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August 10, 2010

Officers of the Lake Road Elementary School
Parent-Teacher Organization
Obion County Schools
c/o Lake Road Elementary School
1130 East Highway 22
Union City, TN 38261

Ladies:

We have completed our investigative audit of selected records of the Lake Road Elementary School Parent-Teacher Organization (PTO). The audit focused on the period August 1, 2008, through June 30, 2009. However, when warranted, we expanded the scope. This investigative audit was initiated after the Director of Schools, David Huss, brought several issues to our attention.

Apparent misappropriation of at least \$6,780

Our investigative audit determined that between October 24, 2008, and May 26, 2009, the former president of the Lake Road Elementary School PTO, Debbie F. Stevenson, issued 47 checks totaling \$6,780 for items that she apparently intended for her own personal use or for the benefit of members of her household. The apparently personal items included articles of clothing, groceries, a video gaming system and games, DVD movies, health and beauty aids, pet supplies, and cigarettes. These unauthorized, non-PTO expenditures appeared to be a major factor for the organization's financial distress at the end of the 2009 school year.

We identified cash deposits totaling \$3,426 from March 2009 that, based on Ms. Stevenson's own notes, were apparently intended to repay the PTO for a portion of her personal purchases. On June 8, 2009, with the PTO checking account overdrawn and additional unpaid bills outstanding, Ms. Stevenson deposited a \$1,600 check that a relative had issued to her,

apparently for a different intended purpose. However, auditors determined that Ms. Stevenson had failed to repay the PTO at least \$1,660¹.

On June 2, 2010, Ms. Stevenson met with the state's auditors. She admitted that, without authority or approval, she had purchased personal items with PTO funds. She stated that she had tried to repay the PTO for all of her personal purchases; however, she agreed that she still owed money to the PTO.

This matter was referred to the office of the local district attorney general. On July 30, 2010, Debbie Stevenson, the former president of Lake Road Elementary School PTO, pleaded guilty to misdemeanor theft under \$500 in Obion County General Sessions Court.

Bank deposits from fundraisers were \$13,226 less than expected

Our investigative audit revealed that bank deposits for fundraisers were \$13,226 less than what was expected. The PTO conducted fundraising activities throughout the school year. The condition of the PTO records prevented us from analyzing some fundraisers. However, after calculating profit margins from PTO and vendor data, we concluded that for six fundraising activities, total bank deposits varied without explanation from expected amounts (Figure 1). For five of the events, the PTO deposited less than the amount expected. This type of performance could indicate poorly chosen fundraising activities. However, since the performance appears to be consistently poor, this could also indicate misuse or abuse.

Figure 1

Fundraiser Description	Deposits Over/(Short of) Expected
Cookbook Sale ^α	\$ (7,239)
Sockathon (Sock Sale) ^α	(2,167)
Christmas Wreaths	23
Dippin' Dots	(384)
Duck Commander Dinner & Seminar	(3,363)
Duck Commander Silent Auction	(95)
Net*	<u><u>\$(13,225)</u></u>
* \$1 difference due to truncation to whole dollars	
^α No ending inventory information was available	

Negative numbers (in parentheses) indicate that deposited collections were less than expected.

¹ Ms. Stevenson also deposited a \$93 check in January 2009, apparently for a personal purchase from a PTO fundraiser from about two months earlier.

In fact, our investigative audit revealed that the PTO was not only consistently failing to reach fundraising profit targets, in some cases the members did not even deposit as much money from fundraising as they spent. For example, the PTO paid \$6,532 for cookbooks but only collected and deposited \$4,296. They lost over \$2,200 just by participating in the cookbook sale. For all of the fundraising activities that we analyzed, **the PTO spent at least \$2,023 more than the total deposited to its bank account²**. These unexplained shortages were an additional significant factor that led to the financial distress that the PTO experienced at the end of the school year.

Inaccurate check descriptions

Our review indicated that on several occasions, Ms. Stevenson reported inaccurate and/or misleading financial information to the PTO board by making memo line entries on PTO checks that indicated that she had issued the checks for PTO business when she actually bought items that appeared to be for her own personal use.

Internal Control Weaknesses

1. Inadequate separation of duties

The PTO had a full board of officers, including a treasurer. On two occasions, when an officer's position became vacant, the board filled it in a timely manner. However, Ms. Stevenson, who was the PTO president, had custody of the PTO's checkbook almost continuously throughout the school year. She also held all of the supporting documents from October 2008 until July 15, 2009. Ms. Stevenson reportedly also appointed herself as the person responsible for making all bank deposits during the same period. As a result, Ms. Stevenson was able to completely control both collection and disbursement transactions from start to finish, without approval and oversight from the other PTO officers and members.

According to the *Model Financial Policy for School Support Organizations (Procedures Manual)*, other recommendations number 2:

Financial responsibilities should be separated whenever possible.
One person should not have complete control of the organization's finances. Periodic review of bank statements and other

²This value has a meaning that is different from those shown in Figure 1. The variances in Figure 1 are a comparison of the total amount **actually** deposited versus the amount that **should have** been deposited. The number in this paragraph is a profit or loss. That is, a comparison of all applicable deposits to the PTO's total related costs for events at which it collected money. Despite the year-long efforts of PTO members to support the school financially, the organization experienced an overall loss from the fundraising activities that we examined.

documentation by other officers or members helps detect errors and enhances the integrity of financial information.

The PTO should ensure that no officer or member is in a position to completely control any financial transaction. One or more members should be designated to periodically review bank statements, required reports of receipts and disbursements, and supporting documentation.

2. **Checks issued with only one signature**

The majority of the checks issued by the PTO within the scope of this audit bore only Ms. Stevenson's signature. Based on PTO records and interviews, Ms. Stevenson controlled essentially all of the PTO's disbursements without oversight and approval from other board members.

The *Model Financial Policy for School Support Organizations*, required control number 9, sets forth that "For disbursements, prenumbered bank checks should be used that require two signatures."

The PTO board should require dual signatures on all checks, with each signature indicating that the individuals that signed understood the reason for the disbursement, approved of the disbursement, and reviewed related supporting documents. The PTO's financial institution should record and enforce the dual signature requirement.

3. **Unsupported disbursements**

On July 15, 2009, Ms. Stevenson turned the PTO checkbook and supporting documents over to the vice president and treasurer. The vice president and treasurer discovered no supporting documents (cash register receipts or invoices) for 56 transactions, for which the PTO disbursed \$15,504.

The *School Support Organization Financial Accountability Act (SSOFAA)*³ requires each school support organization's officers to "[E]nsure that school support organization funds are safeguarded and are spent only for purposes related to the goals and objectives of the organization (TCA §49-2-604(e))."

³Tennessee Code Annotated §49-2-601, et seq.

According to the *Model Financial Policy for School Support Organizations*, required control number 10:

Each check written should have a receipt or invoice filed by check number. The treasurer should write the check number and date paid on the invoice or receipt. 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.

Control number 17 adds:

All collection records, bank statements, canceled checks and invoices, along with copies of the monthly treasurer's report, should be organized and maintained by the treasurer by fiscal year. Records should be maintained for at least four years.

The PTO should not issue any checks without adequate supporting documentation. The treasurer should retain and safeguard the supporting documents, as required by the *Model Financial Policy*.

4. **Checks issued for non-PTO purposes**

As described previously, the former president used checks from the PTO account to purchase clothing, pet supplies, tobacco, groceries, and many other items that did not appear to benefit either Lake Road Elementary School or its affiliated PTO.

The *SSOFAA* requires each school support organization's officers to "[E]nsure that school support organization funds are safeguarded and are spent only for purposes related to the goals and objectives of the organization (*TCA* §49-2-604(e))."

The same act explicitly states that a school support organization *may not*:

Use school support organization funds for a purpose other than purposes related to the goals and objectives of the school support organization that relate to supporting a school district, school, school club or school academic, arts, athletic, or social activity... (*TCA* §49-2-608(4)).

The PTO should restrict the use of its funds to disbursements that benefit Lake Road Elementary School. The check signers should verify the reason for and appropriateness of each disbursement before signing each check. **There is no acceptable reason for an**

individual who makes purchases for the PTO to add personal-use goods or services to a transaction.

5. Failure to maintain required collection documents

The PTO failed to maintain any of the collection records required for resale fundraisers, school carnivals, dances, concession stands, membership dues, every silent auction except for one, and money received for any other reason from any source. Consequently, PTO members, officers, and auditors had no assurance that all of the money collected from each of these sources was deposited into the PTO bank account.

The *SSOFAA* requires each school support organization's officers to "[e]nsure that school support organization funds are safeguarded and are spent only for purposes related to the goals and objectives of the organization (*TCA* §49-2-604(e))."

The *Model Financial Policy for School Support Organizations*, required control number 11, states:

A receipt should be issued any time, and at the time, cash is turned over to or collected by the treasurer acting in his/her official capacity as treasurer of the school support organization. The receipts should be prenumbered and kept in a bound book. One copy should be maintained in the receipt book.

Control number 12 requires:

For certain events or mass collections (e.g., concession, parking, car wash, candy sale), a record of the total collections each day must be created. Two individuals should count the collections and prepare a count sheet, signed by both counters. When the collections are turned over to the treasurer, he/she and the individuals should recount the collections. The treasurer should then immediately issue a receipt to the individuals. The count sheet should be filed by the treasurer.

Control number 17 adds:

All collection records, bank statements, canceled checks and invoices, along with copies of the monthly treasurer's report, should be organized and maintained by the treasurer by fiscal year. Records should be maintained for at least four years.

PTO officers should immediately begin preparing required documents on each occasion that a member collects money for the PTO. In addition, a board member other than the person responsible for making bank deposits, should verify that the deposits include **all** amounts collected. The treasurer should retain and safeguard all receipts, count sheets, and similar collection documents as well as all bank records, as specified in the *Model Financial Policy*.

6. Collections not promptly deposited

Ms. Stevenson failed to deposit collections made in November and December 2008 until January 30, 2009. She failed to deposit cash, ostensibly received during the same period, until the period between March 3 and March 25, 2009.

According to the *Model Financial Policy for School Support Organizations*, required control number 14, "Collections should be deposited in the bank in a timely manner. Deposit slips should include an itemized listing of checks."

The treasurer or other designated member must deposit all PTO collections as soon as practical, always using a deposit slip that includes the information required by the *Model Financial Policy*.

7. Collections used for cash disbursements

On at least four occasions, a member of the PTO apparently used cash from earlier collections to purchase goods or services for the PTO.

The *Model Financial Policy for School Support Organizations*, required control number 8, mandates that "[a]ll bills should be paid by check, never cash. Presigning blank checks should be prohibited."

The PTO should not pay cash for goods or services nor should any member issue a PTO check payable to cash.

8. No analyses of fundraising activities

The PTO treasurers⁴ were unable to perform any meaningful fundraiser analyses because Ms. Stevenson had custody of all related documents. This is particularly problematic since the PTO had an overall combined loss from the fundraisers we examined.

⁴ Two individuals held the office over the course of the school year.

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The *Model Financial Policy for School Support Organizations* recommends, “Systematic analysis of fundraising events should be performed whenever possible to help identify the most successful events (Other recommendations, number 3).”

The PTO president and board members should take immediate corrective actions to resolve these issues. If you have any questions or need additional information, 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 initial "D" and "F".

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

DFD/RAD