 2007, a \$750 personal check from the previously mentioned former officer to the Gateway Elementary School PTA was returned unpaid. The check has not been redeposited and the former officer has not repaid the value of the check to the PTA. The former PTA officer told state auditors that she intended for this check to repay a portion of the \$2,167 described in a preceding paragraph. As such, it is not an additional amount for which she is responsible.

On September 28, 2006, a \$941 personal check from a second then-PTA officer of the Gateway Elementary School PTA² was returned unpaid. The check was not redeposited and the individual who wrote it admitted that she has only repaid \$100.³ She also acknowledged that she owes the remaining amount, which would be \$841, to the PTA.

² Point of emphasis: Except for this specific paragraph, all allusions to a “former officer” or a “then-officer” refer to the individual that admitted to misappropriation of PTA funds.

³ Due to the poor condition of the records of the Gateway Elementary School PTA from this period, we can neither confirm nor disprove the existence of this payment.

Internal Control Weaknesses

- **Failure to maintain required collection documents**

The Gateway Elementary School PTA failed to maintain any of the collection records required for resale fundraisers, school carnivals, membership dues, and money received for any other reason from any source. Consequently, PTA members, officers and auditors had no assurance that all of the money collected from each of these sources was deposited to the PTA bank account.

The *School Support Organization Financial Accountability Act (SSOFAA)*⁴ requires each school support organization's officers to "ensure that school support organization funds are safeguarded and are spent only for purposes related to the goals and objectives of the organization (*T. C. A. §49-2-604(e)*)."

The *Model Financial Policy for School Support Organizations*, required control number 11, states:

A receipt should be issued any time and at the time, cash is turned over to or collected by the treasurer acting in his/her official capacity as treasurer of the school support organization. The receipts should be prenumbered and kept in a bound book. One copy should be maintained in the receipt book.

Control number 12 requires:

For certain events or mass collections (e.g., concession, parking, car wash, candy sale), a record of the total collections each day must be created. Two individuals should count the collections and prepare a count sheet, signed by both counters. When the collections are turned over to the treasurer, he/she and the individuals should recount the collections. The treasurer should then immediately issue a receipt to the individuals. The count sheet should be filed by the treasurer.

⁴ *Tennessee Code Annotated* §49-2-601 et seq.

Control number 17 adds:

All collection records, bank statements, canceled checks and invoices, along with copies of the monthly treasurer's report, should be organized and maintained by the treasurer by fiscal year. Records should be maintained for at least four years.

PTA officers should immediately begin preparing required documents on each occasion that a member collects money for the PTA. In addition, a board member other than the person responsible for making bank deposits should verify that the deposits include **all** amounts collected. The treasurer should retain and safeguard all receipts, count sheets, and similar collection documents as well as all bank records, as specified in the *Model Financial Policy for School Support Organizations*.

- **Unsupported disbursements**

Most of the checks issued by the Gateway PTA within the scope of this audit had **no** supporting documentation in the PTA's records. This included nine checks totaling \$6,743 that the aforementioned former officer wrote to herself. As noted earlier, auditors questioned whether eight of these checks, amounting to \$6,693, represented actual PTA expenses paid by the former PTA officer; she admitted that at least \$2,167 did not.

The *SSOFFAA* requires each school support organization's officers to "ensure that school support organization funds are safeguarded and are spent only for purposes related to the goals and objectives of the organization (*T. C. A. §49-2-604(e)*)."

According to the *Model Financial Policy for School Support Organizations*, required control number 10:

Each check written should have a receipt or invoice filed by check number. The treasurer should write the check number and date paid on the invoice or receipt. When a receipt or invoice is not available, a written document, signed by the treasurer, describing the expenditure and explaining why no other documentation is provided, should be created and filed.

Control number 17 adds:

All collection records, bank statements, canceled checks and invoices, along with copies of the monthly treasurer's report,

should be organized and maintained by the treasurer by fiscal year.
Records should be maintained for at least four years.

The PTA should not issue any checks without adequate supporting documentation. The treasurer should retain and safeguard the supporting documents, as required by the *Model Financial Policy for School Support Organizations*.

- **Checks payable to cash**

The former PTA officer issued two Gateway Elementary School PTA checks payable to cash, totaling \$1,613, between December 1, 2006, and June 30, 2007. She paid one of these checks to herself; it is included in the \$6,743 of unsupported disbursements described under the preceding bullet point. The remaining \$1,200 was purportedly given to teachers for items intended for use in their classrooms. The PTA's files included only \$687 of receipts that could be part of the \$1,200.

The *Model Financial Policy for School Support Organizations*, required control number 8, mandates that "[a]ll bills should be paid by check, never cash. Presigning blank checks should be prohibited."

The PTA should not pay cash for goods or services and should cease the practice of writing checks made payable to cash.

- **Checks issued with only one signature**

The majority of the checks issued by the Gateway Elementary School PTA within the scope of this audit bore only the former PTA officer's signature. Based on PTA records and interviews, the former PTA officer controlled essentially all of the PTA's disbursements without oversight and approval from other board members.

The *Model Financial Policy for School Support Organizations*, required control number 9, sets forth that "[f]or disbursements, prenumbered bank checks should be used that require two signatures."

The PTA board should require dual signatures on all checks, with each signature indicating that the individual that signed understood the reason for the disbursement, approved of the disbursement, and reviewed related supporting documents. The PTA's financial institution should record and enforce the dual signature requirement.

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The PTA president and board members should take immediate corrective actions to resolve these issues. If you have any questions or need additional information, please contact me.

Very truly yours,

A handwritten signature in black ink, appearing to read "Dennis F. Dycus". The signature is fluid and cursive, with a large initial "D" and "F".

Dennis F. Dycus, CPA, CFE, Director
Division of Municipal Audit

DFD/RAD