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Director of Schools and Members of the  
Board of Education  
Rutherford County Schools  
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Ladies and Gentlemen:

We have completed our investigative audit of selected records of the Riverdale High School Quarterback Club (Quarterback Club). The audit focused on the period January 1, 2008, through June 30, 2009. However, when warranted, we expanded the scope.

Section 49-2-601 et seq., *Tennessee Code Annotated*, known as the "School Support Organization Financial Accountability Act" (SSOFAA), sets forth requirements related to school support organizations. The General Assembly of the State of Tennessee stated its intent regarding this law in the Section 602:

The general assembly recognizes the importance of school support organizations in providing financial support to help carry out academic, arts, athletic, and social programs to further educational opportunities for the children of this state. The general assembly also recognizes concerns that parents and other persons who support these organizations have in ensuring that money raised by these organizations is safeguarded by them and used to further the activities for which the money is raised. It is, therefore, the intent of the general assembly to ensure the continued support of academic, arts, athletic and social programs, which help to educate the children of this state, while also ensuring fiscal accountability of school support organizations.

Section 609 of the SSOFAA states "A school support organization ... that collects and raises money ... while representing itself to be a school support organization shall be subject to audit by the office of the comptroller of the treasury."

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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. During the investigative audit of the Quarterback Club, we noted conditions of noncompliance with state laws and regulations related to Riverdale High School that we believe warrant the attention of the school's officials and other responsible individuals.

The Rutherford County Board of Education has adopted Policy 2.404 that sets forth requirements for school support organizations that are affiliated with the district's schools. In addition to closely following the language and provisions of the "SSOFAA," Policy 2.404 states: "The director may enact procedures to **suspend or revoke the authorization of any school support organization for a failure to abide by the policies and procedures regarding school support organizations.**" [Emphasis added.]

**The former officers of the Quarterback Club refused to comply with requests for copies of documents, including canceled or imaged checks, that state law requires each school support organization to maintain. Although the SSOFAA provides no exceptions to the requirement that a school support organization is to retain copies of its transacted checks, these former officers refused to obtain copies from their financial institution. It should be noted that the issuance of this report was extended beyond a normal time frame due in part to the lack of cooperation by these individuals. However, we believe the issues addressed to be pertinent and relevant to the future operations of Riverdale High School and to other schools throughout the state. Therefore, we consider it beneficial to publicly release this document, regardless of the delay.**

**Within this letter, references to Quarterback Club officers refer to the individuals who held those offices between January 1, 2008, and June 30, 2009, unless otherwise specified.**

### Findings and Recommendations

- 1. Unapproved salary supplements and payments to Rutherford County School Board employees and volunteer coaches**

Without the knowledge and approval of the Rutherford County Board of Education, the Quarterback Club paid at least \$7,000 directly to Riverdale High School (RHS) coaches,

purportedly for football field maintenance. The payees included the athletic director, an assistant football coach, and a volunteer wrestling coach at Riverdale High School. The majority of the \$7,000 consisted of two cash payments, totaling \$4,000, paid to the athletic director. There is no record that the Quarterback Club issued IRS Form 1099 to any of the recipients.

The bylaws of the Tennessee Secondary School Athletic Association (TSSAA), Article 1, Section 9(h), include the mandate that “Coaches must be paid entirely from funds approved by the board of education or the governing board of the school.”

Rutherford County Board of Education Policy 5.110, “Compensation Guides & Contracts” states:

Salaries of all employees, including 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.

To comply with TSSAA and Rutherford County Schools’ policies, to prevent potential tax issues for the recipients, and to avoid other potential, unintended, negative consequences, the director of schools and the Rutherford County Board of Education should immediately instruct the Quarterback Club and all other school support organizations to cease making payments directly to board employees and coaches, unless specifically authorized by the board of education. In addition, the director and board should ensure that all employees and coaches are aware of board policies regarding supplemental pay and are instructed not to accept improper payments.

**2. Failure to document agreement with Quarterback Club for concession operations and to ensure the club submitted required concession collection documentation**

Although the Quarterback Club operated concession stands at football games during the 2008 season, as had been customary for many years, the school principal failed to obtain written documentation of this arrangement. In addition, the school principal failed to ensure that the Quarterback Club submitted copies of the collection records that are required to be prepared and maintained in accordance with state law, including a

documented count of collections from each applicable athletic event as well as profit analysis reports.

As noted in our concurrent report addressed to the Quarterback Club, the Quarterback Club officers failed to prepare any of the required collection records. As a result, we were unable to determine that all collections received from concession operations were deposited into the Quarterback Club's bank account and used to benefit the football program.

Section 606 of the SSOFAA states:

A local board of education may grant the principal of a school the authority to enter into an agreement with a school support organization to operate and collect money for a concession stand or parking at a related school ... athletic ... event ... on school property where any money it collects or any portion designated by the agreement shall be considered as school support group funds and not as student activity funds, provided, that: ... (2) The school support organization provides the school with the relevant collection documentation that would have been required pursuant to the provisions of the manual produced under § 49-2-110 for student activity funds.

The principal should ensure that written agreements with all applicable school support organizations which operate concessions at school events are executed and retained in the school's files. In addition, the principal should ensure that the school support organizations provide the school with adequate collection records, including documented counts of collections and profit analysis reports, as required by state law.

**3. Failure to ensure collections for season ticket sales were deposited into the school bank account**

The principal failed to ensure that money collected from the sale of football season passes/tickets was deposited into the school bank account. Instead, contrary to state law, these collections were apparently deposited into the Quarterback Club's bank account<sup>1</sup>.

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<sup>1</sup> According to the school principal, the band boosters also sold season passes/tickets and retained the money collected.

According to Section 49-2-603(6), *Tennessee Code Annotated*:

“Student activity funds” include all money received from any source for school-sponsored student activities or school-sponsored events held at or in connection with a school, and specifically include, but are not limited to, any money: (A) Derived from a school-sponsored academic, art, athletic, or social event involving students;...

The only allowable exceptions under the statute are collections for parking, concession sales, and bookstores, all of which have specific authorization, recordkeeping, and reporting requirements.

The principal should ensure that all student activity fund collections, including collections for athletic season passes/tickets, are recorded in the school’s accounting records and deposited into the school’s bank account.

**4. Coaches coordinated and operated SSO fundraisers in violation of state law**

The audit revealed that members of the RHS coaching staff conducted a magazine sale and a Papa John’s Pizza card sale, but failed to remit related collections to the school’s bookkeeper for deposit into the school’s bank account. Instead, related collections were apparently turned over to the Quarterback Club.

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

In addition, the SSOFAA prohibits school representatives, including coaches, from being responsible for school support organization fundraisers or other collections.

The principal should ensure that all student activity fund collections, including fundraiser collections for which school employees, including coaches, are responsible, are recorded in the school’s accounting records and deposited into the school’s bank account.

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**5. Quarterback Club did not receive documented approval for fundraising**

The RHS principal stated there was no formal approval process related to concession operations, magazine sales, Kroger card sales, or other fundraisers conducted by the Quarterback Club during the audit scope, although he believed he was generally kept well informed about upcoming activities. According to the Rutherford County Schools finance office, the RHS Quarterback Club did not submit any fundraising proposals for approval until the 2010-2011 school year.

Section 604 of the SSOFAA states:

(b)(2) The approval of the director of schools or the director's designee shall be required before a school support organization undertakes any fundraising activity to assure that the scheduling of fundraisers does not conflict with the school district's or school's fundraising efforts and that the fundraising process is consistent with the goals and mission of the school or school district.

School board policy requires any proposed fundraiser that involves either the use of school property or the involvement of students to be approved by the principal and by the assistant superintendent for budget (who is the director's designee under those circumstances). For all other fundraisers, the school principal is the director's designee. Approval for all fundraisers should be documented before any fundraising activity commences. All involved entities should retain copies of the documented approval.

The board of education, director of schools, and school principal should ensure that immediate action is taken to correct these issues. If you have any questions or need additional information, please contact me.

Very truly yours,



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

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