



COMPTROLLER'S INVESTIGATIVE REPORT

Piney Flats Elementary Basketball (Booster Club)

September 12, 2024

Jason E. Mumpower
Comptroller of the Treasury



DIVISION OF INVESTIGATIONS



JASON E. MUMPOWER
Comptroller

September 12, 2024

Sullivan County Schools
154 Blountville Bypass
PO Box 306
Blountville, TN 37617

Sullivan County Schools Officials:

The Office of the Comptroller of the Treasury conducted an investigation of selected records of the Piney Flats Elementary Basketball (Booster Club), 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 2nd 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 line extending to the right.

Jason E. Mumpower
Comptroller of the Treasury

JEM/MLC

INVESTIGATIVE REPORT

Piney Flats Elementary Basketball (Booster Club)

The Office of the Comptroller of the Treasury investigated allegations of malfeasance related to Piney Flats Elementary Basketball, a booster club supporting Mary Hughes Elementary School. The investigation was limited to selected records for the period January 1, 2021, through September 7, 2023. The results of the investigation were communicated with the Office of the District Attorney General of the 2nd Judicial District.

BACKGROUND



Piney Flats Elementary Basketball (booster club) is a school support organization (SSO) formed by parents and other volunteers to support and promote the basketball and cheerleading programs at Mary Hughes Elementary School (school) in Piney Flats, Tennessee. The school is part of the Sullivan County School System (district) and serves students in grades Pre-K through five. For the period reviewed, the booster club was governed by a president, vice president, treasurer, athletic director, and cheer coordinator.

The School Support Organization Financial Accountability Act, codified in Tenn. Code Ann. § 49-2-601 *et seq.*, provides that booster club officers, like officers of all other SSOs, are required to ensure the

funds and property of their organization are safeguarded and used only for purposes related to the goals and objectives of the organization. To assist such officers in discharging their duties, the Comptroller, pursuant to Tenn. Code Ann. § 49-2-610, published the *Model Financial Policy for School Support Organizations (Model Financial Policy)*, which prescribes a set of accounting controls to ensure the funds are used to further the organization's goals and objectives.

In the fall of 2020, the former booster club president and his wife, the former cheer coordinator, took over most booster club financial duties including collecting funds, depositing collections, and making purchases. On September 7, 2023, the former booster club president and his wife left the booster club, closed the booster club bank account, and turned over the remaining booster club funds to new booster club officers.

RESULTS OF INVESTIGATION

- 1. THE FORMER PINEY FLATS ELEMENTARY BASKETBALL (BOOSTER CLUB) PRESIDENT AND HIS WIFE MADE QUESTIONABLE DISBURSEMENTS TOTALING AT LEAST \$5,056.02**

From January 2021 through May 2023, former booster club officers did not maintain adequate supporting documentation for all disbursements; therefore, investigators could not determine that all booster club funds were used exclusively for the benefit of the booster club. Investigators question disbursements totaling at least \$5,056.02 made by the former booster club president and his wife, which included a personal out-of-state hotel stay, a personal loan payment, and \$4,660 of cash withdrawals. The booster club had one debit card in the name of the former president, and the former president and his wife were the only known users of the debit card. The former booster club president and his wife told investigators that they mistakenly used the booster club debit card for their personal hotel and loan payments and that they may have repaid them to the booster club. Because former booster club officers did not maintain supporting documentation for deposits into the booster club bank account, investigators could not determine if the former booster club president and his wife repaid the booster club for the personal disbursements. In addition, the former booster club president and his wife did not maintain supporting documentation for the cash withdrawals, therefore investigators could not determine if the cash was used for the benefit of the booster club.

Summary of Questionable Disbursements		
Date	Bank Statement Description	Amount
1/25/2021	Cash Withdrawal	\$ 110.00
9/21/2021	Cash Withdrawal	\$ 300.00
11/1/2021	Cash Withdrawal	\$ 200.00
11/29/2021	Cash Withdrawal	\$ 600.00
1/14/2022	Cash Withdrawal	\$ 300.00
1/18/2022	Personal Hotel Stay - Charlotte, NC	\$ 263.63
7/14/2022	Cash Withdrawal	\$ 500.00
7/18/2022	Cash Withdrawal	\$ 300.00
8/1/2022	Cash Withdrawal	\$ 160.00
8/22/2022	Cash Withdrawal	\$ 340.00
8/29/2022	Cash Withdrawal	\$ 200.00
10/26/2022	Personal Loan Payment	\$ 132.39
10/26/2022	Cash Withdrawal	\$ 400.00
10/28/2022	Cash Withdrawal	\$ 300.00
12/2/2022	Cash Withdrawal	\$ 350.00
5/22/2023	Cash Withdrawal	\$ 300.00
5/30/2023	Cash Withdrawal	\$ 300.00
Total Questionable Disbursements		\$ 5,056.02

INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES

Our investigation revealed the following deficiencies in internal control and compliance:

Deficiency 1: Former booster club officers did not properly safeguard and maintain accurate records

Former booster club officers did not provide investigators with bylaws, financial policies, meeting minutes, bank reconciliations, imaged deposit slips and checks, documentation for collections, or documentation for all disbursements and cash withdrawals. Due to the lack of supporting documentation, investigators could not determine if concessions and other collections were deposited in full. According to the *Model Financial Policy*, bylaws, financial policies, and official minutes of all meetings are “considered permanent records as long as the SSO exists and shall be maintained for at least four years after dissolution of the SSO.” In addition, “All collection and disbursement records, bank statements, imaged checks, receipts/invoices for disbursements... shall be organized, and maintained by the treasurer or bookkeeper by fiscal year. These records must be maintained for at least four years.” The lack of booster club organizational and financial records greatly increases the risk that fraud, waste, and abuse will occur without prompt detection.

Deficiency 2: Former booster club officers failed to document officer responsibilities and accounting and internal control policies and procedures

Former booster club officers failed to document officer responsibilities and formal written accounting and internal control policies and procedures for booster club operations. *Sullivan County Schools Policy 2.404* requires SSOs to “maintain a copy of its charter, bylaws, minutes, and documentation of its recognition as a nonprofit organization.” Furthermore, the *Model Financial Policy* states, “Accounting and internal control policies and procedures must be designed and implemented to ensure compliance with laws and regulations... Accounting and internal control policies and procedures must be documented and approved by the officers and/or board of directors at a regular meeting.” The former booster club officers did not establish a charter and bylaws that defined officer responsibilities or documented proper accounting and internal controls such as bank reconciliations, collections procedures, purchasing procedures, etc. Establishing and documenting officer responsibilities and sound internal controls ensures that funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation.

Deficiency 3: Former booster club officers failed to register as a nonprofit with the Tennessee Secretary of State or as a School Support Organization with the district

Former booster club officers failed to register the booster club as a nonprofit with the Tennessee Secretary of State or as an SSO with the district. According to the *Model Financial Policy* and district policy *2.404 School Support Organizations*, the SSO must register with the Tennessee Secretary of State’s office and must annually confirm its status as a nonprofit. District policy further requires that SSOs be recognized by the district and provide the district with annual financial information. The booster club’s lack of recognition by the state and district as a nonprofit SSO greatly increases liability risks and the risk that fraud, waste, and abuse will occur without prompt detection.

Deficiency 4: Former booster club officers failed to implement adequate segregation of duties

Former booster club officers failed to segregate their duties adequately. The former booster club president and his wife were responsible for collecting funds, depositing collections, and making purchases. The *Model Financial Policy* states, “Duties shall be segregated between officers and members of the SSO. No one person within the SSO shall be in control of a transaction from inception to recording.” Allowing one individual exclusive control over all financial duties increases the risk of fraud without prompt detection.

Deficiency 5: Former booster club officers did not require two signatures on checks

Former booster club officers did not require two signatures on checks. The *Model Financial Policy* recommends, “Official prenumbered checks should require two signatures.” Checks having two signatures provide an increased degree of control by indicating that both authorized signers agree that the payment is proper and reasonable.

Deficiency 6: Former booster club officers did not pay sales tax on some purchases

Former booster club officers did not pay sales tax on some purchases. Per the *Model Financial Policy*, “...in order to be exempted from state sales tax, an SSO must separately apply with the Tennessee Department of Revenue and be accepted by the IRS as a 26 U.S.C. § 501(c)(3) corporation.” The club did not meet either requirement to be exempted from state sales tax and improperly used a church’s sales tax exemption for some booster club purchases. To avoid liabilities for sales tax due to the state and any related penalties, the organization must comply with state sales tax statutes.

Deficiency 7: The booster club improperly authorized a teacher at Mary Hughes Elementary School, as a signatory on the booster club bank account

The booster club improperly authorized a teacher at Mary Hughes Elementary School as a signatory on the booster club bank account. The teacher and the former booster club president were the only authorized signatories on the booster club bank account. Tenn. Code Ann. § 49-2-604 states that school representatives may not be signatories on SSO checks. The *Model Financial Policy* also “prohibits a school representative... from being a signatory on checks.” The definition of “school representative” in Tenn. Code Ann. § 49-2-603 includes “any school system employee who is charged with directing or assisting in directing the related school club or activity.”

District and booster club officers indicated that they have corrected or intend to correct these deficiencies.