

INVESTIGATIVE AUDIT REPORT

**COPPER BASIN HIGH SCHOOL
POLK COUNTY SCHOOL SYSTEM
JULY 1, 2004, THROUGH JUNE 30, 2006**



State of Tennessee



**Comptroller of the Treasury
Department of Audit
Division of Municipal Audit**



STATE OF TENNESSEE

John G. Morgan
Comptroller

C O M P T R O L L E R O F T H E T R E A S U R Y

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-0260

PHONE (615) 741-2501

June 23, 2008

Director of Schools and Members of the
Board of Education
Polk County School System
131 Stephens Circle
Benton, TN 37307

Director of Schools and Board Members:

Presented herewith is the report on our investigative audit of selected records of the activity funds of Copper Basin High School, Polk County School System. This investigative audit focused on the period July 1, 2004, through June 30, 2006. However, this scope was expanded if warranted.

Section 49-2-110, *Tennessee Code Annotated*, provides for student activity and other internal funds and establishes responsibility for those funds. This section requires local school systems to adopt the *Internal School Uniform Accounting Policy Manual* (prepared and approved as set forth in this code), and to maintain all activity fund books and records in accordance with the requirements of the manual. The purpose of our audit was to determine the extent of the school's compliance with certain laws and regulations, including those in this manual.

The former football/softball coach was responsible for \$3,367 in school funds that could not be accounted for. This matter has been referred to the local district attorney general.

The findings and recommendations in this report also present those conditions that we believe warrant the attention of the school's officials and other responsible individuals.

Director of Schools and Members of the
Board of Education
Polk County School System
June 23, 2008

Copies of this report are being forwarded to Governor Phil Bredesen, 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.

Very truly yours,

A handwritten signature in black ink that reads "John G. Morgan". The signature is written in a cursive style with a long horizontal flourish at the end.

John G. Morgan
Comptroller of the Treasury



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF MUNICIPAL AUDIT

John G. Morgan
Comptroller of the Treasury

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

June 23, 2008

Mr. John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, TN 37243

Dear Mr. Morgan:

As part of our ongoing process of examining the records of the activity and cafeteria funds of schools, we have completed our investigative audit of selected records of the activity funds of the Copper Basin High School, Polk County School System. This investigative audit focused on the period July 1, 2004, through June 30, 2006. However, this scope was expanded if warranted.

Section 49-2-110, *Tennessee Code Annotated*, provides for student activity and other internal funds and establishes responsibility for those funds. The board of education is responsible for providing reasonable regulations, standards and procedures, and adopting an activity fund accounting manual. The director of schools is responsible for ensuring that laws and rules of the state and of the board of education are faithfully executed. The principal's responsibilities include accounting for the safekeeping and handling of money collected for and raised by student activities and school services and events.

Student activity funds must be accounted for according to the *Internal School Uniform Accounting Policy Manual*. This manual was prepared by the Tennessee Department of Education and approved by the Comptroller of the Treasury and the Commissioner of Finance and Administration, in accordance with Section 49-2-110, *Tennessee Code Annotated*. The purpose of our audit was to determine the extent of the school's compliance with certain laws and regulations, including those in this manual.

The former football/softball coach was responsible for \$3,367 in school funds that could not be accounted for. This matter has been referred to the local district attorney general.

Mr. John G. Morgan
Comptroller of the Treasury
June 23, 2008

Our investigative audit also resulted in findings and recommendations related to the following:

1. Collections not remitted to school
2. Nonschool items purchased through school
3. Required fundraiser procedures not followed
4. Inadequate collection records on file
5. Many collections not deposited timely or intact
6. Lack of purchasing controls
7. Board policy regarding booster clubs not enforced

If after reviewing the report you should have any questions, I will be happy to provide any additional information which you may request.

Sincerely,

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

**INVESTIGATIVE AUDIT OF SELECTED RECORDS
OF COPPER BASIN HIGH SCHOOL
POLK COUNTY SCHOOL SYSTEM
FOR THE PERIOD JULY 1, 2004, THROUGH JUNE 30, 2006**

LEGAL ISSUE

1. **ISSUE:** **Unaccounted for funds**

In his former role as football and softball coach, Mark Stone was responsible for receiving, recording, and remitting school funds. However, from January 1, 2004, through June 30, 2006, at least \$3,367 of school funds, for which Mr. Stone was responsible, could not be accounted for. The \$3,367 consisted of the following:

- In the spring of 2004, the softball team, under the direction of Mr. Stone, sold blankets and mugs as a fundraiser. Our investigative audit revealed that fundraiser collections deposited into the school bank account were at least \$2,892 short of the amount expected (total school deposits attributable to the fundraiser were only \$674). Auditors located in school records the related invoice totaling \$2,556.01, for the mugs and blankets sold during the fundraiser. The invoice was dated July 16, 2004. However, a school check was not issued for payment of the invoice until November 4, 2004. It should be noted that Mr. Stone apparently co-signed the check along with the former bookkeeper, indicating his knowledge and concurrence with the amount of mugs and blankets purchased for the fundraiser. A profit analysis related to this fundraiser was not located at the school.
- A softball player stated that in the spring of 2006, she collected and gave to Mr. Stone, \$75 for a softball program that was never produced. School records do not indicate that Mr. Stone remitted the money to the school bookkeeper for deposit into a school bank account.
- In the fall of 2006, Mr. Stone received at least \$400 cash from another Copper Basin High School coach for his team's share of Cougar Nation t-shirt sales. School records indicate that Mr. Stone never remitted this money to the school bookkeeper for deposit into a school bank account. School officials stated that when asked, Mr. Stone admitted that he received this money, but stated he was unsure what happened to it. A subsequent letter to this office, dated January 29, 2007, from Mr. Stone's attorney, stated that, "Mr. Stone then relinquished the amount to the Booster club the same day. Therefore, any oversight would be attributable to the Booster Club." Our review revealed that related Booster Club records contained no documentation identifying this unaccounted for money.

Mr. Stone also collected money from other sources, including advance ticket sales, softball cleats, and pizza coupon books. However, because of the lack of records, we were unable to determine if Mr. Stone remitted all other school money he collected to the school bookkeeper for deposit into a school bank account.

This matter has been referred to the local district attorney general.

FINDINGS AND RECOMMENDATIONS

1. **FINDING:** **Collections not remitted to school**

Mark Stone, former football/softball coach, received various donations for the Copper Basin High School softball program. However, instead of remitting these collections to the bookkeeper, he asked a softball player's parent to use them to open a separate bank account. The account, under the name of Lady Cougar Softball, was opened in September 2005. In the following months, the parent made additional deposits that consisted of the proceeds from raffle tickets and pizza coupon books sold by the softball players. Before the beginning of the new school year, the former principal discovered the existence of this account and instructed the parent to close it immediately. She closed the account in August 2006 and remitted the remaining balance of \$387.06 to the Copper Basin Athletic Booster Club, instead of the school activity fund.

Additionally, former officers of the Copper Basin Athletic Booster Club stated that Mr. Stone would sometimes sell their t-shirts during school hours and remitted the money to the booster club rather than to the school bookkeeper.

The *Internal School Uniform Accounting Policy Manual*, page 1-6, states:

Money or property received by a school official, employee, or volunteer, acting in his or her official capacity, becomes public money or property. The money is the property of the respective school. Such money must be appropriately managed and safeguarded by the school.

Page 5-3 of the manual states:

Teachers, assistants, volunteers, and support staff who handle money should be made aware of the requirement for maintaining accurate and systematic records of all cash collected.... At the beginning of each school year, the principal should ensure that all individuals responsible for school collections are informed of the required procedures and forms and the consequences for noncompliance with the required procedures.

RECOMMENDATION:

To safeguard funds, the principal should ensure that all school money collected by employees, officials, or volunteers acting in their official capacity is remitted to the school bookkeeper daily or more frequently, if necessary, for deposit into the school bank account. Consequences for intentional noncompliance with requirements should be clearly outlined.

2. **FINDING: Nonschool items purchased through school**

In the fall of 2005, Mr. Stone charged over \$4,800 to Copper Basin High School for t-shirts, sweatshirts, and caps. Former officers of the Copper Basin Athletic Booster Club claimed that Mr. Stone ordered these items for the booster club to sell at football games. Although former booster club officers stated that they knew they were responsible for these purchases, the booster club did not reimburse the school until December 2005 – almost four months after the first charge. The principal indicated that he had to explicitly ask the booster club to pay for these charges. He became aware of the situation because the football account did not have enough money to pay for the amount billed to the school.

The *Internal School Uniform Accounting Policy Manual*, page 5-11, states, “All purchases must be for an appropriate purpose....”

Page 5-16 of the manual states:

Students or school employees are not permitted to make purchases in the name of the school without proper written authorization. Schools are not liable to pay for any unauthorized purchases made by a student or school employee.

Finding 6 addresses other purchasing deficiencies that allowed the problem described above to occur without being detected timely.

RECOMMENDATION:

To reduce the risk of improper purchases, school officials should prohibit any nonschool purchases using the school’s credit. Under no circumstances should booster club purchases be made through the school. As specified in Finding 7, the board should ensure that sanctioned booster clubs have tax-exempt status separate from the school.

3. **FINDING: Required fundraiser procedures not followed**

The principal did not ensure that school personnel followed required procedures when conducting fundraisers. Activity sponsors did not obtain prior approval for all fundraisers. The former school bookkeeper admitted that she had completed several fundraiser authorization forms located by auditors, signing both the teacher’s and principal’s names. Because appropriate prior approval was not obtained for all school fundraisers, school officials may not have been aware of the number and types of fundraisers occurring within the school. Therefore, they would not have been in a position to ensure that all school funds were remitted to the office and deposited to a school bank account.

Furthermore, although some profit analysis reports were prepared, the forms were incorrectly completed by the bookkeeper, and did not set forth expected collections and whether expected amounts were received. Because profit analysis reports were not prepared for some fundraisers, and incorrectly prepared for others, school officials had no documentation that all school fundraiser collections were receipted in the school accounting records and deposited into the school bank account. In addition, the unaccounted for funds noted in the Legal Issue were not revealed and investigated.

The *Internal School Uniform Accounting Policy Manual*, page 4-26, requires:

The principal must obtain written approval from the director of schools or designee for all fundraising activities that involve the participation of the general student population in the marketing process of the fundraising effort. All other fundraising activities must have written approval from the principal. Authorization should include the following information:

1. a list of the proposed fundraising activities;
2. purpose of the fundraising activity;
3. proposed uses of funds raised;
4. expected student involvement in fundraising activity (school-wide or individual class or club)

This section of the manual also sets forth detailed procedures for fundraising activities, including completion of profit analysis reports and fundraiser summary reports.

RECOMMENDATION:

To establish accountability and adequately account for fundraising collections, the principal should ensure compliance with all required procedures related to fundraising and other resale activities as set forth in the *Internal School Uniform Accounting Policy Manual*. Required procedures include obtaining prior authorization, as well as accurate completion of profit analysis and fundraiser summary reports after the fundraisers are completed. Unapproved fundraisers should not be allowed.

4. **FINDING: Inadequate collection records on file**

The principal failed to ensure that the former bookkeeper required and maintained adequate collection records. The majority of collection logs on file in the office were prepared by the bookkeeper instead of the individual who actually collected the money. In addition, the purpose noted on collection logs did not always agree with the source

noted in computerized school accounting records, or with the purpose noted on checks included in the related deposit. Because collection records were inadequate, we were unable to determine if all school collections were recorded in the school accounting records and deposited into a school bank account.

The *Internal School Uniform Accounting Policy Manual*, page 5-3, states:

Teachers, assistants, volunteers, and support staff who handle money should be made aware of the requirement for maintaining accurate and systematic records of all cash collected.... At the beginning of each school year, the principal should ensure that all individuals responsible for school collections are informed of the required procedures and forms and the consequences for noncompliance with the required procedures.... **Teachers/others who collect money should prepare a collection record** (prenumbered receipt, collection log, ticket reconciliation, signed recorded count, etc.) for each separate activity. All collections by teachers/others should be remitted to the cashier daily or more frequently, if necessary. [Emphasis added.]

Page 6-2 of the manual requires:

Collections should be deposited daily, if possible, but no more than three days after the initial collection.... Collections should be deposited intact. Intact means that collections are deposited in the form and amount in which they are collected. All money collected must be deposited in the next deposit. No collections should be withheld from the deposit for any reason.

RECOMMENDATION:

To adequately document all collections, teachers/others who collect and handle money at the school should record all collections on collection records prescribed by the principal. Teachers should retain a copy of their collection logs (initialed by the cashier) along with the respective receipt issued by the cashier. The principal should ensure that school personnel are held accountable for preparing and retaining correct and complete records of collections. The bookkeeper should deposit all money in the form and amount in which it is received and ensure that the source on collection records correspond to the purpose noted on actual checks deposited.

5. **FINDING:** **Many collections not deposited timely or intact**

The principal failed to ensure that school collections were deposited timely and intact. We noted many instances in which it appeared that collections were held for weeks or

months prior to deposit. Because as noted in Finding 4, school collection records were inadequate and most collection records located were prepared by the former bookkeeper, we were unable to determine whether school employees failed to remit collections to the former bookkeeper timely, or the former bookkeeper failed to make deposits timely, or both.

In addition, the former bookkeeper apparently used school collections to cash personal checks for school employees, and as noted in Finding 4, the purpose of actual checks deposited did not always correspond to the source noted on the related collection log or recorded in computerized school accounting records.

The *Internal School Uniform Accounting Policy Manual*, page 6-2, requires:

Collections should be deposited daily, if possible, but no more than three days after the initial collection.... Collections should be deposited intact. Intact means that collections are deposited in the form and amount in which they are collected. All money collected must be deposited in the next deposit. No collection should be withheld from the deposit for any reason.

RECOMMENDATION:

To safeguard funds, school personnel should deliver total collections to the bookkeeper at least daily. The principal should ensure that the bookkeeper complies with state law and deposits all school collections intact within three days of initial collection by a school employee. The source on collection records should correspond to the purpose noted on actual checks deposited.

6. **FINDING: Lack of purchasing controls**

Although there were purchase orders on file, in most instances, the bookkeeper had signed the principal's name to indicate approval had been given. In addition, the bookkeeper admitted that some purchase orders were completed **after** the obligation was made. Furthermore, in several instances, the bookkeeper signed purchase orders, indicating that there were sufficient funds available in the account to be charged, when actually, adequate funds were not available.

The *Internal School Uniform Accounting Policy Manual*, pages 5-12 through 5-13, states:

To initiate a purchase ... a prenumbered purchase requisition should be completed.... The prenumbered purchase requisition is given to the bookkeeper. When the bookkeeper receives or originates a purchase requisition, the bookkeeper should review the account balance to be charged to determine if sufficient money is

available. If sufficient money is available, the bookkeeper should sign and date the form, and, if the purchase is over \$100, forward it to the principal for approval.

Page 5-15 of the manual states, “The principal should review all purchase requisitions in excess of \$100 signed by the bookkeeper to determine if the disbursement is for an appropriate purpose. The principal should then sign and date the purchase requisition to indicate authorization to make the purchase.”

RECOMMENDATION:

To better control expenditures and help prevent deficit fund or account balances, school personnel should correctly and consistently use and file a purchase requisition/purchase order for all purchases, obtaining the principal’s approval for purchases over \$100. The principal should not allow school personnel to sign his name to purchase orders or other documents.

7. **FINDING: Board policy regarding booster clubs not enforced**

The Polk County Board of Education failed to enforce board policy regarding parent organizations and booster clubs. As a result, various problems occurred as follows:

- The Copper Basin Athletic Booster Club apparently used the Polk County Board of Education’s sales tax exempt number. In fact, the Tennessee Department of Revenue indicated that the booster club has no current sales tax exempt number. In addition, according to the Internal Revenue Service, the federal tax identification number that the booster club used was not its own.
- As detailed in Finding 1, without the knowledge board or school officials, former coach Mark Stone used school funds to open a bank account for a softball booster club that apparently existed only on paper. In addition, as noted in the additional comment at the end of this report, Mr. Stone purchased a John Deere Gator using the name of a defunct athletic organization.
- The participation and significant responsibility for booster club activities by a school employee acting in his official capacity allowed the distinction between school and booster club activities to become unclear to the public as to which organization was actually conducting the activity and retaining the funds – the school or the booster club.

Polk County Board of Education policy 4.503 requires all potential booster organizations and parent organizations to seek and receive sanction from the board of education. Prior to sanctioning an organization, the board’s policy requires these organizations to follow certain guidelines and procedures, including:

- Organizations must submit details of the structure of the organization including officers and their duties and the purpose and goals of the organization.
- Organizations must maintain bank, financial, and tax-exempt status separate from the school.
- Organizations will provide to the board, annually or upon request, a complete set of financial records or detailed treasurer's report.

The policy states that the principal is responsible for maintaining close communication to ensure that the organization's goals comply with board policies. In addition, the policy also gives the board the right to revoke the sanctioning of any organization if it is found that the organization's operations and purpose are not consistent with the policies adopted by the board.

RECOMMENDATION:

To reduce potential liabilities and to ensure that parent organizations and booster clubs assist and support school activities, the Polk County Board of Education should enforce policies relative to school support organizations.

ADDITIONAL COMMENT

In July 2005, the former president of the Copper Basin Athletic Booster Club signed a loan agreement for the purchase of a John Deere Gator, although the loan documents indicated that a different organization, the Copper Basin Touchdown Club, was actually making the purchase. According to the former president and other former officers of the Copper Basin Athletic Booster Club, former football/softball coach, Mark Stone, obtained the vehicle from the dealer and he also provided the dealership with all of the information contained on the loan documents. The former president of the Copper Basin Athletic Booster Club said that he signed the documents without inspecting the paperwork because he trusted Mr. Stone.

According to the school principal, the Copper Basin Touchdown Club was established, along with similar entities representing other sports, specifically to seek additional grant money from businesses that placed limits on their annual contributions to a single institution identified by its tax identification number. The Copper Basin Touchdown Club was a 501(c) organization; it was administratively dissolved in April 2004 – more than one year before the John Deere Gator purchase date. According to documents obtained from the Tennessee Secretary of State, Mr. Stone was the president of the Copper Basin Touchdown Club at the time of its dissolution.

The current principal and former officers of the Copper Basin Athletic Booster Club stated that Mr. Stone stored the John Deere Gator at his residence for safekeeping. (Note: Per conversation with school personnel, the Gator was subsequently returned to the dealership after new booster club officers were elected.)