



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

Justin P. Wilson
Comptroller of the Treasury

BANK OF AMERICA PLAZA
414 UNION STREET, SUITE 1100
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 532-4460
FAX (615) 532-4499

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

May 24, 2011

Donnie Poston, Director of Schools
and Members of the Board of Education
Campbell County School System
P. O. Box 445
Jacksboro, TN 37757

Director and Members of the Board of Education:

We have concluded our investigative audit of selected records of the LaFollette Middle School, Campbell County School System. The investigative audit was initiated after Central Office personnel discovered that the school was unable to meet its financial commitments. The investigative audit focused on the period July 1, 2009, through June 30, 2010. However, when warranted, this scope was expanded.

Our investigative audit determined that, as a result of the sometimes irresponsible spending authorized by the principal, and other questionable financial management, the school was unable to pay all of its obligations as they became due. As a result, the Campbell County Board of Education had to intervene and pay at least \$5,608 of the LaFollette Middle School's necessary expenses.

Our investigative audit revealed several areas in which the principal's failure to adhere to or enforce established policies directly contributed to his school's financial predicament.

Improper use of cash collections

The principal made several cash payments to school employees using unreceipted, undeposited collections. Those payments included \$1,000 to one employee for a "bonus" and \$400 to another employee for painting at the school. State auditors also learned that unreceipted, undeposited cash collections from in-school concessions were used to purchase concession inventory. The *Internal School Uniform Accounting Policy Manual*, page 5-8, states, "Using daily collections for cashing checks or making purchases is prohibited." In addition, the Campbell County Board of Education policy, 5.110, states:

The director of schools shall establish the salary rating of each person employed and shall recommend such salary rating to the Board for its approval.

Salaries of all employees, including substitute and supplemental pay, shall be paid by the Board. ***No payment to any employee for service performed on behalf of the school system shall be made from any source other than the Board....*** Salaries and supplements may be paid from revenue derived from sources other than taxes, provided the revenue is deposited with and salaries paid through the Board. This includes donations or contributions from individual, civic or other non-school related sources of funds from individual school activity funds, such as gate receipts and concessions. [Emphasis added.]

Improper use of school activity funds

The principal used student activity funds for gifts for teachers and staff, including \$1,725 for clothing (hoodies) and over \$400 for a staff meal. The principal also purchased gift cards totaling at least \$260 for staff members. The principal instructed the school bookkeeper to charge some of these inappropriate purchases to the athletic account.

The *Internal School Uniform Accounting Policy Manual*, page 5-11, states:

All purchases must be for an appropriate purpose; that is, they must not detract from or be in opposition to the overall educational process. The principal or principal's designee is responsible for determining the appropriateness of purchases.... Although disbursements for educational and professional development could be considered to indirectly benefit the welfare of the student body, ***these disbursements are the responsibility of the board of education and would not be legitimate expenditures of money raised by students.*** [Emphasis added.]

Failure to properly account for fundraising activities

The principal did not require school employees to adequately account for fundraisers. School personnel did not prepare and maintain profit analysis reports for resale activities or fundraiser summary reports for applicable fundraising activities. The *Internal School Uniform Accounting Policy Manual*, page 5-3, states:

Prior to authorizing or requiring any collections, the principal must evaluate the ability of school personnel to provide the required accountability.... The principal should never authorize or require any collection which cannot be adequately accounted for.

The *Internal School Uniform Accounting Policy Manual*, page 4-27, states:

For ongoing resale activities ... monthly 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. If no reasonable explanation can be given, each subsequent day's activities must be recorded and evaluated until the reason for the shortage has been identified and corrected. For ... activities that are not perpetual in nature, profit analysis reports may be completed at the conclusion of the activity.

Regarding fundraiser summary reports, page 4-27 of the manual also states:

To document that profits from fundraising activities conducted for designated purposes were expended for the purposes for which they were raised, a designated employee should prepare a fundraiser summary report. This report would include a summary of the expenditures showing how the profit was used. This form should be prepared and filed in the school office as close as possible to the time that the money is expended.

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.

The principal is directly responsible for the financial management of local schools. Section 49-2-110(d)(1), *Tennessee Code Annotated*, states, "The principal shall be liable to account for the safekeeping and handling of all funds of every character raised by student

Donnie Poston, Director of Schools
and Members of the Board of Education
Campbell County School System
May 24, 2011
Page 4

activities, school services and school events, irrespective of the sources of such funds, or the purpose for which they were raised.”

Auditors noted that several of the deficiencies had already been addressed by school officials. However, the principal, director of schools, and members of the board of education should take immediate action to ensure that any unresolved deficiencies are corrected.

If you have any questions concerning the above matter, please contact me.

Very truly yours,

A handwritten signature in black ink, appearing to read "Dennis F. Dycus". The signature is fluid and cursive, with a large, stylized initial "D".

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

DFD/RAD