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DIVISION OF MUNICIPAL AUDIT

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Superintendent of Schools and Board Members  
Henderson County Board of Education  
35 Wilson Street  
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Superintendent and Board Members:

We have concluded our investigative audit of selected records of Scotts Hill High School (SHHS), Henderson County School System. The audit focused on the period July 1, 2007, through December 31, 2008. Our office received information regarding the disposition of funds from certain fundraising activities of the school and a school support organization (SSO). The audit was primarily limited to an examination of records related to those collections. However, when warranted, we expanded the scope.

Our investigative audit revealed the agricultural education teacher diverted over \$2,900 in collections from two school fundraisers to an SSO bank account that he controlled. For instance, the school paid for all of the expenses related to a fruit sale but received only a portion of the revenue at a loss of over \$800. The SSO paid none of the expenses but received over \$2,000 of the revenue. Similarly, the school paid the majority of the expenses related to a greenhouse plant sale but received less than half the revenue at a profit of over \$170. The SSO paid some of the expenses but received over \$1,400 of the revenue, a profit of over \$900. The teacher stated he knew these funds should go through the school bank account, but he admitted to state auditors that he wanted to remove the expenditures from any scrutiny by the principal and spend the funds at his and the SSO's discretion. For example, he paid part of the costs of club jackets and fees to club-related functions for students who "deserved it."

Summary of Funds Diverted to SSO	
Event	Amount
Fruit Sale	\$2,018.00
Greenhouse Plant Sale	924.00
<b>Total Diversion</b>	<b><u>\$2,942.00</u></b>

In addition, the teacher stated he did not always deposit all cash collections into the SSO account nor did he give them to the school bookkeeper for deposit into the school account. Instead, he kept this cash and used it to purchase various supplies for school projects; however,

he could only provide invoices for less than \$200 of these cash purchases. He also admitted to state auditors that he used “no more than \$150” of this cash for personal purchases with the intent of paying it back, but never did. The teacher did not prepare and issue prenumbered receipts at the time of sale and he rarely prepared and issued manually numbered receipts. As a result, auditors could not independently determine how much was actually collected, how much was spent for school purposes, or how much was unaccounted for.

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

Section 39-16-402, *Tennessee Code Annotated*, states:

- (a) A public servant commits an offense who, with intent to obtain a benefit or to harm another, intentionally or knowingly ...
- (5) Receives any benefit not otherwise authorized by law.

Section 8-17-103, *Tennessee Code Annotated*, requires that county school districts adopt ethical standards before July 2007.

The *Henderson County Ethics Policy*, page 1, states:

An official or employee ... may not accept, directly or indirectly, any gift, money, gratuity, or other consideration or favor of any kind from anyone other than the county; (1) For the performance of an act ... that he would be expected to perform ... in the regular course of his duties....

While performing the audit, several internal control deficiencies came to our attention. Specifically, the principal did not require school employees to adequately account for fundraisers.

1. School personnel did not always prepare collection records for money collected for fundraising activities, in this case prenumbered receipts for greenhouse sales. As a result, revenues from activities were not accurately recorded which increased the risk that all collections were not properly deposited. Additionally, collection records that were

prepared were not complete and accurate. Consequently, revenues were not always recorded to the proper restricted account reducing assurance that collections were expended for the purpose they were collected. The *Internal School Uniform Accounting Policy Manual*, page 5-3, states:

Teachers/others who collect money should prepare a collection record (prenumbered receipt, collection log, ticket reconciliation, signed recorded count, etc.) for each separate activity.

Regarding the collection log, page 5-4 of the manual also states:

The log documents the name of the school, the purpose of the collection, the name of the teacher/other or club/class, the payers, the date(s) of collection, and the daily total.

Page 4-2 of the manual states:

All expenditures of restricted fund account money must be for the purpose or group for which the money was raised.

2. 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 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:

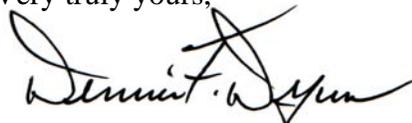
Teachers, assistants, volunteers, and support staff who handle money should be made aware of the requirement for maintaining accurate and systematic records of all cash collected.... At the beginning of each school year, the principal should ensure that all individuals responsible for school collections are informed of the required procedures and forms and the consequences for noncompliance with the required procedures.

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*, Section 4, sets forth detailed procedures for fundraising activities, which include completion of a profit analysis and fundraiser summary report.

To establish accountability and adequately account for fundraising collections and inventory, the principal should require that school personnel prepare adequate records including but not limited to collection records, fundraiser summary reports, and profit analysis reports.

The superintendent, board members, and principal should take immediate corrective action to resolve these issues. If you have any questions, 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