

**INVESTIGATIVE AUDIT OF SELECTED RECORDS
OF MARYVILLE HIGH SCHOOL AND
MARYVILLE CITY SCHOOL SYSTEM
FOR THE PERIOD JULY 1, 2001, THROUGH FEBRUARY 28, 2002**

Maryville High School principal, Dr. David Messer, was placed on administrative leave in February 2002, and subsequently resigned, effective June 1, 2002. However, because Dr. Messer was the principal during the majority of the scope of our review, this report refers to him as “principal,” rather than as “former principal.”

LEGAL ISSUE

1. **ISSUE:** **Theft of property**

On Friday, February 15, 2002, Maryville High School principal, Dr. David Messer, was arrested and charged with theft of property under \$500 for allegedly taking money from the Maryville High School concession stand cash box. Records obtained from the school resource officer indicated that on 17 separate occasions from January 12, 2002, through February 15, 2002, Dr. Messer misappropriated a total amount of \$1,205 from the cash box. In his written statement given to detectives of the City of Maryville Police Department on the day of his arrest, Dr. Messer admitted that he was experiencing financial difficulties and that some of the money was taken to pay bills and to cover two returned checks. (At his subsequent sentencing hearing, Dr. Messer denied using any of the misappropriated money for his personal benefit other than \$85 paid to a lawn service.) On May 8, 2002, Dr. Messer entered a “best interest” guilty plea to 17 counts of theft. On June 18, 2002, Dr. Messer was sentenced to 17 concurrent sentences of 11 months and 29 days. The court suspended service of the sentences and placed Dr. Messer on probation with special conditions that he pay \$1,205 in restitution to Maryville High School and perform 100 hours of community service work. The court left open the issue of whether it would allow Dr. Messer’s record to be expunged.

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FINDINGS AND RECOMMENDATIONS

1. **FINDING: Inadequate accounting for athletic concession operations and unexplained shortage in expected collections**

The principal did not require athletic concession operators to adequately account for concession sales and inventory. Although athletic concession collections were usually placed in the school vault overnight, the collections were not counted and recorded at the close of business activity. In addition, a fixed amount of change was not retained. Instead, collections were used to provide change for successive days' operations. As a result, actual collections were not determined and recorded collections were not deposited promptly and intact. Also, adequate records were not maintained of concession items sold or given away. Discussion with the athletic concession manager and comparison of concession inventory purchase costs with sale prices revealed that most concession products were priced to yield more than a 50 percent profit. The manager acknowledged that payment was not requested for some items, including fountain drinks given to teachers and other school employees. However, the manager believed that the impact on gross profit related to items given away was minimal. As noted below, our basic analysis using recorded inventory purchases and related collection amounts showed gross profit for the period July 1, 2001, through March 4, 2002, to be over \$7,800 short of the desired 50 percent gross profit. A similar result was noted for the 2000-2001 school year.

	July 1, 2000-June 30, 2001		July 1, 2001-February 15, 2002	
	Revenue	Variance Over (Short)	Revenue	Variance Over (Short)
Recorded concession revenue*	\$19,408.37	\$ -	\$16,590.61	\$ -
Expected concession revenue at 50% gross profit	\$34,374.34	\$(14,965.97)	\$22,169.72	\$(7,821.11)

*NOTE: This analysis does not include vending machine commission revenue and does not consider the effects of beginning and ending inventory, and outstanding vendor invoices.

As noted in the Legal Issue, at least \$1,205 of the shortage in expected athletic concession collections can be attributed to misappropriation. However, because the uncounted and unrecorded concession money was accessible to various individuals, and because detailed inventory records were not maintained and reconciled with related sales, we could not determine and document the total shortage in expected athletic concession collections or determine that the entire shortage in expected revenue was a result of misappropriation.

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 activities, school services and school events, irrespective of the sources of such funds, or the purpose for which they were raised.” The *Internal School Uniform Accounting Policy Manual*, page 5-6, sets forth detailed requirements for recorded counts of collections at the close of business activity, and pages 4-25–28 addresses requirements for fundraisers, including resale activities. Page 5-7 of the manual states, “**Daily collections from any source should never be used for the purpose of providing change for events.**” Page 6-2 of the manual further states:

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 provide adequate accountability for concession collections and inventory, the current principal should require that

- a) a fixed amount of change is retained and the change is accounted for and documented on the recorded count of collections;
- b) adequate records are kept of concession items purchased, received, sold, given away, and left on hand after each event;
- c) inventory is safeguarded and stored in a secured area;
- d) at the close of business, collections are counted by at least two responsible people, and the count is recorded by the persons counting;
- e) collections are deposited promptly and intact and not used for change and/or purchases
- f) a monthly concession profit analysis report is completed by a designated employee to determine if expected collections are being deposited; and
- g) any variance from expected collections is investigated.

2. **FINDING: Failure to report missing cash to appropriate law enforcement officials and director of schools**

Although school employees stated that since at least the 1992-1993 school year and possibly earlier, they had informed the principal on several occasions that school money was missing, the principal apparently never notified any law enforcement officials or the director of schools. Documentation of the earlier shortages was not retained. However, during the 1999-2000 school year, the school secretary noted and documented shortages in the school's athletic change fund. According to office employees, the principal was informed about these shortages. The secretary's documentation indicated that on April 4, 2000, the cumulative shortage was \$168.11. However, when the secretary counted the money on May 19, 2000, the missing amount was \$446.25. The school athletic director stated that he suggested to Dr. Messer that a police report be filed regarding this incident. However, the Maryville police officer who worked as the school resource officer for four years, stated that Dr. Messer never informed him of this or any other incidents regarding a cash shortage of money maintained in the school office. In addition, the director of schools stated that he was unaware of any missing money at the school. The *Internal School Uniform Accounting Policy Manual*, page 4-17, states:

In the event the school incurs a loss in cash or property, the principal must communicate the loss immediately to the appropriate law enforcement officials and director of schools. . . .

RECOMMENDATION:

To adequately safeguard school money and recover losses when possible, the current principal must communicate any losses in cash or property immediately to the appropriate law enforcement officials and the director of schools. All applicable losses should be reported to the school system's insurance company.

3. **FINDING: Travel and expense policy not followed and applicable expenses not reconciled**

Although the Maryville City Schools Board of Education allowed school money to be used to pay for meals, fuel, and other expenses of school officials and employees, the board apparently did not distribute and enforce the official travel and expense policy adopted by the City of Maryville legislative body. Instead, system personnel provided a copy of an "Expense Reimbursement" policy adopted by the Maryville City Schools Board of Education. However, the director of schools did not ensure that meals, fuel, and other such expenses paid by the school and/or school system were allowable under the policy.

The board's one sentence policy stated:

Staff members and members of the Board of Education will be reimbursed for expenses incurred in approved travel and other legitimate business expenses in accordance with rates established for State employees or rates approved by the Board of Education.

The director of schools apparently failed to assign responsibility for ensuring that expenses paid by the school were allowable. As noted, the board did not detail in the policy what expenses would be considered “legitimate business expenses” and apparently failed to disseminate to employees the allowable rates. For instance, numerous meals apparently unrelated to overnight travel were charged on the school’s credit card and subsequently paid by Maryville High School or by the Maryville City School System Central Office. However, with very limited exceptions, travel and expense regulations for state employees do not provide for reimbursement of meals to employees unless overnight travel is involved. In addition, lodging, mileage, and per diem (meals, etc.) rates are limited based on the location and times of travel. Our examination revealed that personnel apparently were unaware of or chose to not abide by the limitations. We also noted charges for at least two car washes, grocery and nongrocery purchases at convenience markets, food purchases apparently for nonstudent children, and a charge for a meal on Sunday for which no related overnight travel or other school event was noted.

Section 6-54-901(b), *Tennessee Code Annotated*, states:

The municipal legislative body shall by ordinance determine whether or not to pay the expenses of the mayor or any member of the local governing body, and any board or committee member elected . . . and . . . shall enact a written policy as to how expenses will be reimbursed and what expenses are reimbursable.

Paragraph 3 of this section states that it is duty of the chief administrative officer (or designee) to prescribe forms on which expenses will be reported and to determine if reported expenses are allowable under the policy. Section 6-54-903, *Tennessee Code Annotated*, requires that this policy be filed with the Office of the Comptroller of the Treasury and states that it shall not be effective until filed.

RECOMMENDATION:

The Maryville City Schools Board of Education should review the City of Maryville travel policy and regulations. As the chief administrative officer of the school system, the director of schools or his designee should prescribe required expense reporting procedures and ensure that expenses of officials and employees paid with school/school system money are authorized under the official travel and expense policy. The director of schools or his designee should request reimbursement from individuals responsible for credit card charges and other expense disbursements without proper documentation or treat these

payments as compensation and include them on the employees' and officials' applicable tax forms.

4. **FINDING: Failure to establish credit card policy, inadequate documentation for meals and fuel charged to school credit card, some credit card charges apparently not benefiting the school/school system.**

The Maryville City Schools Board of Education failed to establish a credit card policy setting forth procedures required for use of a school/school system credit card. In addition, both Maryville High School and the Maryville City School System Central Office failed to require and retain adequate supporting documentation to determine that payments for charges to the school credit card for many food and fuel purchases were for the benefit of the school and, when applicable, were allowable under the travel and expense policy.

Apparently, the school principal kept a school credit card in his possession and other school employees were allowed to take a school credit card when traveling on school business or incurring expenses related to the school. However, the board of education failed to establish a credit card use policy detailing allowable uses, limits on expenditures, procedures for ensuring and documenting compliance with purchasing requirements, including remittance of adequate supporting documentation and determination of appropriateness; prohibition of personal purchases; penalties for misuse; etc. Our examination of credit card statements paid from July 1, 2000, through January 24, 2002, revealed a \$240.60 charge on May 27, 2001, to Hertz Rent-A-Car in Knoxville which was apparently for the personal benefit of the principal. According to school personnel, after the statement was received by the school, Dr. Messer paid the credit card company directly for this charge.

Examination of school credit card statements paid from July 1, 2000, through January 31, 2002, revealed numerous charges at restaurants and at convenience markets for fuel. However, documentation for many of the restaurant charges consisted of a charge slip, which did not detail the purchase(s) made. Also, for most restaurant charges, documentation was insufficient to determine for whom the food was purchased and for what school purpose the purchase was made. Although charges at convenience markets generally noted the amount of fuel purchased, the documentation did not indicate the vehicle being fueled, the destination and related mileage amount, or the school purpose. Receipts for charges for meals and fuel totaling over \$3,200 during the period were unsigned and did not indicate the individual responsible for the purchase. The Internal Revenue Service has determined that to the extent not adequately documented or in excess of established limits, certain expenses paid by entities on behalf of employees could be considered compensation.

The *Internal School Uniform Accounting Policy Manual*, page 3-1, states:

Duties and responsibilities of the local board of education include, but are not limited to . . . Providing policies concerning the supervision and administration of all internal school funds and making such policies available to all personnel.

The *Internal School Uniform Accounting Policy Manual*, page 5-14, requires that **“The bookkeeper should require and obtain adequate supporting documentation before disbursing any school money.”** Page 6-3 of the manual also states, “Before signing checks, each signatory should review adequate supporting documentation (such as vendor invoices, purchase authorizations, etc.)” Page 5-15 of the manual further states, “Supporting documents (copy of check, invoice, purchase authorization, receiving report/delivery receipt, etc.) should be filed together or in such a way that they can be easily reassembled.”

Section 6-54-901, *Tennessee Code Annotated*, Paragraph 3, states that it is duty of the chief administrative officer (or designee) to prescribe forms on which expenses will be reported and to determine if reported expenses are allowable under the policy.

RECOMMENDATION:

To better control disbursements, the board should develop policies and procedures regarding the use of school/school system credit cards. In addition to other procedures, the policy should prohibit the use of school/school system credit cards for personal purchases and require that separate credit card accounts are obtained for each authorized user or that credit card receipts identify the user. Also, in order that the appropriateness of the purchase can be determined and to avoid possible negative tax implications, the bookkeeper should require and file adequate supporting documentation for every disbursement.

As noted in Finding 3, the director of schools should ensure that expenses of officials and employees paid with school money, including charges to the school credit card, are authorized under the official travel and expense policy. The director of schools or his designee should request reimbursement from individuals responsible for credit card charges and other expense disbursements without proper documentation or treat these payments as compensation and include them on the employees’ and officials’ applicable tax forms.

5. **FINDING: School money used to make personal loans to principal, and disbursements for and use of school equipment apparently not benefiting the school/school system**

In addition to the apparent theft noted in the Legal Issue, per our examination of school records and discussion with school personnel, in at least three instances, the principal used school money to make loans to himself. The school secretary responsible for the change fund stated that in August 2001, Dr. Messer asked her to cash his personal check for \$100, but requested that the check not be deposited into the school bank account at that time. The secretary held this check until October 2001, before obtaining permission from Dr. Messer to deposit the check. Also, the secretary stated that in November, Dr. Messer brought her a post-it note with "\$130 – David Messer" written on it and requested a \$130 loan from the school change fund. Dr. Messer was placed on administrative leave following his arrest on February 15, 2002, and resigned from the Maryville City School System effective June 1, 2002. According to school personnel, as of June 5, 2002, Dr. Messer had not reimbursed this money. In another instance, the secretary stated that her count of the change fund revealed a \$75 shortage. When she reported the shortage to the principal, Dr. Messer told her he had borrowed the money.

The examination also revealed that during the time Dr. Messer was on administrative leave, he had a school computer and cell phone in his possession. These items were returned at the end of May 2002. However, during this period, charges to the school system for usage of this cell phone totaled at least \$86.84. Because Dr. Messer was on leave, it does not appear that the disbursements to pay these charges would benefit the school system. For instance, at least one of the phone numbers listed on the bill was to Dr. Messer's private attorney. Also, although apparently no money was disbursed by the system during this period as related to the lap top computer, the school system apparently did not receive the benefit of the use of the computer during this time.

The *Internal School Uniform Accounting Policy Manual*, page 4-33, states:

Student activity and other internal school funds must not be used for any purpose which represents an accommodation, loan, or credit to anyone. Personal checks may be taken for payment of goods, services, and other school charges, but must not be cashed for the purpose of making change or as an accommodation to individuals, including school personnel.

RECOMMENDATION:

School money should never be used to make personal loans to any individual or organization. In addition, the director of schools, in conjunction with individual school principals, should ensure that disbursements for and the use of school equipment and property benefit the school and/or school system.

6. **FINDING: Deposits not made promptly and some deposits not adequately reconciled with recorded collections**

The Maryville High School bookkeeper failed to ensure that some tuition, summer school and other school collections were deposited within three banking days of initial collection by a school employee. According to the guidance office employee responsible for summer school collections, with the exception of the Driver's Education tuition, summer school tuition payments are held until summer school begins, regardless of collection date. Summer school tuition collection logs were not dated and some were not properly completed and accurately totaled. Also the guidance office employee responsible for collecting summer school tuition apparently failed to reconcile receipts received from the cashier with the collection logs she prepared. In addition, when collections were remitted to the school office, the cashier did not record the amount, receipt number and receipt date on the logs and did not initial the information on the logs. Our analysis of summer school tuition collections revealed that receipts (and deposits) for summer school tuition recorded by the bookkeeper were \$50 short of tuition collections recorded by the responsible guidance office employee. Because procedures were inadequate as noted above, the responsible guidance office employee was unaware of the missing money and was unable to provide an explanation as to the disposition of this money. This office recognizes that \$50 may not be considered material. However, the predominant issue is that because procedures were inadequate, school personnel were unaware that money was missing.

In addition to summer school tuition collections not deposited promptly, we also noted that some nonresident "regular school year" tuition payments collected as early as July 22, 2001, were not deposited until August 10, 2001. At the time of this deposit, tuition collections on hand at the school totaled nearly \$87,000.

Also, although the Maryville City Schools Board of Education tuition application states that students will not be allowed to attend school unless applicable tuition has been paid, we noted that several Maryville High School students were allowed to make tuition payments throughout the school year. The school did not maintain any documentation that these exceptions were authorized by the Maryville City Schools Board of Education.

The *Internal School Uniform Accounting Policy Manual*, page 5-3, requires school personnel to remit total collections to the cashier daily or more frequently, if necessary. Page 6-2 of the manual states, "Collections should be deposited daily, if possible, but no more than three days after the initial collection." Also, pages 5-3-10 of the manual sets forth required procedures for adequate documentation of collections using prenumbered receipts and/or collection logs.

RECOMMENDATION:

To safeguard funds, school personnel should deliver total collections to the cashier/bookkeeper at least daily, and the collections should be deposited within three banking days of initial collection. The current principal should ensure that required procedures for documenting and reconciling collections are followed by all school personnel. Also, to avoid misunderstandings and the possibility of the appearance of unfairness, the board should enforce the tuition policy. If payment plans are acceptable, the tuition policy should set forth the terms and conditions or provide for exceptions with documented approval by a designated official.