



COMPTROLLER'S INVESTIGATIVE REPORT

Gray Athletic Booster Club

January 24, 2024

Jason E. Mumpower
Comptroller of the Treasury



DIVISION OF INVESTIGATIONS



JASON E. MUMPOWER
Comptroller

January 24, 2024

Washington County School Board
and Superintendent
405 West College Street
Jonesborough, TN 37659

Washington County School Board Officials:

The Office of the Comptroller of the Treasury conducted an investigation of selected records of the Gray Athletic Booster Club, and the results are presented herein.

Copies of this report are being forwarded to Governor Bill Lee, the State Attorney General, the District Attorney General of the 1st Judicial District, certain state legislators, and various other interested parties. A copy of the report is available for public inspection in our Office and may be viewed at <http://www.comptroller.tn.gov/ia/>.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jason E. Mumpower", with a long horizontal flourish extending to the right.

Jason E. Mumpower
Comptroller of the Treasury

JEM/MLC

INVESTIGATIVE REPORT

Gray Athletic Booster Club

The Office of the Comptroller of the Treasury investigated allegations of malfeasance related to the Gray Athletic Booster Club. The investigation was limited to selected records for the period July 2020 through August 2022. The results of the investigation were communicated with the Office of the District Attorney General of the 1st Judicial District.

BACKGROUND



Gray Elementary School (school), located in Gray, Tennessee, is part of the Washington County School System (district) and serves students in kindergarten through eighth grade. Students in sixth through eighth grades may participate in athletic programs, including baseball, basketball, cheer, cross country, volleyball, soccer, softball, track and field, and wrestling. The Gray Athletic Booster Club (club) is a school support organization (SSO) led by parents and other volunteers to support and promote the school's athletic programs. The club was initially incorporated as a Tennessee nonprofit corporation in August 2008.

From May 21, 2021, through August 18, 2022, officers of the club included a president and a vice president who operated the club. During this period, the two officers were the only authorized signers on the club's bank account. They were responsible for collecting and depositing funds from fundraisers and paying club expenses. The club's primary fundraisers included a school-wide apparel sale and concession sales at school athletic events. The club primarily disbursed funds for athletic equipment, fundraisers, an athletic banquet, and donations to the school's internal school athletic funds. On August 19, 2022, new club officers took possession of club assets and operations.

The School Support Organization Financial Accountability Act, codified at Tenn. Code Ann. § 49-2-601 et. seq. provides that officers of the club, like officers of all other SSOs, are required to ensure the funds and property of their organization are safeguarded and used only for purposes related to the goals and objectives of the organization. To assist such officers in discharging their duties, the Comptroller, pursuant to Tenn. Code Ann. § 49-2-610, published the *Model Financial Policy for School Support Organizations (Model Financial Policy)*, which prescribes a set of accounting controls to ensure the funds are used to further the organization's goals and objectives.

RESULTS OF INVESTIGATION

1. THE FORMER CLUB PRESIDENT DISBURSED CLUB FUNDS FOR PERSONAL USE TOTALING AT LEAST \$437.89

From February 2022 through August 2022, the former club president knowingly disbursed club funds for personal use totaling at least \$437.89. The former club president used her club-assigned debit card at a membership warehouse club to purchase personal items (**Refer to Exhibit 1**) and issued checks from the club bank account to pay six of her spouse’s credit card bills in full. The credit card bills included both club and personal expenses from an online retailer. The personal expenses included food, drinks, clothing, air fresheners, hair conditioner, wax melts, magnetic eyelashes, wheel lug nuts, a window regulator with a motor, a grill cover, membership fees, and other products.

Exhibit 1

| | | |
|-----------------------------|-------------|---------|
| 02/05/22 13:44 4536 8222 83 | | |
| 0980095439 | MH PN62 JAR | 13.98 T |
| 0000340772 | LANCETOASTC | 7.34 Y |
| 0980172447 | KRAFT DELUX | 14.88 Y |
| 0980357295 | WFOX SWEATS | 12.81 T |
| 0000011737 | POWERADE VP | 8.98 Y |
| 0000753259 | P LFE PUR D | 4.28 Y |
| 0000826851 | BB MUFFINS | 3.98 Y |
| 0980276221 | MH CINN ROL | 4.98 Y |
| 0980225235 | GLADE OILS | 16.47 T |
| 0980246889 | SHEA COND | 17.98 T |
| 0990001508 | EX-L COVER | 29.98 T |
| INST SV | SHEA COND | 5.00-T |
| | SUBTOTAL | 130.66 |
| TAX 1 | 9.5 % | 8.67 |
| TAX 2 | 6.5 % | 2.89 |
| | TOTAL | 142.22 |
| VISA CREDIT TEND | | 142.22 |
| VISA | **** * 7316 | |
| | CHANGE DUE | 0.00 |

A receipt showing various personal purchases including food, drinks, a sweatshirt, air fresheners, a grill cover, hair conditioner, etc.

2. THE FORMER CLUB PRESIDENT AND FORMER VICE PRESIDENT MADE QUESTIONABLE CASH WITHDRAWALS TOTALING \$3,496

From July 2021 through May 2022, the former club president made eight questionable cash withdrawals totaling \$2,996. In May 2022, the former club vice president made one questionable \$500 cash withdrawal. Investigators were not provided documentation or explanations for the cash withdrawals;

therefore, investigators could not determine whether these cash withdrawals were exclusively for the benefit of the club.

| Summary of Questionable Cash Withdrawals | | |
|---|----------------------------|--------------------|
| Date | Signer | Total |
| 7/30/2021 | Former club president | \$ 200.00 |
| 8/20/2021 | Former club president | \$ 300.00 |
| 11/18/2021 | Former club president | \$ 300.00 |
| 12/3/2021 | Former club president | \$ 600.00 |
| 1/10/2022 | Former club president | \$ 400.00 |
| 3/15/2022 | Former club president | \$ 466.00 |
| 5/9/2022 | Former club president | \$ 530.00 |
| 5/16/2022 | Former club president | \$ 200.00 |
| 5/20/2022 | Former club vice president | \$ 500.00 |
| Total | | \$ 3,496.00 |

3. THE FORMER CLUB PRESIDENT DISBURSED AT LEAST \$1,145.76 OF CLUB FUNDS FOR AN EVENT NOT DIRECTLY SUPPORTING OR PROMOTING THE SCHOOL ATHLETIC PROGRAMS

In March and April 2022, the former club president disbursed at least \$1,145.76 of club funds for eighth-grade prom expenses including a venue rental, a disc jockey, disposable place settings, and tablecloth rentals. While the purchases benefited a select group of students from the school, the prom purchases did not directly support and promote the school’s athletic programs. The *Model Financial Policy* requires club officers to ensure funds are used only for purposes related to the goals and objectives of the organization. In addition, the prom is a parent-sponsored event and not hosted by the school. The former club president was a member of the parent prom committee, and she collected funds from prom ticket sales, which were all in cash. Due to insufficient supporting documentation, investigators were unable to determine total prom ticket collections or if any prom ticket collections were deposited in the club bank account.

4. THE FORMER CLUB PRESIDENT AND FORMER VICE PRESIDENT DID NOT DEPOSIT AT LEAST \$673 OF EXPECTED FUNDRAISER COLLECTIONS

In the fall of 2021, the former club president and former vice president did not deposit at least \$673 of expected collections for a shirt fundraiser. The club did not provide investigators with customer order forms or a fundraiser reconciliation for the shirt fundraiser. Investigators obtained details of the shirts ordered from the vendor and calculated the total expected collections based on quantity, type, and selling price. The total expected collections were \$673 less than the corresponding deposits made during the fundraiser period. Investigators were unable to speak with the former president or former vice president to determine who served as custodian of shirt fundraiser collections.

5. THE FORMER CLUB PRESIDENT MADE OTHER QUESTIONABLE PURCHASES TOTALING AT LEAST \$811.28

From July 2021 through July 2022, the former club president made other questionable purchases totaling at least \$811.28. The former club president did not maintain receipts or invoices for certain restaurant and retail store purchases; therefore, investigators could not determine whether these purchases were lawful and exclusively for the benefit of the school’s athletic programs.

The following table summarizes all personal and questionable disbursements by the former club president and former vice president using club funds:

| Summary of Investigative Findings | |
|--|--------------------|
| Category | Total |
| 1. Personal | \$ 437.89 |
| 2. Questionable Cash Withdrawals | \$ 3,496.00 |
| 3. Disbursements Not Supporting the Club | \$ 1,145.76 |
| 4. Expected Collections Not Deposited | \$ 673.00 |
| 5. Other Questionable Disbursements | \$ 811.28 |
| Total | \$ 6,563.93 |

INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES

Our investigation revealed deficiencies in internal control and compliance, some of which contributed to the investigative findings above. These deficiencies included:

Deficiency 1: Former club officers did not properly safeguard and maintain accurate records

Former club officers did not provide investigators with bylaws, financial policies, meeting minutes, bank reconciliations, imaged deposit slips and checks, documentation for collections, or documentation for cash withdrawals. The club records only included documentation for some disbursements. Investigators had to obtain some receipts and invoices directly from vendors. Due to the lack of supporting documentation, investigators could not determine if concessions and other collections were deposited in full or if all cash withdrawals and disbursements were for purposes related to the goals and objectives of the club. According to the *Model Financial Policy*, bylaws, financial policies, and official minutes of all meetings are “considered permanent records as long as the SSO exists and shall be maintained for at least four years after dissolution of the SSO.” In addition, “All collection and disbursement records, bank statements, imaged checks, receipts/invoices for disbursements...shall be organized, and maintained by the treasurer or bookkeeper by fiscal year. These records must be maintained for at least four years.” The lack of

club organizational and financial records greatly increases the risk that fraud, waste, and abuse will occur without prompt detection.

Deficiency 2: Former club officers failed to maintain an active nonprofit registration status with the Tennessee Secretary of State

The club was initially incorporated as a Tennessee nonprofit corporation in August 2008 but did not have an active state registration for the periods August 2010 until August 2015 and August 2019 until November 2022. To comply with the *Model Financial Policy*, the SSO must register with the Tennessee Secretary of State’s office and must annually confirm its status as a nonprofit.

In addition, district policy 2.404 *School Support Organizations* requires the director of schools or his/her designee to annually verify that previously provided SSO information is correct. A review of SSO registrations with the Tennessee Secretary of State office revealed that 11 of 34 district SSOs had an inactive nonprofit registration status with the state as of November 2023. The director of schools should annually ensure the active state nonprofit registration status for all SSOs in the district. In addition, to follow district policy 2.404, the district should “annually post a list of organizations that are recognized as school support organizations on the school district’s web site.”

Deficiency 3: Former club officers failed to implement adequate segregation of duties

Former club officers failed to segregate their duties adequately. The former club president was responsible for fundraising, concession operations, and financial duties, including recordkeeping, making purchases, writing checks, receipting collections, and depositing funds. The *Model Financial Policy* states, “Duties shall be segregated between officers and members of the SSO. No one person within the SSO shall be in control of a transaction from inception to recording.” Allowing one individual exclusive control over all financial duties increases the risk of fraud without prompt detection.

Deficiency 4: Former club officers did not require two signatures on checks

Former club officers did not require two signatures on checks. The *Model Financial Policy* recommends, “Official prenumbered checks should require two signatures.” Checks having two signatures provide an increased degree of control by indicating that both authorized signers agree that the payment is proper and reasonable.

Deficiency 5: Former club officers did not pay sales tax

Former club officers did not pay sales tax on some purchases from restaurants and other local stores. Per the *Model Financial Policy*, “...in order to be exempted from state sales tax, an SSO must separately apply with the Tennessee Department of Revenue and be accepted by the IRS as a 26 U.S.C. § 501(c)(3) corporation.” The club did not meet either requirement to be exempted from state sales tax. Investigators determined that some of the transactions that did not have sales tax referenced the school’s name on the receipt. The *Model Financial Policy* states, “SSOs must not use the school’s...sales tax exemption for any purpose.” To avoid liabilities for sales tax due to the state and any related penalties, the organization must comply with state sales tax statutes.

Deficiency 6: Former club officers failed to deposit funds within three days of collection

Former club officers failed to ensure that club funds were deposited within three days of collection as required by the *Model Financial Policy*. From May 2021 through August 2022, the former club officers failed to deposit concession collections, fundraiser collections, and a vendor reimbursement check within three days of receipt. The delay in depositing funds weakens internal controls over collections and increases the risk of fraud and misappropriation.

Deficiency 7: The former club president presented cash gifts to athletes

The former club president presented a cash award to athletes who competed every year of middle school at a banquet held on May 23, 2022. The school principal knew this was not permissible per Tennessee Middle School Athletic Association (TMSAA) regulations and required the students to return the money along with a letter from each parent. The TMSAA is an affiliate organization of the Tennessee Secondary School Athletic Association (TSSAA) and regulates middle school athletics in Tennessee. Investigators confirmed that the cash awards were redeposited to the club bank account in full. As addressed in the *Model Financial Policy*, “Giving cash or cash equivalents to ... student athletes is against the TSSAA amateur rule and could cause the student to become ineligible to play in the sport for 12 months.” In addition, according to the TMSAA/TSSAA award rule, a member school that permits a forbidden award to be given at a school function may be “subject to suspension from tournament play in the involved sport(s) for one season.”

Current club officers indicated that they have corrected or intend to correct these deficiencies.
