



ELIZABETHTON CITY SCHOOL SYSTEM

Comptroller's Investigative Report August 21, 2018

Justin P. Wilson, Comptroller





JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Chief of Staff

August 21, 2018

Director of Schools and Members
of the Board of Education
Elizabethton City School System
804 South Watauga Avenue
Elizabethton, TN 37643

Ladies and Gentlemen:

The Office of the Comptroller of the Treasury conducted an investigation of selected records of the Elizabethton City School System, and the results are presented herein.

Copies of this report are being forwarded to Governor Bill Haslam, the State Attorney General, the District Attorney General, certain state legislators, and various other interested parties. A copy is available for public inspection in our office and may be viewed at <http://www.comptroller.tn.gov/ia/>.

Sincerely,

A handwritten signature in black ink that reads "Justin P. Wilson".

Justin P. Wilson
Comptroller of the Treasury

JPW/RAD

INVESTIGATIVE REPORT

Elizabethton City School System



BACKGROUND

The Comptroller's Office began an investigation of the Elizabethton City School System (the school system) after school officials discovered and reported operational deficiencies and the probability of missing school funds. The school system is located within the City of Elizabethton in East Tennessee and is governed by a five-member school board, which operates one high school, one middle school, and three elementary schools with a total enrollment of approximately 2,551 students.

Findings and recommendations, as a result of our investigation, are presented below. We have reviewed these findings and recommendations with the district attorney general for the First Judicial District.

INVESTIGATIVE FINDINGS AND RECOMMENDATIONS

FINDING 1: The Elizabethton High School Athletic Department had deficiencies with cash collections and disbursements from concessions and ticket sales



We investigated the Elizabethton High School (EHS) Athletic Department (AD) for the period July 1, 2017, through February 28, 2018, after school system officials discovered and reported questionable practices by two athletic directors. Our investigation revealed the following questionable practices in the AD, which can be attributed to a lack of management oversight and the inadequate maintenance of accounting records.

- A. An athletic director made cash disbursements from concession sales collections generated from an EHS Christmas basketball tournament held in December 2017. These cash disbursements were not in compliance with school system policy and the *Tennessee Internal School Uniform Accounting Policy Manual*. Tournament workers did not properly perform cash counts of concessions collections, and the athletic director did not maintain supporting documentation for the cash disbursements. Therefore, we could not verify the accuracy of collections and cash disbursements. According to the athletic director, he used the cash to pay tournament workers (including his wife and himself), pay for concession food and supplies, and donate \$700 to the E-Town Express - the EHS basketball booster club. The E-Town Express deposited \$700 in its bank account on January 5, 2018, but returned the \$700 to EHS on February 28, 2018, to remove itself from any controversy. EHS did not receive any other concession collections from this tournament.

A second athletic director withheld cash from athletic event ticket sales. The athletic director claimed the funds were used for emergency purchases and to pay athletic event workers. The athletic director did not keep supporting documentation for these cash disbursements; therefore, we could not verify the use of cash withheld from ticket sales. According to the athletic director, he sold certain adults a lower-priced student ticket while collecting the higher-priced adult ticket amount at junior varsity football games. This practice allowed tickets to reconcile with collections while creating excess cash to pay football field chain workers. Also, the athletic director claimed he occasionally withheld cash from ticket sales at other athletic events to make emergency purchases and pay an athletic event worker with an immediate financial need. According to the athletic director, the cash withheld was replenished from an AD petty cash fund prior to completion of ticket reconciliations.

The *Tennessee Internal School Uniform Accounting Policy Manual* and school system policy require the following:

1. Two individuals should prepare a written count of concession collections signed by both responsible individuals. The individuals must turn in the collections to the school cashier for a receipt, and then the funds are to be deposited.

2. Collections are required to be deposited intact, be deposited in the next deposit, and should not be withheld from the deposit for any reason.
3. School system policy requires all purchases be made via purchase order, contract, or prior arrangement by the principal for reimbursements of emergency purchases.
4. School system policy requires all salaries and supplements be paid through the school system's payroll process.

The practices of not properly performing written cash counts of concession sales, selling student tickets at adult ticket prices to create excess cash, and making cash disbursements from concession and ticket sales exposes the school system to risks of funds being used inappropriately or stolen. The practice of paying workers in cash from concession and ticket sales exposes the school system to risks of noncompliance with federal and state employment and labor laws.

- B. The AD maintained a petty cash fund, which is prohibited by school system policy. The AD did not maintain petty cash fund records; therefore, we could not verify the sources, uses, and appropriateness of petty cash disbursements. According to AD employees, the AD used the petty cash fund for emergency purchases and to occasionally pay an athletic event worker with an immediate financial need. The employees indicated the AD did not maintain the fund at a fixed amount and they reimbursed the fund from undesignated donations and athletic event ticket sales.

School system policy requires all purchases be made via purchase order, contract, or prior arrangement by the principal for reimbursements of emergency purchases. In addition, school system policy requires all salaries and supplements be paid through the school system's payroll process. The unauthorized existence of the petty cash fund and the lack of prior authorizations of purchases exposes the school system to risks of funds being used inappropriately or stolen. The practice of paying employees from petty cash exposes the school system to risks of noncompliance with federal and state employment and labor laws.

- C. Ticket sellers did not properly count and reconcile collections from athletic event ticket sales. Athletic directors stated they properly secured collections in the AD office before deposit; however, AD employees usually counted and reconciled cash the next school day, not ticket sellers on the day of the event. It was the practice of the AD to have ticket sellers stop by the AD days later to sign reconciliations once completed by AD employees. In addition, AD employees stated they would occasionally add tickets to sales or take funds from petty cash to reconcile tickets sold with cash collections. The *Tennessee Internal School Uniform Accounting Policy Manual* states the following concerning ticket sale cash counts and reconciliations:

When the event's ticket sales are complete, the ticket seller should count and record the collections (with a subtotal for cash payments and a subtotal for check payments) and complete and sign the ticket reconciliation form. The ticket seller, or other designated individual,

retains a copy of the original ticket reconciliation while the original must accompany the money and unsold tickets that are turned in to the cashier.

The cashier should issue an official receipt made out to the persons signing the ticket reconciliation, or to another designated individual, assigned responsibility for retaining copies of the ticket reconciliations and for reconciling receipts received to the ticket reconciliations. The cashier should review and recalculate the ticket reconciliation form. If a discrepancy between the ticket reconciliation and the official receipt exists, the principal should be notified in writing so that the principal may determine necessary action.

The practice of ticket sellers not completing cash counts and reconciliations immediately after athletic events, with a proper review by the designated school cashier, exposes the school system to risks of funds being used inappropriately or stolen.

Both athletic directors noted above had their employment terminated on April 2, 2018.

RECOMMENDATION:

Cash should not be withheld from ticket sales, concessions, or other mass collections and used for cash disbursements. All purchases should be made via purchase order, contract, or prior arrangement by the principal for reimbursements of emergency purchases. Payments to athletic event workers should be paid by the school system through its payroll process. In accordance with school system policy, the AD should not maintain any petty cash funds. All collections should be deposited intact the next business day. Athletic tickets should be sold for the proper amounts, ticket sellers should complete cash counts and reconciliations immediately after athletic events, and a school cashier should recalculate the cash count and ticket reconciliation to determine accuracy prior to deposit. Two individuals should prepare a written count of concession collections signed by both responsible individuals; then, the individuals should turn in the collections to the school cashier for a receipt and deposit.

FINDING 2: The Elizabethton High School bookkeeper used the school's mail meter machine for personal use and maintained an unauthorized petty cash fund



During the period April 2016, through January 2018, the EHS bookkeeper used the school's mail meter machine to pay postage totaling \$197.88 for personal packages mailed to relatives. We found no record documenting the bookkeeper had reimbursed the school for these charges. EHS prepays the United States Postal Service (USPS) for postage and uses a vendor's meter machine to stamp the correct postage amount. Once the mail is stamped, the

school's prepaid account balance with the USPS is reduced. The postage stamp includes the postage paid, the post date, and the meter machine's unique serial number.

The table below reflects the post date, recipient location, and postage paid for personal packages mailed by the bookkeeper to relatives using the school's mail meter machine.

Post Date	Recipient Location	Postage Total
04/12/2016	Lakewood, Colorado	\$ 18.75
01/18/2017	Lakewood, Colorado	12.80
02/07/2017	Lakewood, Colorado	6.95
03/20/2017	Lakewood, Colorado	10.55
07/14/2017	Lakewood, Colorado	22.70
12/01/2017	Lakewood, Colorado	10.55
12/01/2017	Lakewood, Colorado	3.66
12/05/2017	Lakewood, Colorado	23.05
12/13/2017	Lakewood, Colorado	13.60
12/13/2017	Lakewood, Colorado	13.60
12/13/2017	Birmingham, Michigan	15.95
12/21/2017	Lakewood, Colorado	13.97
12/21/2017	Lakewood, Colorado	10.55
01/04/2018	Birmingham, Michigan	11.15
01/11/2018	Bloomfield Hills, Michigan	10.05
Total		\$ 197.88

In January 2018, after school officials initially confronted the bookkeeper with the apparent cash shortage, the bookkeeper remitted \$167.03 to the director of schools. In a note that accompanied these funds, the bookkeeper stated, "This is money that I have been in charge of for the time I have been in current position." The bookkeeper claimed to our investigators that the funds, referred to as the "slush fund" or "make it happen fund," accumulated from unclaimed money at the school and purchases of postage from the school's mail meter machine by faculty, staff, and herself. She stated school administrators were aware of the petty cash fund, and it was used to make small purchases including gift cards for teachers, coffee, etc. She claimed none of the petty cash was ever deposited with the school.

Records for the petty cash were not maintained; therefore, we could not verify the purpose, sources, and uses of these funds. School system policy prohibits the creation of a petty cash fund and requires all purchases be made via purchase order, contract, or prior arrangement by the principal for reimbursements of emergency purchases. The existence of the unauthorized petty cash fund, the personal use of the school's mail meter machine, and the lack of prior authorizations of purchases exposes the school system to risks of funds being used inappropriately or stolen.

The bookkeeper's employment was terminated on January 16, 2018.

RECOMMENDATION:

School officials should determine if any cash shortage exists from the personal use of the school's mail meter machine and take steps to collect any remaining cash shortage. The school system should implement a policy regarding the use of its mail meter machines, and the machines should only be used for official business. In accordance with school system policy, no school should maintain any petty cash funds.

INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES

FINDING 3: Some school support organizations had multiple operating deficiencies

Tennessee Code Annotated, Section 49-2-604(e), requires that a school support organization's officers ensure that organization funds are safeguarded and only spent for purposes related to the goals and objectives of the organization. This law also requires the organization to adopt and maintain a written policy specifying reasonable procedures for accounting, controlling, and safeguarding school support organization money and other property. *Tennessee Code Annotated*, Section 49-2-610, authorizes the Tennessee Comptroller of the Treasury to prepare a model financial policy for school support organizations. In June 2008, the Comptroller's Office published the *Model Financial Policy for School Support Organizations*, which provides minimum controls to assist in improving accountability over school support organization funds.

We investigated select information from three school support organizations for the period July 1, 2017, to February 28, 2018, after school system officials discovered and reported several deficiencies. The school support organizations investigated include:

- The E-Town Express (ETE) - the EHS basketball booster club
- The Elizabethton High School Athletic Parents Organization (APO)
- The Junior Cyclones Athletic Booster Club (JC) - the TA Dugger Junior High School athletic booster club.

Our investigation revealed the school support organizations' failure to fully implement the model financial policy resulted in deficiencies in the organizations' financial processes. These financial process deficiencies included:

- A. The ETE, APO, and JC did not develop written policies and procedures to assist their organization in ensuring funds were properly accounted and safeguarded.
- B. The JC did not register (incorporate as a nonprofit) with the Tennessee Secretary of State's Office. The ETE did not file an annual report with the Tennessee Secretary of State's Office, resulting in their status becoming inactive.
- C. The ETE and JC did not annually confirm their nonprofit status; describe its goals and objectives; and provide the address, telephone number and position of each officer of the organization with the director of schools or the director's designee.

- D. The ETE, APO, and JC did not consistently maintain minutes of official scheduled meetings. Minutes should include the identity of authorized banking institutions, authorized bank accounts, authorized signatories, and monthly bank statements including imaged checks.
- E. The APO and JC made cash disbursements from concession collections - the APO occasionally purchased pizza for concession sales, and the JC paid gate workers. According to the *Model Financial Policy for School Support Organizations*, all disbursements should be paid by check.
- F. The ETE, APO, and JC did not require two authorizing signatures on checks.
- G. The ETE, APO, and JC did not issue receipts for collections from a bound book of prenumbered receipts.
- H. The ETE, APO, and JC failed to count and record total collections received at all fundraising events. Requirements for collections from certain events or mass collections (e.g., concessions, parking, car washes, and candy sales) are as follows:
- A record of the total collections must be created each day.
 - Two individuals should count the collections and prepare a count sheet signed by both individuals.
 - When the collections are remitted to the treasurer, the treasurer and the two individuals should recount the collections, and the treasurer should issue a receipt to the individuals.
 - The count sheet should be retained and filed by the treasurer.
- I. The ETE, APO, and JC did not produce a signed treasurer's report monthly summarizing collections and disbursements of their organizations.
- J. The ETE and APO did not reconcile bank statements monthly.
- K. The ETE, APO, and JC did not maintain all collection records, bank statements and reconciliations, canceled checks and invoices, minutes, and monthly treasurers' reports for four years as required.

RECOMMENDATION:

- A. School support organizations should develop a written policy, which specifies reasonable procedures for accounting, controlling, and safeguarding any money, materials, or property collected or disbursed.

- B. School support organizations should incorporate as a nonprofit and comply with all filing requirements of the Tennessee Secretary of State's Office.
- C. School support organizations should confirm their nonprofit status; describe their goals and objectives; and provide the address, telephone number and position of each officer of the organization to the director of schools annually.
- D. School support organizations should record minutes of all official meetings and should include the identity of authorized banking institutions, authorized bank accounts, authorized signatories, and monthly bank statements including imaged checks.
- E. School support organizations should make all disbursements by prenumbered check and file documentation to support these disbursements.
- F. School support organizations should require checks be signed by two authorized individuals.
- G. School support organizations should use a bound book of prenumbered receipts for all collections.
- H. School support organizations should properly count and document mass collections before receipt and deposit.
- I. School support organization treasurers should prepare and sign a monthly summary of collections and disbursements of their organization.
- J. School support organization treasurers should reconcile bank statements monthly.
- K. School support organizations should currently maintain and retain financial records for a period of four years.