



COMPTROLLER'S INVESTIGATIVE REPORT

Kingston Elementary School PTO

March 8, 2022

Jason E. Mumpower
Comptroller of the Treasury



DIVISION OF INVESTIGATIONS



JASON E. MUMPOWER
Comptroller

March 8, 2022

Roane County Board of Education
105 Bluff Road
Kingston, TN 37763

Roane County Board of Education Officials:

The Office of the Comptroller of the Treasury conducted an investigation of selected records of the Kingston Elementary School PTO, and the results are presented herein.

Copies of this report are being forwarded to Governor Bill Lee, the State Attorney General, the District Attorney General of the 9th Judicial District, certain state legislators, and various other interested parties. A copy of the report is available for public inspection in our Office and may be viewed at <http://www.comptroller.tn.gov/ia/>.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jason E. Mumpower", with a long horizontal flourish extending to the right.

Jason E. Mumpower
Comptroller of the Treasury

JEM/MLC

INVESTIGATIVE REPORT

Kingston Elementary School PTO

The Office of the Comptroller of the Treasury investigated allegations of malfeasance related to Kingston Elementary School Parent Teacher Organization (PTO). The investigation was limited to selected records for the period October 1, 2014, through August 31, 2018. The results of the investigation were communicated with the Office of the District Attorney General of the 9th Judicial District.

BACKGROUND



Kingston Elementary School is part of the Roane County School System and is in Kingston, Tennessee. The PTO works to foster positive partnering relationships with students, their families, teachers, administrators, and citizens of Roane County. The PTO funds its activities through fundraiser sales of items such as chocolate bars, candles, tee shirts, and sign advertisements on school fencing. The PTO uses these funds to sponsor activities such as teacher appreciation week, family fun nights, and field days, in addition to purchases for

playground mulch and donations or gifts to the elementary school. The PTO is led by a group of volunteer officers including a president, vice-president, treasurer, and secretary.

RESULTS OF INVESTIGATION

1. A FORMER PTO TREASURER MISAPPROPRIATED PTO FUNDS TOTALING AT LEAST \$19,363

Our investigation revealed a former PTO treasurer misappropriated at least \$19,363 of PTO funds by failing to properly account for cash withdrawals. For the period reviewed, investigators analyzed PTO bank account disbursements and identified the former treasurer made multiple withdrawals of cash. When questioned about the withdrawals, the former PTO treasurer stated he did not have any documentation to support how he used these funds. Therefore, investigators could not determine the funds were used for the benefit of the PTO or for personal purposes. The following table summarizes the misappropriation of PTO funds.

Date	Type	Amount
10/23/2014	Cash	\$ 200
10/23/2014	ATM	20
11/12/2014	Cash	90
05/08/2015	Cash	800
05/13/2015	Cash	2,400
04/07/2016	Cash	350
04/21/2016	Cash	324
05/06/2016	Cash	1,250
06/30/2016	Cash	100
10/20/2016	Cash	150
10/21/2016	Cash	1,450
11/29/2016	Cash	3,124
12/14/2016	Cash	150
01/13/2017	Cash	225
02/22/2017	Cash	650
03/01/2017	Cash	1,540
04/28/2017	ATM	500
04/28/2017	Cash	2,400
05/05/2017	ATM	800
10/25/2017	Cash	100
11/28/2017	Cash	40
04/05/2018	Cash	550
05/08/2018	Cash	<u>2,150</u>
Total		<u>\$ 19,363</u>

2. A FORMER PTO TREASURER MADE \$46,976.48 IN QUESTIONABLE DISBURSEMENTS OF PTO FUNDS

For the period reviewed, investigators identified questionable disbursements from the PTO's bank account totaling \$46,976.48 made with the entity's checks or debit card. These disbursements were not supported with itemized receipts, invoices, or other details. Therefore, investigators could not determine whether these disbursements were exclusively for the benefit of the PTO.

Investigators allowed the former treasurer sufficient time to provide supporting documentation for the bank statement activities that were undocumented. We received a reply in May 2020 that stated, “I don’t have time to deal with now. It has been two years. Sorry, so go ahead and finish your report.” therefore, we were unable to confirm whether many of the purchases were for the benefit of the PTO or for personal benefit.

The individual did not to seek another term as treasurer with the PTO during the August 2018 election.

INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES

Tennessee Code Annotated, Section 49-2-604, requires officers of school support organizations to ensure the funds and property of their organizations are safeguarded and used only for the purposes related to the goals and objectives of the organization. Pursuant to *Tennessee Code Annotated*, Section 49-2-610, the Comptroller published the “Model Financial Policy for School Support Organizations – Procedures Manual” (Model Financial Policy) in 2008 to assist PTO officers in discharging their obligation to safeguard the funds and property of their respective organizations. The Model Financial Policy prescribes the minimum financial accountability controls that PTO officers must follow. The Kingston Elementary School PTO failed to establish and implement reasonable procedures for accounting, controlling, and safeguarding PTO funds. Our investigation revealed deficiencies in internal controls and compliance that contributed to the former treasurer’s failure to properly account for withdrawals and disbursements of PTO funds and prevented prompt detection. These deficiencies can be attributed to a lack of oversight by PTO officials. These deficiencies included:

Deficiency 1: PTO officials failed to follow state statutes and the Model Financial Policy established for the operation of school support organizations

- A. Investigators noted the annual financial statements provided for analysis were dated August 30, 2015, September 19, 2016, October 18, 2017, and August 12, 2018, instead of the end of the school fiscal year (June 30th) as required by *Tennessee Code Annotated*, Section 49-2-604(b)(1)(B). Also, the annual financial statements were not mathematically correct. For example, the ending balance of one year did not agree with the beginning balance of the next year, resulting in a total variance for the period of approximately \$5,881.60.
- B. The revenues and disbursements presented on the PTO’s financial statements did not provide adequate details but were grouped together under such headings as teacher appreciation, teachers’ meals, or fundraiser. *Tennessee Code Annotated*, Section 49-2-604(c), requires a school support organization to maintain, at a minimum, detailed statements of receipts and disbursements.
- C. PTO officers did not provide adequate oversight of operations and did not establish internal controls to ensure accountability of PTO funds. The officers are responsible for designing internal controls to give reasonable assurance of the reliability of financial reporting and the

effectiveness and efficiency of operations. Providing adequate oversight and establishing internal controls reduces the risks that errors or intentional misappropriations will remain undetected. The lack of oversight by the officers and the lack of internal controls contributed to the treasurer's ability to make unsupported purchases without detection. The Model Financial Policy for School Support Organizations states "The officers and/or board of directors shall assume responsibility for the operation of the SSO. This responsibility cannot be delegated. They must review all receipt and disbursement transactions and supporting documentation at least monthly." The policy also states, "bills should never be paid by cash".

- D. PTO officers failed to acquire or retain invoices, vendor receipts, or other adequate supporting documentation for numerous disbursements. The Model Financial Policy requires school support organizations to obtain and file invoices for all disbursements to show that funds were appropriately used. Investigators reviewed \$162,871.67 in PTO expenditures during our review period, and PTO officials could not provide vendor receipts for expenditures totaling \$66,339.48, of which \$19,363 were cash withdrawals. Without adequate supporting documentation, investigators were unable to determine whether many PTO disbursements were for legitimate expenses.
- E. The former PTO secretary advised investigators that the PTO met quarterly. She told investigators that she did not keep any minutes of meetings as required by *Tennessee Code Annotated*, Section 49-2-604(c), because there was a lack of participation or involvement by anyone other than the PTO officials. Minutes are necessary to document any action taken by the PTO officers.
- F. PTO officials failed to routinely review and reconcile bank statements. To ensure deposits and disbursements are accurately recorded and appropriately used, the Model Financial Policy for School Support Organizations requires bank statements to be reconciled promptly and that a copy of the bank statements and imaged checks be included in the minutes of PTO meetings.
- G. PTO officials did not keep the PTO's registration current as a nonprofit corporation with the Tennessee Secretary of State's office.

Deficiency 2: PTO officials failed to file Form 990-N with the IRS

PTO officials did not file Form 990-N (gross receipts less than \$50,000) with the IRS. The IRS requires the reporting of finances and basic operations to assist it in determining whether an organization is worthy of maintaining its 501(c)(3) tax-exempt status. Failure to file the form for three consecutive tax years will result in an organization automatically losing its tax-exempt status.

Deficiency 3: PTO officials paid state and local sales taxes

Investigators noted on the few receipts provided to us that PTO officials paid \$235.97 in state and local sales taxes during the period reviewed. As a school support organization, the PTO has a sales tax-exempt status on the purchase of qualifying goods and services.