



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

John G. Morgan
Comptroller of the Treasury

**SUITE 1600
JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-0271
PHONE (615) 401-7871
FAX (615) 741-1551**

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

July 26, 2005

This report was scheduled for release on June 2, 2005. The report's release was canceled out of courtesy to the local district attorney general who requested additional time so that the matter could be referred to a special prosecutor. The report was cleared for release on July 19, 2005.

INVESTIGATIVE AUDIT REPORT

JEFFERSON COUNTY HIGH SCHOOL
JEFFERSON COUNTY SCHOOL SYSTEM

JULY 1, 2002, THROUGH JANUARY 31,



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
Department of Audit
Division of Municipal Audit



STATE OF TENNESSEE

John G. Morgan

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

Comptroller

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-0260

PHONE (615) 741-2501

June 2, 2005

Director of Schools and Members of the
Board of Education
Jefferson County School System
P. O. Box 190
Dandridge, TN 37725

Director of Schools and Board Members:

Presented herewith is the report on our investigative audit of selected records of the activity funds of Jefferson County High School, Jefferson County School System. This investigative audit was limited to a review of collections and disbursements related to the Jefferson County High School Girls' Basketball program, and focused on the period July 1, 2002, through January 31, 2005. However, this scope was expanded if warranted.

Section 49-2-110, *Tennessee Code Annotated*, provides for student activity 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 findings and recommendations in this report present those conditions that we believe warrant the attention of the school's officials and other responsible individuals. As a result, the responses to each of the findings and recommendations are included in the report.

Director of Schools and Members of the
Board of Education
Jefferson County School System
June 2, 2005

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

SUITE 1600
JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-0271
PHONE (615) 708-7871
FAX (615) 741-1551

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

June 2, 2005

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

Dear Mr. Morgan:

As part of our on-going process of examining the records of the activity and cafeteria funds of schools, we have completed our investigative audit of the records of the activity funds of the Jefferson County High School, Jefferson County School System. This investigative audit was limited to a review of collections and disbursements related to the Jefferson County High School Girls' Basketball program, and focused on the period July 1, 2002, through January 31, 2005. However, this scope was expanded if warranted.

Section 49-2-110, *Tennessee Code Annotated*, provides for student activity 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. State law specifically excludes funds raised by parent-teacher and parent-student support type organizations from accounting and recordkeeping requirements. Therefore, these funds were not included in our audit.

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

Mr. John G. Morgan
Comptroller of the Treasury
June 2, 2005

determine the extent of the school's compliance with certain laws and regulations, including those in this manual.

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

1. Girls' basketball program collections totaling nearly \$8,000 not remitted to bookkeeper for deposit. Records inadequate to determine if all of this money benefited the girls' basketball program
2. Failure to obtain written authorization, prepare profit analyses, and maintain adequate documentation for fundraising and other resale activities
3. Sales tax not remitted for resale items
4. Supplemental compensation paid directly to employees
5. Inadequate controls over use of school facilities

Because state law assigns specific responsibilities for school activity funds to the members of the board of education, the director of schools, and the principal, they were asked to respond to each finding. When appropriate, other responsible individuals were also asked to respond. The responses are included in this report.

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
JEFFERSON COUNTY HIGH SCHOOL
JEFFERSON COUNTY SCHOOL SYSTEM
FOR THE PERIOD JULY 1, 2002, THROUGH JANUARY 31, 2005**

The responses of the director of schools and members of the board of education do not include Greg Sharpe, school board chairman, and Anne Marie Potts, school board member. They “have determined that they will not participate in the decision-making process in this investigation due to what they consider to be a possible conflict of interest.”

FINDINGS AND RECOMMENDATIONS

1. **FINDING: Girls’ basketball program collections totaling nearly \$8,000 not remitted to bookkeeper for deposit. Records inadequate to determine if all of this money benefited the girls’ basketball program**

Our analysis of collections and disbursements related to the Jefferson County High School (JCHS) girls’ basketball program revealed that from July 1, 2002, through January 31, 2005, Coach Michael Potts failed to remit program collections of at least \$7,939.64 to the school bookkeeper for deposit into a school bank account. The analysis was based on Mr. Potts’ statements of collections and disbursements, our review of school records, and discussions with parents, coaches, vendors, and other individuals. Because Mr. Potts failed to retain adequate documentation of program collections and disbursements, we were unable to determine whether all of the school money he retained actually benefited the JCHS girls’ basketball program.

Mr. Potts explained that he collected money from players for shoes and ankle braces and for collections from an annual T-shirt fundraiser. He said that he also collected from local businesses for sponsorship of an annual Thanksgiving basketball tournament. Initially, Mr. Potts stated that he remitted all collections to the school bookkeeper for deposit to a school bank account. Mr. Potts later admitted to auditors that he did not turn over some 2003 tournament donations. He explained that he had been told that he could do as he pleased with the proceeds of sponsors’ checks that were made payable to him. Mr. Potts told auditors that he cashed \$1,275 of sponsor donation checks and used the cash to purchase player sweat suits, coaching shirts, and five or six post-game meals. Mr. Potts said that he did not retain any records to document the dates and amounts of these cash purchases.

Mr. Potts also later stated that he could not remember if he had turned in all of the collections for the current year’s T-shirt sale. After numerous conversations, Mr. Potts eventually admitted that he retained some of the T-shirt fundraiser collections made during each of the years reviewed. Mr. Potts told auditors he used the fundraiser proceeds

to pay for the T-shirts and to purchase player sweat suits for the 2004-2005 basketball season. Mr. Potts stated that he made these purchases with cash, and that he did not retain any records to document the dates and amounts he paid.

We were able to verify that the players received sweat suits and that no school check was issued to pay for fundraiser T-shirts. However, we were unable to verify the amounts paid for the sweat suits and T-shirts since the vendor's representative claimed that no invoices were issued and no record of payment was retained. In addition, we were unable to verify that Mr. Potts paid approximately \$300 for five or six post-game meals prior to January 2005, as he claimed, or that he purchased four crew tops for coaches. We were also unable to verify the accuracy of the amounts Mr. Potts stated he collected, because players apparently paid different amounts, and because long-sleeve and short-sleeve T-shirts sold for different amounts and no records were kept of the numbers of each that were sold. Mr. Potts could not provide any explanation for the use of more than \$1,400 out of the nearly \$8,000 of JCHS girls' basketball program collections that he neglected to remit to the school bookkeeper.

The JCHS athletic director stated that at the beginning of the school year, athletic coaches attend a meeting to discuss required financial procedures; the meeting would emphasize that athletic fundraiser collections should be accounted for in the school records. Mr. Potts told auditors that he chose to retain the collections "mostly for convenience."

The *Internal School Uniform Accounting Policy Manual*, Page 1-7, 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.

Pages 5-2-3, of the manual, state:

Money within an individual school may be obtained from many sources including athletics. . . . Most often, this money may be handled by one or more persons before it is recorded in the cash receipts journal by the designated school employee. The school becomes accountable when money is initially received by employees, officials, or volunteers acting in their official capacity. . . . 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.

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. The Jefferson County School Board should seek legal counsel to determine what additional action should be taken to recover JCHS girls' basketball collections retained by Mr. Potts, which could not be accounted for or verified as benefiting the program.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

At the direction of the vice-chair, serving in the absence of the recused chair, the director sought legal counsel to determine what additional action should be taken. Counsel advised the director to attempt to recover the "more than \$1,400" that was not remitted to the school bookkeeper. In a meeting held on May 23, 2005, Mr. Potts told the director that the discrepancy between collections and the amount remitted to the bookkeeper was the result of his failure to maintain records and not due to theft, and he would present \$1,400 to the school bookkeeper for deposit in the girls' basketball account.

Principal:

To safeguard funds, the principal will ensure that all school money collected by personnel representing the school will be remitted to the school bookkeeper daily for deposit into the school account. Consequences for intentional noncompliance will include a written reprimand, initially, and additional disciplinary action for any subsequent intentional noncompliance.

Bookkeeper:

School money remitted by school personnel will be deposited into the school bank account in compliance with guidelines specified in the accounting manual.

2. **FINDING: Failure to obtain written authorization, prepare profit analyses, and maintain adequate documentation for fundraising and other resale activities**

School personnel failed to comply with requirements of the *Internal School Uniform Accounting Policy Manual* and with local board policies related to fundraising and resale activities. Our review of records related to the girls' basketball program revealed that the school principal did not ensure that basketball coaches obtained written authorization prior to conducting annual basketball tournaments, T-shirt fundraisers, and resale activities involving shoes and ankle braces. In addition, as noted in Finding 1, adequate records of amounts collected from these activities were not maintained. Also, no profit analyses of the T-shirt fundraisers and other resale activities were performed to determine if expected collections were received and deposited. Because profit analyses were not performed, school officials were not made aware of shortages in expected collections noted in Finding 1 caused by the girls' basketball coach retaining some of the proceeds from these activities.

The *Internal School Uniform Accounting Policy Manual*, Page 4-26, states:

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)

The Jefferson County Board of Education also adopted these requirements when forming its policy.

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.

Related to all resale activities, Page 4-27 of the manual further states:

Profit analysis reports must be completed to document collections, expenses, and any losses of money or product . . . The school must maintain detailed records to support all amounts recorded on these forms. If the profit analysis report indicates a shortage, an explanation must be given for the shortage.

RECOMMENDATION:

To ensure compliance with the manual and to establish accountability for fundraising and resale activities, the principal should ensure that school personnel obtain required written authorization prior to conducting fundraisers and other resale activities. The principal should require and ensure that adequate records of all fundraising and resale activities, such as collection logs, are prepared and retained in the school's files. Sponsors should keep records of items given away or damaged, and inventory on hand. A profit analysis of each resale activity should be prepared comparing expected collections to actual collections, and any difference should be explained. Amounts on profit analyses and other reports should be verified by someone other than the individual making the collections.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

The board will continue to maintain written policy that regulates fundraising activities. The director will enforce board policy pertaining to fundraising activities at Jefferson County High School.

Principal:

The principal will ensure that school personnel obtain required written authorization prior to conducting fundraisers and other resale activities. Adequate records will be required and retained in the school's files. Sponsors will be required to prepare a profit analysis of each resale activity. Verification will be made by another individual who has not been involved in the collections.

Bookkeeper:

Collections will be deposited into the appropriate school account in accordance with the requirements of the manual.

3. **FINDING: Sales tax not remitted for resale items**

The school did not remit sales tax to the vendor or use tax to the Tennessee Department of Revenue for applicable purchases of products intended for resale. Resale items include **anything** purchased by the school and subsequently resold to students, teachers, clubs, or other school organizations, the public, etc., (regardless of whether the items are resold for profit or cost). Sales tax was not paid to the vendor for fundraising T-shirts, basketball shoes, or ankle braces purchased by the school and/or basketball coach for resale to the girls' basketball team during the 2004-2005 school year. Section 67-6-102, *Tennessee Code Annotated*, sets forth sales and use tax requirements (with specific exemptions) for businesses who sell to schools. Vendors may collect and remit sales tax to the state on the sale of tangible personal property or taxable services to a public school, grades K-12, if the school intends to resell the property or services. However, if for any reason the vendor does not collect and remit sales tax to the state under these circumstances, the school is liable for use tax based on the purchase price of the item.

RECOMMENDATION:

To avoid liabilities for sales tax due to the state and any related penalties, the school should 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.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

School administrators will be instructed to remit sales tax to the vendor for purchases of products intended for resale.

Principal:

The school will remit sales tax to the vendor for purchases of products intended for resale.

Bookkeeper:

Sales tax will be remitted to the vendor when payments are issued for products intended for resale.

4. **FINDING:** Supplemental compensation paid directly to employees

Several school employees were compensated directly from school activity funds for work in the school's annual Thanksgiving basketball tournament in violation of the *Internal School Uniform Accounting Policy Manual*. Page 5-22 of the manual states:

Any supplemental compensation owed to board of education employees for extracurricular activities must be processed through the director of school's office in the same manner as salary and other payroll payments. Board of education employees may not be compensated directly by individual schools from internal school funds.

RECOMMENDATION:

Each school should submit to the board of education, on a regular basis, a payroll record for each individual who is to receive a salary supplement. The payroll record should be signed by the employee and include the date, type of work performed, and the pay rate. The board of education should then calculate the amount of gross pay including proper withholdings and the employer's matching share for withholdings. The board of education should include the salary supplement in the employee's regular paycheck or in a supplemental paycheck.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

The school system will follow the manual requirement to process supplemental compensation through the director of schools' office in the same manner as salary and other payroll records.

Principal:

The principal will submit to the director of schools' office on a regular basis a payroll record for each individual who is to receive a salary supplement.

Bookkeeper:

The bookkeeper will ensure that the payroll record for each individual who is to receive a salary supplement for extracurricular activities is signed by the employee, contains the date(s) and type of work performed, and pay rate. The bookkeeper will forward the record to the central office on a regular basis.

5. **FINDING: Inadequate controls over use of school facilities**

The school system did not require some users of school facilities to comply with the *Internal School Uniform Accounting Policy Manual* and board policy. With the knowledge and authorization of the director of schools and the school principal, individual school coaches were allowed to operate athletic summer camps at Jefferson County High School. Collections from these camps were not recorded in the school's accounting records or deposited into the school's bank account. Publicity for at least one of the camps did not clearly distinguish this as a nonschool activity. However, school officials stated that they did not consider the camps to be a school activity and did not consider the camp proceeds to be school money, but instead, stated that they viewed the camps as private operations of the individual coaches. However, coaches were not required to pay the hourly fee stipulated by board policy for private for-profit organizations.

The *Internal School Uniform Accounting Policy Manual*, Pages 5-2-3, state:

Money within an individual school may be obtained from many sources including athletics. . . . Most often, this money may be handled by one or more persons before it is recorded in the cash receipts journal by the designated school employee. The school becomes accountable when money is initially received by employees, officials, or volunteers acting in their official capacity.

Page 4-24 of the manual states:

Prior to the commencement of a noncooperative activity, a written agreement must be made setting forth the fee, if any, to be charged as well as other pertinent information in accordance with the board of education's policy. . . . Rental fees derived from noncooperative activities should be properly receipted and used in accordance with board policies.

Jefferson County Board of Education Policy Manual, policy no. 3.206, item 3, states that "School facilities may be used by private profit organizations, but must pay a fee of \$25/hour for use of the facility. Clean-up fees may also be assessed if applicable."

RECOMMENDATION:

The Jefferson County School Board should determine if these camps are school activities, and if so, require all related collections and disbursements to be recorded in the school's accounting records. If the board determines the camps to be private operations, the principal should ensure that each organization or individual signs a written agreement setting forth the fee established by the board and other pertinent information, and ensure that the required fee is collected.

MANAGEMENT'S RESPONSE:

Director of Schools and Members of the Board of Education:

The board determines the camps to be private operations.

Principal:

The principal will ensure that each organization or individual signs a written agreement setting forth the fee established by the board, and will ensure that the fee is collected.

Bookkeeper:

The bookkeeper will deposit fees into the school account as directed by the principal. The bookkeeper will maintain files on contracts drawn for the use of the facilities.