



COMPTROLLER'S INVESTIGATIVE REPORT

Sequoyah Music Association

November 25, 2024

Jason E. Mumpower
Comptroller of the Treasury



DIVISION OF INVESTIGATIONS



JASON E. MUMPOWER
Comptroller

November 25, 2024

Monroe County School Board
205 Oak Grove Road
Madisonville, TN 37354

School Board Members:

The Office of the Comptroller of the Treasury conducted an investigation of selected records of the Sequoyah Music Association, 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 10th 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", is written over a faint, larger version of the signature.

Jason E. Mumpower
Comptroller of the Treasury

JEM/MLC

INVESTIGATIVE REPORT

SEQUOYAH MUSIC ASSOCIATION

The Office of the Comptroller of the Treasury investigated allegations of malfeasance related to the Sequoyah Music Association. The investigation was initiated after Monroe County School Department officials reported questionable band transactions using Sequoyah Music Association funds. The investigation was limited to selected records for the period July 1, 2020, through June 30, 2023. The results of the investigation were communicated with the office of the District Attorney General of the 10th Judicial District.

BACKGROUND



Sequoyah High School (SQHS) is a public high school serving students in grades 9 through 12, located in Madisonville, Tennessee, and is part of the Monroe County School Department (department). During the 2022-2023 academic year, 35 students participated in the SQHS band. SQHS employed a band director and an assistant band director to manage the band program.

The Sequoyah Music Association (SMA) was a non-profit booster club organization first registered with the Tennessee Secretary of State in 2012.

SMA provided support to the SQHS band as a school support organization (SSO). SMA received funding from parents, local businesses, and others from the community, and held various fundraising activities. SMA had a checking account for general use and a checking account for instrument purchases. SMA sponsored SQHS band student travel, competition fees, uniforms, instruments, and other band-related activities.

The School Support Organization Financial Accountability Act, codified in Tenn. Code Ann. §49-2-601 *et seq.*, provides that officers of school support organizations 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.

SMA had an executive committee, which consisted of a president, vice president, secretary, and treasurer. Although the organization had multiple officers, the former band director and former assistant band director assumed responsibility for all financial processes. The former assistant band director, who was the spouse of the former band director the chairman of SMA, was an authorized signer on SMA's bank accounts along with a teacher within the department. The former band director and former assistant band director collected and deposited funds from fundraisers and paid SMA expenses. However, the former assistant band director was listed as the principal officer of SMA on the Tennessee Secretary of State's records, and SMA's listed mailing address was the home of the former band director and former assistant band director. The former band director resigned from SQHS effective May 23, 2023, and the former assistant band director resigned from SQHS effective May 22, 2023. SMA's nonprofit status lapsed on August 8, 2023.

RESULTS OF INVESTIGATION

1. THE FORMER BAND DIRECTOR AND FORMER ASSISTANT BAND DIRECTOR MADE QUESTIONABLE EXPENDITURES TOTALING AT LEAST \$12,698.27

The former band director and former assistant band director made questionable expenditures totaling at least \$11,938.27 from SMA's general checking account during the period July 1, 2022, through June 30, 2023. Additionally, during the period July 1, 2020, through June 30, 2023, the former band director and former assistant band director made questionable expenditures totaling at least \$760 from SMA's instrument purchasing checking account.

A. Purchases Unsupported by Receipts

The former band director and former assistant band director made purchases totaling \$11,471.95 from both SMA checking accounts without retaining sufficient documentation to support that the purchases were for the benefit of the SMA. Of the \$11,471.95 in questionable expenditures, purchases unsupported by documentation included reimbursements to the former band director's credit card totaling \$898.40. The former band director and former assistant band director told investigators that the credit card payments reimbursed the former band director for purchases made for SMA with personal funds; however, investigators could not determine that these purchases were exclusively for the benefit of SMA. The department's *Parent Organizations & Booster Clubs* policy states, "Each check written should have a receipt or invoice filed by check number... 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."

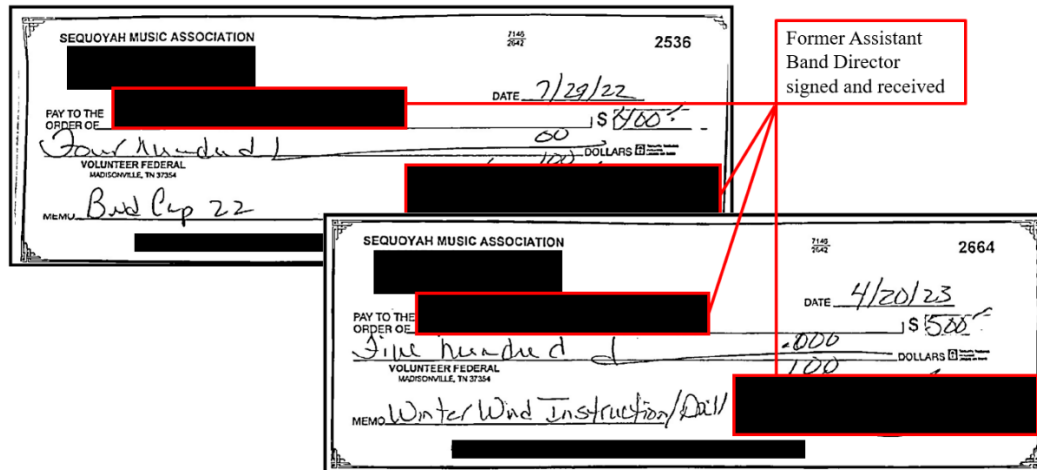
B. Checks written to the Former Assistant Band Director

The former band director and former assistant band director wrote checks totaling \$900 in payments to the former assistant band director for work as assistant band director, despite his status as a salaried department employee. Additionally, these payments were not subject to tax withholdings. The *Model Financial Policy* states:

Payments for salary supplements must not be made directly to the coaches, assistant coaches, or other employees (e.g. teachers, principals) of the Board of Education. Salary supplements for Board employees must be paid through the Board of Education. The SSO must make donations to the Board for this purpose rather than paying Board employees directly.

Failure to pay salary supplements through SQHS increases the risk that the former assistant band director's benefits, tax withholdings, and other required deductions will not be handled and accounted for properly. The department's *Parent Organizations & Booster Clubs* policy also states, "No administrative fees or stipends to officers or others will be permitted."

Exhibit 1



Payment to and by the former assistant band director

C. Cash Withdrawals

The former band director and former assistant band director withdrew \$280 in cash from SMA's general checking account for a fundraising event's start-up money without documenting a cash count of the withdrawal to ensure that all funds were returned to the SMA account at the conclusion of the fundraising event.

D. Dormant Service Charges

The former band director and former assistant band director paid \$40 in avoidable dormant service charges to the bank for failure to regularly use the instrument purchasing checking account.

E. Duplicate Payment

The former band director and former assistant band director reimbursed the former band director's credit card twice for a \$6.32 purchase using SMA's general checking account.

Summary of Questionable Expenditures

Questionable Expenditures	Amount
Unsupported by receipts	\$11,471.95
Checks written to the former assistant band director	900.00
Cash withdrawal	280.00
Dormant service charges	40.00
Duplicate payment	<u>6.32</u>
Total Questionable Expenditures	<u>\$12,698.27</u>

2. THE FORMER BAND DIRECTOR LEFT AT LEAST \$273.34 IN CASH UNSECURED AND FAILED TO COMPLY WITH SEQUOYAH MUSIC ASSOCIATION BYLAWS

Investigators and SQHS employees found \$273.34 in unsecured cash in the former band director’s office. The former band director showed investigators that she had a safe to secure cash received for SMA in her office at SQHS but advised that she routinely left it unlocked with a checkbook inside. The *Government Accountability Office’s Standards for Internal Control in the Federal Government (Green Book)* recommends organizations implement physical control over vulnerable assets as part of the organization’s internal control structure.

Former SMA officers did not deposit funds within a two-day period as provided in their bylaws or the *Model Financial Policy’s* requisite three-day period. The *Sequoyah Music Association, Inc. Bylaws* states “Treasurers will deposit all monies into the bank account within two business days of receipt and maintain a receipt for all transactions.” The delay in depositing funds weakens internal controls over collections and increases the risk of fraud, waste, and misappropriation. The treasurer did not write checks, maintain records, or make deposits for SMA in the time frame reviewed by investigators.

Additionally, investigators were unable to locate any documentation to show that SMA underwent annual independent financial reviews as required by the SMA bylaws.

3. THE FORMER BAND DIRECTOR AND THE FORMER ASSISTANT BAND DIRECTOR IMPROPERLY MANAGED SEQUOYAH MUSIC ASSOCIATION FUNDS

The former assistant band director acted as chairman of SMA from at least June 2012 to June 2023. In the role of chairman, the former assistant band director signed checks from the SMA bank accounts, and the former band director collected and deposited funds for SMA. Both the former band director and former assistant band director maintained the checkbook and financial records for SMA. Tenn. Code Ann. § 49-2-604 states that a school representative may not act as treasurer or bookkeeper for an SSO and that a school representative may not be a signatory on the checks of an SSO. Tenn. Code Ann. § 49-2-603(3)(A)(ii)(e) defines a school representative as “any individual who works for the school system and who as part of the individual’s employment by the school system is charged with directing or assisting in directing the related school club or

activity.” As employees of the school system charged with directing the SQHS band, the former band director and former assistant band director were both school representatives and it was improper for them to maintain SMA’s financial records or to be signers on SMA’s checks.

4. THE FORMER BAND DIRECTOR AND FORMER ASSISTANT BAND DIRECTOR CHARGED AND COLLECTED FEES THAT WERE NOT ACCOUNTED FOR AS SEQUOYAH HIGH SCHOOL STUDENT ACTIVITY FUNDS

SMA meeting minutes revealed that SMA charged band students \$60 and color guard members \$45 each for participating in band during the 2022-2023 academic year. The *Model Financial Policy* states, “SSOs must not charge fees to students to participate in school sponsored activities or events.” Tenn. Code Ann. § 49-2-603(6)(f) defines fees charged to students for school-sponsored academic, art, athletic, or social events as student activity funds. As such, they must be accounted for by the school and deposited in the school bank account.

5. THE FORMER BAND DIRECTOR AND FORMER ASSISTANT BAND DIRECTOR HELD FUNDRAISERS WITHOUT APPROVAL FROM THE DIRECTOR OF SCHOOLS

The former band director, the former assistant band director, and SMA volunteers held at least five fundraisers during the 2022-2023 academic year, including selling pancakes, donuts, citrus, cheese, and snack foods. In prior academic years within the scope of this investigation, SMA performed these fundraisers, as well as fundraisers selling flower bulbs, spices, onions, masks, and tickets to a spaghetti dinner micro-wrestling event. SMA did not receive approval from the director of schools to perform these fundraisers as required by policy. The department’s *Fundraising Activities* policy states, “fundraising activities shall be authorized by the Board and shall be for the purpose of supplementing funds for established school programs and not for replacing funds which are the responsibility of the Board.” Furthermore, the *Model Financial Policy* requires that SSOs obtain the approval of the director of schools prior to scheduling any fundraising activity.

6. FORMER SEQUOYAH MUSIC ASSOCIATION OFFICERS FAILED TO MAINTAIN FUNDRAISING RECORDS

Former SMA officers failed to maintain proper fundraising records, including daily collection logs and profit analyses. The former band director tracked collections gathered by students individually but did not maintain daily collection logs for collections. Investigators could not determine if all donations, fundraising proceeds, or any other forms of booster club funds were deposited into the SMA bank account. The department’s *Parent Organizations & Booster Clubs* policy states that “for certain events or mass collections [candy sale], a record of the total collections each day must be created.”

During the scope of this investigation, former SMA officers did not provide the SQHS bookkeeper or the department with profit analyses documenting the total collections, expenditures, and profits or losses received from each fundraiser. Investigators also found resale inventory scattered throughout the band’s office with no inventory documentation. Per the *Model Financial Policy*, “SSOs shall account for materials, supplies, and fundraising resale inventory items on a regular

basis. For all types of mass fundraising such as car washes, concessions, parking, and candy sales, a profit analysis shall be performed at the conclusion of the event.”

7. FORMER SEQUOYAH MUSIC ASSOCIATION OFFICERS FAILED TO COMPLY WITH INTERNAL REVENUE SERVICE RULES

Former SMA officers failed to comply with Internal Revenue Service (IRS) rules in two different ways:

A. Former SMA officers did not issue a Form 1099 for a qualifying temporary employee

Former SMA officers did not issue a Form 1099 for the color guard instructor for the 2022-2023 academic year. Payments to the instructor totaled \$1,200 from July 2022 through December 2022. The IRS outlines that payments exceeding \$600 for work performed require a Form 1099.

B. Former SMA officers did not pay sales tax on items intended for resale

Former SMA officers did not pay sales tax on items intended for resale. These items were purchased for the snack food fundraiser that ran throughout the year. To avoid liabilities for sales tax due to the state, and any related penalties, the organization must comply with state sales tax statutes by remitting sales tax to the vendor or use tax to the Tennessee Department of Revenue for applicable purchases of products intended for resale, as defined in Tenn. Code Ann. § 67-6-102. The department’s *Parent Organizations & Booster Clubs* policy notes this requirement, stating, “The organization’s sales and use tax exemption does not exempt them from taxes due on items purchased for resale.”

8. FORMER SEQUOYAH MUSIC ASSOCIATION OFFICERS MAINTAINED AGENDAS IN PLACE OF OFFICIAL MINUTES OF MEETINGS

For the scope of the investigation, former SMA secretaries failed to keep the minutes of the monthly SMA meetings. Former SMA officers used agendas as meeting minutes, but the agendas failed to capture the actual content of SMA meetings, such as members present, topics discussed other than those listed on the agenda, or votes cast. Tenn. Code Ann. § 49-2-604 (c) states, “A school support organization shall maintain, at a minimum, detailed statements of receipts and disbursements, minutes of any meetings, a copy of its charter, bylaws and documentation of its recognition as a nonprofit organization.” SMA’s bylaws also state that “Minutes shall be submitted to the President for review within 5 business days of a meeting. Minutes will be available for distribution and approval at the following meeting.”

INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES

The Sequoyah Music Association failed to establish and implement reasonable procedures for accounting, controlling, and safeguarding SMA funds. Our investigation revealed deficiencies in SMA’s financial processes that contributed to the former band director’s and former assistant band

director's ability to make questionable expenditures without prompt detection. These deficiencies are noted below:

Deficiency 1: Former SMA officers failed to provide adequate oversight or separate financial duties of SMA operations

Former SMA officers failed to provide adequate oversight for the SMA bank accounts or separate financial duties. The former assistant band director should not have been responsible for reconciliation, depositing, and check signing. While there were multiple check signers, the other check signers were parents who were not active participants in the SMA during the scope of this investigation. The *Model Financial Policy* states:

No one person within the SSO shall be in control of a transaction from inception to recording. For example, one person shall not be solely responsible for receipting money, reconciling cash to receipts, depositing the cash, reconciling the bank statement, and recording receipts to the accounting records. Another example would be, one person shall not be solely responsible for authorizing a purchase, making the purchase, writing the check to pay for the purchase, signing the check, reconciling the bank statement, and recording the purchase to the accounting records. Allowing two individuals exclusive control over all financial duties increases the risk of fraud without prompt detection.

Deficiency 2: Former SMA officers did not design or implement accounting and internal control policies and procedures

Former SMA officers did not design or implement written internal control policies or procedures. 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." Establishing sound internal controls ensures that funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation.

Deficiency 3: Former SMA officers did not require two signatures on checks

Former SMA officers failed to ensure checks written on SMA's account had the required two signatures, as outlined in the *Model Financial Policy*. The *Model Financial Policy* recommends that official prenumbered checks should require two signatures, and the department's *Parent Organizations & Booster Clubs* policy requires two signatures. The former assistant band director was not the only authorized signer on SMA's accounts, but the former assistant band director signed all checks reviewed. Additionally, only one check during the period reviewed contained a second signature, and the second signature was that of the former band director. The former band director was not an authorized signer on the accounts during the period reviewed. 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 4: Former SMA officers did not document cash collections on a count sheet

Records provided to investigators by the former band director and former SMA officers did not contain documentation of cash counts for cash handled during fundraisers. According to the department's *Parent Organizations & Booster Clubs* policy, "Two individuals should count the collections and prepare a count sheet, signed by both counters. There can be no accounting for the funds at the school by school personnel or employees."

Deficiency 5: Former SMA officers did not reconcile bank records

Records provided to investigators by the former band director and former SMA officers did not contain documentation of bank statement reconciliations. The *Model Financial Policy* requires that officers promptly reconcile bank accounts and a copy of the bank statements with check images be included in the minutes of club meetings. The review and reconciliation of bank statements are necessary procedures to ensure all cash collections and disbursements are accurately recorded in the accounting records.

Department officials and SMA officers indicated that they have corrected or intend to correct these deficiencies.
