



JASON E. MUMPOWER  
*Comptroller*

To not identify specific vulnerabilities that could be exploited within the Memphis Shelby County Schools' information technology infrastructure and software applications, or used to facilitate the misuse of county funds, we requested that CLA redact certain portions of the report. Disclosing these vulnerabilities could pose a security risk by revealing information that may be considered confidential under Section 10-7-504(i), Tennessee Code Annotated.

Sound business practices require the implementation of appropriate controls. In the absence of such controls, unauthorized system activity may occur. These deficiencies resulted from insufficient management oversight.



# Memphis Shelby County Schools

State of Tennessee Comptroller of the Treasury  
CLA Reports

March 12, 2026

CliftonLarsonAllen LLP

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March 12, 2026

Jason E. Mumpower  
Tennessee Comptroller of the Treasury  
425 Rep. John Lewis Way North  
Nashville, TN 37243

**RE: Memphis Shelby County Schools**

Dear Mr. Mumpower:

CliftonLarsonAllen LLP (CLA) is pleased to submit this interim report prepared at the request of the Tennessee Comptroller of the Treasury in connection with the review of the financial practices, governance, and operations of Memphis-Shelby County Schools (MSCS or “the District”). This transmittal accompanies a comprehensive report issued in three separate but related volumes: Volume I – *Internal Controls Assessment and IT Cybersecurity Risk Assessment*, Volume II – *Forensic Audit*, and Volume III – *Whitehaven Investigation*.

The work underlying these volumes was conducted pursuant to the engagement authorized by the Comptroller and described in the engagement letter dated July 28, 2025, as subsequently expanded. Collectively, the procedures performed for the forensic audit were designed to evaluate risks, identify potential irregularities, and assess governance, compliance, and financial practices across MSCS for fiscal years 2022 through 2024, as well as assess the internal controls for the current period.

**Volume I – *Internal Controls Assessment and IT Cybersecurity Risk Assessment*** documents CLA’s evaluation of the design and implementation of MSCS’s internal controls. This volume addresses whether controls were suitably designed and operating to mitigate risk and prevent or detect fraud, waste, and abuse across key operational and financial processes. Additionally, the *IT Cybersecurity Risk Assessment* presents the results of CLA’s information security controls and procedures assessment and the initial digital forensic investigation.

**Critical Findings:**

**Internal Controls Assessment - (100% Complete)**

**1. Insufficient internal audit team lacking structure for a school district of this size**

Absence of a formal internal audit universe, documented risk assessment, and risk-based annual and multi-year audit plans, limiting the ability to align audit coverage with the District’s highest-risk areas. The District lacks any comprehensive audit methodology, formal reporting relationship with the Audit Committee. These findings reflect a function that performs important activities but lacks the structure, documentation, and strategic alignment necessary to operate as an independent, risk- focused assurance function. The District does not maintain a formal internal audit universe, a documented risk assessment, or risk-based annual and multi-year audit plans,

which limits the ability to align audit coverage with the District's highest-risk areas. In addition, the District lacks a comprehensive audit methodology and a formal reporting relationship with the Audit Committee. Collectively, these conditions reflect an internal audit function that performs certain important activities but lacks the structure, documentation, independence, and strategic alignment necessary to operate as an effective, risk-focused assurance function.

**2. The District lacks formalized documented policies and procedures**

Many critical processes operate without formally documented, current, and standardized procedures. Where policies exist, they are frequently outdated, lack clearly assigned ownership, or are embedded within operational manuals rather than approved governance documents. This results in inconsistent execution, reliance on institutional knowledge, and heightened continuity risk.

**3. Noncompliance or partial compliance with state laws, regulations, and District policies**

Several findings reflect noncompliance or partial compliance with state laws, regulations, and district policies (e.g., procurement approvals, school funds audit requirements, licensure reporting, record retention). These gaps elevate legal, financial, and reputational risk and underscore the need for stronger compliance monitoring.

**4. No visibility into third party risks and vendor management practices**

Vendor management practices, including vendor inventories, SOC report reviews, contract monitoring, and vendor risk assessments, are not consistently formalized or integrated across the organization. This limits visibility into third-party risks, contractual compliance, and reliance on external service providers

IT Risk Assessment - (100% Complete)

1. [Redacted]

2. [Redacted]

[REDACTED]

3. [REDACTED]

[REDACTED]

4. [REDACTED]

[REDACTED]

**Volume II – Forensic Audit** details the forensic audit procedures performed, the interim resulting observations, and conclusions. This volume focuses on the identification and examination of potential evidence of fraud, waste, abuse, noncompliance, and other irregularities through detailed transactional testing, document review, interviews, and analytical procedures. The forensic audit is on-going with an anticipated completion date of June 30, 2026.

**Critical Interim Findings:**

**1. Waste and Abuse Identified in Procurements, Contract and Vendor Management**

The procurement, contracts, and vendor management portions of the scope of work are approximately 25% complete and CLA preliminarily identified contracts totaling **approximately \$1,112,750** that were classified as waste or abuse due to weaknesses in the District’s management, oversight, and control environment related to professional and non-professional services contracting. The contracts include Principal Mentors, Security Consultant, Council of the Great City Schools, Forward Consulting, and YMCA of Memphis & the Mid-South.

## **2. Non-compliance with District Policies and Procedures**

CLA identified a broader population of transactions **totaling \$1,729,522.81** that did not rise to the level of waste or abuse but reflected noncompliance with District policies and procedures, indicating significant internal control and documentation deficiencies. This includes disbursements associated with P-cards, ACH transactions, bank statements, travel reimbursements, and payroll.

## **3. Form I-9 Violations Exposing the District to USCIS Issues**

Based on procedures performed, CLA determined the District failed to locate and provide 100 out of 250 employee Forms I-9 selected for compliance. Due to the disorganized state of the documents, the District failed to locate many of the files required to demonstrate compliance.

## **4. Issues with Record Retention Across Multiple Systems**

In multiple instances, key records were not co-located, requiring CLA to reconstruct contract histories across systems and submit repeated follow-up requests to locate documentation not available in APECS or Contract Advantage. Additionally, CLA identified multiple information systems utilized by MSCS in the performance of its operations. CLA requested and was granted access to the majority of these systems to obtain information necessary to perform procedures within the scope of this engagement.

## **5. Degradation of Institutional Knowledge**

During the scope period, MSCS faced multiple leadership transitions. The turnover impacted the retention of staff, eroded institutional knowledge, created inefficiencies in the organizational stability of the core functions at MSCS, and increased internal control weaknesses and financial risks. The forensic audit has been impacted considerably resulting in the need for multiple interviews about specific areas of the scope of work to obtain a clear understanding of the processes that were in place. The lack of consistent knowledge around processes, procedures and applications has resulted in CLA conducting over 100 interviews to obtain information relevant to the forensic audit.

**Volume III – *Whitehaven Investigation*** – (85% Complete) presents interim results relating to procedures performed under an expanded scope to examine the fundraising and construction of the Herbert STEM Center focusing on whether funds raised from public and private sources were properly applied and whether conflicts of interest existed related to fundraising activities or construction contracts.

### **Interim Investigation Findings:**

#### **1. Lack of Formal Agreement with the District**

No formal written agreement existed between the District and Whitehaven STEM Building, Inc. governing the project, resulting in undocumented expectations related to project scope, roles, and responsibilities.

#### **2. Reduction in Building Size from Original Concept and Communication Gaps**

The decision to reduce the size of the Herbert STEM Center occurred during the design phase, with the final construction contract reflecting a smaller facility than earlier design concepts. While no construction change orders were required, gaps were identified in stakeholder

communication, such as the absence of documented approval by the Whitehaven High School Principal for a smaller than originally designed building.

**3. Project Funded through Public and Private Contributions – Conflict of Interest Evaluation not applicable**

The project was funded through approximately **\$9.9 million** in combined public and private contributions, with public entities providing 58% of total funding and private donors contributing 42%. Despite the predominance of public funds, competitive procurement was not required because the contractor and architect were identified in advance and public funding approvals did not impose procurement requirements. Accordingly, no procurement-related conflict-of-interest evaluation was applicable.

**4. Project Expenditures Were Properly Supported by Documentation**

Total project expenditures totaled approximately **\$9.1 million**, primarily paid to the construction contractor and architect, with smaller amounts paid to SchoolSeed and other vendors. Expenditures were adequately supported and determined to be appropriate and directly related to construction and related project activities.

**5. Diminished Trust and a Lack of Transparency Surround the Remaining Funds**

A balance of approximately **\$885,000** remains in the Whitehaven STEM Building, Inc. account at SchoolSeed. Communication with the District regarding the intended use and access to these funds has been insufficient and appears to be contributing to diminished trust among Whitehaven STEM Building, Inc. and the Whitehaven community.

Across each volume, CLA has identified observations and provided corresponding recommendations tailored to the specific scope and time period reviewed. In certain instances, recommendations may appear duplicative across volumes; however, such repetition is intentional and reflects that similar conditions or control considerations were observed during different review periods. Specifically, recommendations arising from forensic audit procedures covering fiscal years 2022 to 2024 may overlap with those arising from the internal controls assessment and other work performed during fiscal year 2025 and the current period. CLA has presented these observations separately to accurately reflect the distinct timeframes, evidentiary bases, and objectives of each engagement.

We appreciate the cooperation and assistance provided by the Office of the Comptroller throughout this engagement. We trust that this report will assist the Comptroller and the Tennessee General Assembly in carrying out their oversight responsibilities. We would be pleased to discuss the contents of this report or respond to any questions you may have.

Respectfully submitted,



**CliftonLarsonAllen LLP**

Folashade Abiola-Banjac, Esq.  
Principal – Leader, Forensics, Litigation, and Investigations



# Memphis Shelby County Schools Internal Controls Assessment and IT Cybersecurity Risk Assessment

## State of Tennessee Comptroller of the Treasury Report VOLUME I

March 12, 2026

Prepared by:

**Brian Pye, Principal**  
Business Risk Services

**Sean Hall, CIA, CRMA, Manager**  
Business Risk Services

**Dan Resnick, Principal, CISSP**  
Digital Cybersecurity

CliftonLarsonAllen LLP

[CLAconnect.com](https://www.claconnect.com)

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March 12, 2026

Jason E. Mumpower  
Tennessee Comptroller of the Treasury  
425 Rep. John Lewis Way North  
Nashville, TN 37243

Dear Mr. Mumpower:

This draft report provides you, Tennessee Comptroller of the Treasury (Comptroller or “the State”) leadership the results of the internal controls assessment related to the areas of concern over the Memphis-Shelby County Schools (MSCS or “the District”) for fiscal year 2025 (July 1, 2024 – June 30, 2025), as well as the initial observations from the IT cybersecurity risk assessment, and as a means to prioritize risk mitigation and/or remediation strategies.

This assessment was performed in accordance with Statement on Standards for Consulting Services established by the American Institute of Public Accountants (AICPA). The consulting procedures under this engagement do not constitute a review or examination under the AICPA’s attestation standards, nor an audit made in accordance with Generally Accepted Auditing Standards (GAAS), the objective of which would be the expression of an opinion or conclusion on the subject matter in accordance with the criteria. Accordingly, we do not express such an opinion, attestation, or provide any other form of assurance and did not otherwise verify or audit any information provided to us.

In addition, the procedures performed by CLA are not a substitution for MSCS management’s responsibility to maintain a system of controls to mitigate risk. The internal controls assessment was designed to provide the Comptroller with insight into inherent and specific risks and deficiencies throughout the MSCS organization. Fraud and irregularities by their very nature are most often hidden, and no absolute assurance can be given that all such matters have been detected. Our engagement cannot be relied on to disclose all irregularities or illegal acts, including fraud that may exist. This report is intended for the use of the Comptroller, the General Assembly, and MSCS management and Board.

We appreciate the cooperation and assistance provided by the Office of the Comptroller throughout this engagement. We trust that this report will assist the Comptroller and the Tennessee General Assembly in carrying out their oversight responsibilities. We would be pleased to discuss the contents of this report or respond to any questions you may have.

Respectfully submitted,

**CLA (CliftonLarsonAllen LLP)**

Dan Resnick  
Principal

Sean Hall  
Manager

Brent Warner  
Signing Director

## Table of Contents

Internal Controls .....	1
Internal Controls - Executive Summary.....	1
Internal Controls - Objectives and Scope .....	2
Internal Controls - Conclusion.....	4
Internal Controls - Detailed Observation Listing .....	6
IT Cybersecurity Risk Assessment .....	34
IT Cybersecurity - Executive Summary .....	34
IT Cybersecurity - Assessment Scope and Summary Observations.....	36
IT Cybersecurity - Conclusion .....	38
IT Cybersecurity - Detailed Observation Listing .....	40
Information about CliftonLarsonAllen LLP .....	63

## Internal Controls

### Internal Controls - Executive Summary

CLA performed an internal controls assessment of MSCS on behalf of the State, to assess the design and operating effectiveness of internal controls to achieve the State's objectives. Any conclusions reached are our professional judgement based on the relevant data obtained in performing the procedures. Had additional or different information been provided our conclusions may be different. Management alone is accountable for the adequacy of their implemented processes and controls.

We performed the internal controls assessment for the period July 1, 2024, through June 30, 2025, in accordance with the timeline established per the engagement letter dated July 24, 2025.

Interviews were performed with many key stakeholders in the District to gain an understanding of processes, risks, and internal controls, specifically for the areas deemed to be in-scope as defined in the engagement letter. After the interview process, we performed effectiveness testing; specifically performing walkthroughs of processes and internal controls with the key stakeholders including inquiry, observation, and inspection of documentation.

Based on the results of the testing procedures, CLA developed this report to communicate and address the following:

- Leading practice control activities
- Observations identified during the assessment
- Recommendations and leading practices
- Risk ranking per individual observation

## Internal Controls - Objectives and Scope

CLA performed an internal controls assessment for the State to assess whether internal controls are suitably designed and operating effectively to achieve control objectives at MSCS.

The internal controls assessment was performed as a result of the State recognizing the importance of a sound internal control environment in assisting with the achievement of MSCS's strategic objectives.

The objective was to perform an internal controls assessment for MSCS, specifically the following:

- Perform an internal control assessment to evaluate the design and operating effectiveness of processes and internal controls.
- Identify process and internal control improvement opportunities.
- Propose changes that mitigate risk and better support internal controls.
- Develop a work program tailored for MSCS and utilize the work program to perform a detailed review to validate the design and operating effectiveness of internal controls identified in previous steps.

The scope of the internal controls assessment included assessing control environments in place for the following areas and processes:

- Planning & Strategy
- Preliminary Assessment
- Internal Controls and Risk Management
- Federal and State Funding Review
- Procurement and Contract Management
- Financial Transactions and Controls
- Vendor and Conflicts of Interest
- Governance and Compliance

CLA leveraged the *COSO Internal Control–Integrated Framework* during its engagement, as it is one of the most widely used models for designing, implementing, and evaluating internal controls.

In addition, the Tennessee Comptroller of the Treasury's *Internal Control and Compliance Manual* states the following related to COSO: "Establishing and maintaining a system of internal controls is required by state and federal law. Implementing the five components of internal control (per COSO internal control standards) should be considered mandatory."

The five components of COSO internal control are:

1. **Control Environment** - This sets the tone for the organization by establishing expectations for integrity, ethical values, governance oversight, organizational structure, and accountability. It forms the foundation for all other internal control components.
2. **Risk Assessment** - Organizations identify, analyze, and respond to risks that could affect achievement of objectives. This includes setting clear objectives, identifying risks, assessing fraud risk, and evaluating changes that could impact controls.
3. **Control Activities** - These are the specific actions—policies, procedures, approvals, verifications, reconciliations, segregation of duties—implemented to mitigate risks and ensure directives are carried out.
4. **Information and Communication** - Relevant, timely, and quality information must be generated and communicated across the organization to support internal control, including both internal and external communication channels.
5. **Monitoring Activities** - Ongoing evaluations, separate evaluations, or a combination of both ensure that internal controls continue to operate effectively over time. Deficiencies are identified and addressed promptly.

## Internal Controls - Conclusion

We appreciate the opportunity to assist MSCS as they continue to focus on improving their internal control infrastructure.

Overall, we thought individuals were very knowledgeable of the processes and procedures for which they are responsible and were able to provide the information needed to complete our internal controls assessment procedures in a timely and efficient manner.

The following are key themes resulting from the internal controls assessment:

- The internal audit observations indicate that the Internal Audit function has not yet reached a level of maturity consistent with leading practices for independence, governance, and risk-based assurance. Key gaps include the absence of a formal audit universe, documented risk assessment, and risk-based annual and multi-year audit plans, limiting the ability to align audit coverage with the district's highest-risk areas. Foundational governance elements, such as a current Internal Audit Charter, comprehensive audit methodology, and formal reporting relationship with the Audit Committee, are outdated or incomplete, constraining independence and Board oversight. In addition, Internal Audit reporting to the Board is limited, and certain activities, including school funds audits, do not fully align with state requirements. Collectively, these observations reflect a function that performs important activities but lacks the structure, documentation, and strategic alignment necessary to operate as an independent, risk-focused assurance function.
- Lack of system user access reviews across departments and applications. User access provisioning, modification, termination, and periodic access reviews are not consistently performed or documented across systems and applications. These gaps increase the risk of unauthorized access, excessive privileges, and delayed removal of access following role changes or termination.
- Governance structures, policies, and oversight mechanisms are not consistently designed or enforced across departments. Key governance controls, such as conflict of interest management, ethics and fraud reporting oversight, audit committee reporting, and policy ownership, lack formalized accountability and recurring reporting, increasing the risk of unmanaged compliance and integrity issues.
- Many critical processes operate without formally documented, current, and standardized procedures. Where policies exist, they are frequently outdated, lack clearly assigned ownership, or are embedded within operational manuals rather than approved governance documents. This results in inconsistent execution, reliance on institutional knowledge, and heightened continuity risk.
- Ongoing monitoring controls, exception reporting, key performance indicators, and management review activities are limited or inconsistently applied. In many cases, controls are performed but not retained as evidence, reducing transparency and weakening the ability to demonstrate effective internal control operation over time.
- Several observations reflect noncompliance or partial compliance with state laws, regulations, and district policies (e.g., procurement approvals, school funds audit

requirements, licensure reporting, record retention). These gaps elevate legal, financial, and reputational risk and underscore the need for stronger compliance monitoring.

- Documented quality assurance to verify data entry completeness and accuracy is not performed. Across multiple operational areas, including HR, procurement, contracts, payroll, and accounts payable, formal quality assurance reviews are either absent or inconsistently documented. Data entry accuracy, completeness of supporting documentation, and supervisory review are often informal, limiting management’s ability to detect errors, irregularities, or control failures.
- Vendor management practices, including vendor inventories, SOC report reviews, contract monitoring, and vendor risk assessments, are not consistently formalized or integrated across the organization. This limits visibility into third-party risks, contractual compliance, and reliance on external service providers.

The observations and recommendations presented in this report are intended to support leadership in prioritizing improvements, strengthening operational consistency, and advancing the overall maturity of MSCS’s internal control structure over time. The table below summarizes the distribution of observations by risk rating across the in-scope control domains.

**Table 1: Distribution of Observations by Risk Rating**

Control Domain	High	Moderate	Low	Total
Governance	6	0	0	6
Human Resources	4	4	0	8
Internal Audit	7	3	0	10
Contracts	2	4	0	6
Procurement and Vendor Management	2	3	1	6
Accounts Payable	0	5	3	8

## Internal Controls - Detailed Observation Listing

CLA noted in the Internal Controls Assessment table, starting on the following page, opportunities to implement or improve the design and operating effectiveness of internal controls. Observations are generally departures from the District's policies and procedures, or gaps or weaknesses within the internal control and information technology environment. Observations are rated as high, moderate, or low, as defined in the sections below. Based on the review of the content of each observation, one of the following definitions is assigned to facilitate comparison and determine risk.<sup>1</sup>

- **High** – A high risk observation represents breakdowns in the control environment and includes such conditions as risk of financial loss, repeat observations, systemic control weaknesses, noncompliance with laws and regulations, observations with potentially significant financial statement impact, a lack of segregation of duties in high-risk areas, observations which if not corrected could disrupt the business line or company as a whole, and weaknesses in computer controls, such as security over key systems or personnel being able to affect accounts for which they are not accountable. This definition is not meant to be all inclusive, but rather to provide management guidance as to what may be considered a significant observation concerning the District's internal controls or operations.
- **Moderate** – Moderate risk observations represent isolated control exceptions that impact the risk and control assessment of individual business units and/or portions of business processes. Other observations are typically within the control of business unit management and may be corrected with minimal disruption to the business processes. If left unchecked, other observations may increase the risk to the organization and deteriorate to the level of significant observations. Other observations may include isolated instances of noncompliance with policies or control weaknesses that do not represent significant risk to the District.
- **Low** – Low risk observations cover situations that are not considered significant observations or other observations. Additional comments may include comments on process improvement based on audit observations; matters that came to our attention during the audit where we believe management should be appraised of the situation, yet no financial, operational, or regulatory compliance control has been violated and no recommendations can yet be formulated; or matters outside of our scope that may warrant management consideration.

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<sup>1</sup> These definitions are also applicable to the IT Cybersecurity Risk Assessment starting on page 40.

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
<b>Internal Controls Assessment</b>					
<b>Governance</b>					
1	<p><b>Ethics and Fraud Hotline Processing</b> Implementing an Ethics and Fraud Reporting hotline is a leading practice demonstrating an organization's commitment to ethical conduct, transparency, and accountability. An Ethics and Fraud Reporting hotline provides a secure and confidential channel for employees, stakeholders, and other parties to report unethical behavior, misconduct, or violations of policies and regulations.</p> <p>MSCS uses a vendor, Lighthouse, to facilitate Ethics and Fraud Reporting hotline processing. These vendor tools facilitate standardized processing, including investigation, decisioning, retention, and reporting. They also help enable early detection of misconduct and compliance risks through consistent, fair, and timely intake, investigation, and escalation of concerns. Hotlines assist in strengthening ethical culture and governance by providing transparency, actionable insights, and effective oversight via regular reporting for management and the board. MSCS Internal Audit currently serves as the</p>	<p>CLA noted the following:</p> <ul style="list-style-type: none"> <li>• While a small number of submissions are investigated directly by Internal Audit, the majority are forwarded to HR/Employee Relations, school-level leadership, or other administrative offices. Upon referral, Internal Audit closes the item in Lighthouse and does not confirm an investigation occurred or if the matter was subsequently or adequately resolved.</li> <li>• Supporting documentation related to Ethics and Fraud Reporting processing is not retained within Lighthouse.</li> <li>• Documentation, either in Lighthouse or retained by the applicable processing departments, is consistently inadequate for a reasonable person to determine what was performed for submission resolution or closure.</li> <li>• Formally documented procedures do not exist to standardize processing expectations in a decentralized processing environment, including investigation requirements, decisioning, retention, and reporting.</li> <li>• Reporting of Ethics and Fraud Reporting activity to the board or an appropriate committee thereof does not exist.</li> </ul> <p>Due to the lack of centralized oversight, allegations can remain uninvestigated, be handled inconsistently across the district, or reach closure without any documented justification. This undermines the integrity, transparency, and reliability of the Ethics</p>	<p>CLA recommends the following:</p> <ul style="list-style-type: none"> <li>• Governance and ownership of the district's Ethics and Fraud Reporting hotline responsibilities should be formally defined to verify every submission, whether investigated internally or referred to another office, is fully researched, documented, and if any actions are warranted for resolution.</li> <li>• Records related to Ethics and Fraud Reporting processing and investigation should be centrally retained in the secure and role-based access system of record, Lighthouse.</li> <li>• All submissions should be reviewed and signed off on by a secondary individual in Internal Audit/owning department, for quality assurance.</li> <li>• Formally develop and document standardized procedures for Ethics and Fraud Reporting processing, including referrals, assessment of allegations and investigation requirements, decisioning, as well as records and documentation requirements to close issues.</li> <li>• Report Ethics and Fraud Reporting activity to the board or an</li> </ul>		High

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
	administrator of the district's Ethics and Fraud Reporting hotline.	and Fraud Reporting process and exposes the district to operational, reputational, and legal risk.	appropriate committee on a quarterly basis.		
2	<p><b>Conflicts of Interest</b></p> <p>Completing an annual conflict of interest disclosure and attestation, as well as whenever a potential conflict arises, assists the organization in adhering to a transparent and accountable culture, and helps maintain the integrity and trustworthiness of the Board and the community. Data received should be reviewed and risk assessed by management of the appropriate department, and monitoring and follow-up performed on any high-risk identified conflicts.</p>	<p>CLA noted the following related to conflicts of interest:</p> <p>A) Conflict of interest disclosures and attestations were not requested from the Board, or obtained from key employees during our scope period (FY '22-25)</p> <p>B) For the FY '26 conflict of interest disclosure and attestation request, a population of key employees was not determined before sending out the request</p> <p>C) In addition, data capture was not received in a way that would allow data to be leveraged by necessary departments to assess the severity of any reported conflicts (e.g., HR, procurement)</p> <p>D) Formally documented monitoring, escalation, and mitigation plans do not exist for identified conflicts</p> <p>E) Conflict of Interest Policy (4003) listed revision date on BoardDocs was more than 10 years ago (2013)</p> <p>If the district does not require employees, particularly those in decision-making or sensitive roles, to complete periodic conflict of interest disclosures and attestations, there is a heightened risk that actual, potential, or perceived conflicts of interest will go unidentified and unmanaged. This increases the risk of employees making decisions influenced by personal or financial interests resulting in compromised objectivity, impaired decision-making, fraud, favoritism, improper vendor</p>	<p>CLA recommends the following related to conflicts of interest:</p> <p>A) Complete an annual conflict of interest disclosure and attestation for all key employees, including Board members</p> <p>B) For conflict of interest disclosure and attestation requests, verify the requested individuals align with the definition of a key employee for the district for data collection purposes</p> <p>C) Have data capture be received in a way allowing information to be assessed and leveraged by necessary departments to assess the severity of any reported conflicts (e.g., HR, procurement)</p> <p>D) Formally implement and document monitoring controls, assessing the severity of any reported conflicts, and developing appropriate mitigation plans (e.g., recusal from certain decisions, reassignment of responsibilities, increased supervisory oversight) as necessary. In addition, areas like procurement should implement and document a control as part of their due diligence to verify conflicts do not exist between management and the vendor.</p>		High

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
		selection, financial loss through biased procurement or contract awards, and damage to district reputation and stakeholder trust.	E) Assess and update the Conflict of Interest Policy to reflect determined practices and controls.		
3	<b>User Access Reviews</b> Regular access reviews of users with access to company systems and applications should be conducted to verify only current employees have access and access granted is appropriate for their roles.	CLA noted periodic user access reviews for IT systems and applications are not performed.  Lack of periodic access reviews increases the risk that former employees or individuals with inappropriate access levels may retain access to systems and applications. This can lead to unauthorized access, data breaches, and potential misuse of system capabilities.	CLA recommends a periodic user access review be performed (annually at a minimum) for system and application users to verify access is accurate and appropriate. Systems and applications identified include, but are not limited to, Active Directory, Apecs, FIS Global, Contract Advantage, Teammate, and Lighthouse.		High
4	<b>Policy Management</b> Policies establish clear expectations and requirements to guide decision-making, manage risk, and promote consistent behavior across the organization. Leading practice is to assign policy ownership to appropriate department leadership, and periodically review and update content to verify it reflects the current culture and environment of the organization. The MSCS District is responsible for approximately 215 active policies across departments.	CLA noted the following:  <ul style="list-style-type: none"> <li>MSCS maintains polices on their BoardDocs webpage and leverages a tracker for biennial review of their approximately 215 policies. Per review of the policies on BoardDocs, 102 policies have not had their revised date updated within the past 10 years (47%) with an average revision period of all policies being in September 2017.</li> <li>The Responsibility section of policies consistently states, "The Superintendent is responsible for ensuring that this policy is followed," without listing a responsible department or title of the individual in that department who would be responsible for processes contained within the policy.</li> </ul> <p>Failure to periodically revise policies as well as assigning policy ownership increases the risk of non-compliance with the current operating environment, inconsistent decision-making, operational inefficiencies, and unmanaged exposure to legal and reputational harm.</p>	CLA recommends the following:  <ul style="list-style-type: none"> <li>Update the revision date to incorporate the most recent Board approval date.</li> <li>Assign an owning party/leader for each policy, based on department, responsible for performing periodic reviews and revisions of their applicable area/department policies.</li> </ul>		High

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
5	<p><b><u>Procurement Policy</u></b> Policies establish clear expectations and requirements to guide decision-making, manage risk, and promote consistent behavior across the organization. Leading practice is to ensure critical policies are provided to employees upon being hired and included in an annual policy acknowledgement process.</p>	<p>CLA noted the following:</p> <ul style="list-style-type: none"> <li>• Procurement policy is currently embedded within a document titled "Procurement Services Manual." Out of the approximate 215 policies published on BoardDocs, there is no actual Procurement Policy which governs topics such as requirements for requisitions and bidding. The manual includes language regarding repercussions for violation of the stated policy, demonstrating the intent to function as a formal District policy.</li> <li>• The Procurement Services Manual, which is posted on the MSCS District website, was last revised on 12/1/2023. The manual contains the name and contact information for a Director who is no longer with the school district.</li> </ul> <p>Lack of a board-approved Procurement Policy with clearly assigned ownership, and periodic revision of the policy, exposes the district to compliance, financial, operational, and reputational risks. Without a formally adopted policy governing requisitions, bidding thresholds, competitive processes, and procurement authority, the district cannot verify consistent, legally compliant purchasing practices.</p>	<p>CLA recommends the following:</p> <ul style="list-style-type: none"> <li>• MSCS develop and implement a formal, board-approved Procurement Policy that clearly defines requisition requirements, bidding thresholds, competitive procurement procedures, approval authorities, and staff responsibilities.</li> <li>• The district separate policy from procedural guidance by maintaining the Procurement Services Manual as an operational document aligned to the new policy, updated periodically to reflect current organizational structure, remove outdated contact information, and verify alignment with board-approved policy language.</li> <li>• Training be provided and available to all procurement and school-based staff once revisions are adopted for consistent application across the district.</li> </ul>		High
6	<p><b><u>Record Retention Policy</u></b> Per the Record Retention Policy (3012), "Each department, in collaboration with General Counsel, shall develop a records retention and disposal schedule to govern the records under their purview. Schedules for the retention and disposal of records shall be catalogued in a District Records Retention and Disposal Plan."</p>	<p>CLA noted schedules for the retention and disposal of records for various departments were not catalogued in a District Records Retention and Disposal Plan.</p> <p>The absence of a centralized, catalogued Records Retention and Disposal Plan across MSCS departments exposes the district to compliance, legal, and operational risks.</p> <p>In addition, the Forensics team noted the following related to record retention in their report:</p>	<p>CLA recommends alignment with Policy 3012 and the office of the General Counsel provide oversight for each department to develop a records retention and disposal schedule to govern the records under their purview. Management of the schedule shall be the responsibility of the office of the General Counsel.</p>		High

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		<ul style="list-style-type: none"> <li>• Bank statements: instances of incomplete or missing supporting documentation. These deficiencies did not prevent or impede payment, and the expenses reviewed generally appeared to represent legitimate District business activities. In certain instances, transactions did not include all required physical supporting documentation in accordance with District policy; however, the transactions were approved within the APECS system. These matters do not indicate waste or abuse but rather reflect noncompliance with internal documentation requirements and constitute an internal control deficiency.</li> <li>• P-cards and check requests: instances of incomplete or missing supporting documentation which did not prevent or impede payment. However, based on the analysis and testing performed, the expenses reviewed appeared to reflect legitimate District business activities. In some cases, transactions did not include all required physical supporting documentation as required by District policy; however, the transactions were approved within the APECS system. These instances do not indicate waste or abuse but reflect noncompliance with internal documentation requirements, representing an internal control failure</li> <li>• Travel reimbursements: instances of incomplete or missing supporting documentation which did not prevent or impede payment. However, based on the analysis and testing performed, the expenses reviewed appeared to reflect legitimate District business activities. In some cases, transactions did not include all required physical supporting documentation as required by District policy; however, the transactions were approved within the</li> </ul>			

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		APECS system. These instances do not indicate waste or abuse but reflect noncompliance with internal documentation requirements, representing an internal control failure (see Record Retention Policy and Payment observations in the table below).			
<b>Human Resources</b>					
7	<p><b><u>State Board of Education (SBE) Reporting</u></b></p> <p>SBE Licensure Discipline Reports are required to be submitted to the State Board by the Director of Schools or their designee. Tennessee law requires directors of schools to report educator suspensions, dismissals, resignations tied to misconduct (including sexual misconduct), and qualifying criminal convictions within 30 days.</p>	<p>CLA noted SBE Licensure Discipline Reports were not submitted to the State for fiscal year 2025. The Director of Schools (Superintendent) signatures were not received as the Superintendent communicated to staff that they did not feel comfortable signing them, causing the forms to not be sent to the state during the period.</p> <p>Not submitting required reporting to the state to the Tennessee State Board of Education increases legal, operational, and student-safety risks. It also allows potentially unfit educators to retain active licenses, increasing the risk of continued misconduct, harm to students, and liability for negligent retention or failure to report.</p>	<p>CLA recommends MSCS implement tracking and monitoring of SBE Licensure Discipline Reports to verify they are provided within required timeframes. Results of reporting should also be provided to appropriate management and/or committee. In addition, formal designation of a primary reporter (usually HR Director, Employee Relations Director, or Legal Counsel) should be obtained via written authority from the superintendent.</p>		High
8	<p><b><u>Succession Planning</u></b></p> <p>A formal, documented succession planning process is considered a leading governance and risk-management practice for maintaining organizational continuity, preserving institutional knowledge, and reducing operational disruption when key personnel transitions occur. Effective programs typically include identification of critical roles, assessment of talent pipelines, development plans for potential</p>	<p>Discussions with HR Leadership indicate that the organization does not have a formal, documented succession planning process in place. Leadership transitions are managed on an informal, ad-hoc basis, and there is no structured approach for identifying critical roles, assessing internal talent pipelines, or preparing potential successors. The absence of a defined framework limits the organization's ability to ensure continuity of operations and retain institutional knowledge during key personnel changes.</p> <p>Organizations that lack a structured succession planning framework face increased vulnerability to</p>	<p>CLA recommends management design and implement a formal, organizational-wide succession planning program that identifies critical roles, evaluates internal talent pipelines, and establishes development plans for potential successors. The program should be documented, periodically reviewed, and approved by senior leadership to maintain continuity of operations, preserve institutional knowledge, and reduce the risk of disruption during leadership transitions. Incorporating defined responsibilities,</p>		High

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	successors, and periodic review by senior leadership.	skill gaps, delays in decision-making, and diminished strategic resilience during leadership changes.	timelines, and monitoring mechanisms will help ensure the process remains current, consistently applied, and aligned with strategic objectives.		
9	<b>HR Data Entry - Quality Assurance</b> Leading practice is for HR staff to perform a documented quality assurance review of data manually entered into the HR system of record before finalizing the record. The reviewing individual performs quality assurance to validate key data fields such as name, SSN, address, pay rate, position, FTE status, and effective dates match source documents and signs off electronically or manually to evidence completion. Any discrepancies identified during the review are corrected prior to transmitting the data to Payroll. HR or the workflow tool retains evidence of the review for audit and monitoring purposes.	CLA noted HR manually keys in data to the system of record, Apecs, for new hires and subsequent changes. Currently there is not a documented quality assurance control by a second staff member to verify employee data is entered into the system of record accurately. HR stated any errors will be communicated to them by Payroll.  Absence of a formal quality assurance review for new employee records entered into the system of record increases the risk of inaccurate, incomplete, or inconsistent HR data. As HR is entering this data into the system of record, they are the primary function responsible for integrity of the data, supported by Payroll who validates data aligns with payroll requirements, flagging discrepancies.	CLA recommends HR implement a formally documented quality assurance control to verify accuracy and completeness of data entered into Apecs, performed by a secondary individual other than the preparer, with clear evidence of review and approval. For new hires, management should also consider discussing a system interface between iCims and Apecs, to systemically transfer data from HR's recruitment application to Apecs.		Moderate
10	<b>Employee File Checklists - Onboarding</b> MSCS HR completes an Employee File Checklist to verify required hiring, compliance, and onboarding activities are completed for new employees. The checklist is maintained centrally and retained as part of the employee's personnel record.	CLA noted the following during their review of Employee File Checklists: <ul style="list-style-type: none"> <li>• Three different versions of Employee File Checklists were used for fiscal year 2025 (1 from 2022, 2 from 2024).</li> <li>• The Checklist does not include I-9s as a requirement. I-9s are retained separately from the employee file.</li> <li>• 16 of 45 new employees had I-9 statements, with copies of their identification, properly retained (36%). Of these:</li> </ul>	CLA recommends the following for Employee File Checklists: <ul style="list-style-type: none"> <li>• Leverage the most up-to-date version of the Checklist, housed centrally on an HR shared site.</li> <li>• Retain I-9s in the employee file, and not separately.</li> <li>• Retain I-9s, and copies of identification, for all employees.</li> <li>• Retain licensure information verified during onboarding in the employee file.</li> </ul>		High

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		<ul style="list-style-type: none"> <li>• 20 of 45 new hires sampled (44%) did not have an I-9 retained.</li> <li>• 9 of 25 I-9s (36%) did not have copies of identification retained.</li> <li>• Licensure information verified during Checklist completion is not retained within the employee file.</li> <li>• Consistency of checklist completion varied based upon the individual completing the checklist</li> <li>• Review of file and Checklist completion were not performed by a second HR individual for quality assurance purposes.</li> </ul> <p>Errors, omissions, or inconsistencies in the Employee File Checklist may result in non-compliance with regulatory or organizational requirements.</p>	<ul style="list-style-type: none"> <li>• Standardize checklist completion through formally documented procedures.</li> <li>• Implement a quality assurance control for accurate completion Employee File Checklists</li> </ul>		
11	<p><b><u>HR Offboarding Checklist</u></b> Leading practice is for HR to implement a formally documented offboarding control for all terminated employees, to verify timely removal of system access, physical access, other organizational privileges, and equipment to be returned. The checklist serves as evidence that all access removal steps were performed.</p>	<p>CLA noted HR does not have a formal offboarding workflow, automated or manual, to verify all system, application, and physical access for terminated employees is removed in a complete and timely manner. In the absence of a structured process or checklist, HR and IT rely on ad-hoc and email communication and informal practices, resulting in inconsistent execution and no documented evidence that all required deprovisioning steps were performed.</p> <p>Lack of a control to document offboarding increases the risk of terminated employees retaining unauthorized access and loss of assets.</p>	<p>HR should establish a formally documented offboarding control to verify all system, application, physical access, and return of equipment have been completed promptly for terminated employees. Management should develop and implement a standardized offboarding checklist, and maintain the checklist in a centralized department shared drive.</p>		Moderate

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12	<p><b>Organizational Charts</b></p> <p>Leading practice for is to maintain current, clearly defined organizational charts verifying reporting lines, delegated authorities, and segregation of duties in a transparent, consistent way. Org charts should be formally owned, updated promptly after structural changes, and accessible to all relevant stakeholders to reduce ambiguity in roles and accountability.</p>	<p>CLA noted MSCS HR does not require standardized organizational charts or formal requirements governing their creation, ownership, or updating. As a result, reporting lines, role responsibilities, and accountability structures are not consistently documented or easily verifiable. In addition, through inquiry across teams, it was noted personnel did not know who to reach out to when they have questions or need support, most commonly in the area of HR, a department that has gone through consistent turnover and department reorganization.</p> <p>Including both functional and reporting relationships strengthens governance by showing how decisions and oversight flow through the institution. This lack of standardization increases the risk of unclear authority, inconsistent communication, and gaps in oversight or segregation of duties.</p>	<p>CLA recommends MSCS HR require and assist in creating requirements to develop and maintain formal organizational charts that document reporting lines, key roles, and functional responsibilities to support effective oversight. Charts should be reviewed at least annually, or whenever significant changes occur, to verify accuracy and alignment with actual operations.</p> <p>HR should inquire of vendor's whose tools and applications they use, which have org chart structure capabilities, to be used for district operations. HR is a standard assignment of ownership for this control, verifying updates are timely and consistently communicated.</p>		Moderate
13	<p><b>Benchmarking</b></p> <p>Leading practice is for HR to perform regular, structured benchmarking to assess compensation, benefits, and staffing. Benchmarking should use credible external data sources and be integrated into workforce planning and budgeting cycles to inform evidence-based decisions. Results should be documented, reviewed with leadership, and used to drive continuous improvement in talent strategy.</p>	<p>CLA noted MSCS HR does not have standardized processes or defined requirements for conducting HR benchmarking across compensation, benefits, or staffing.</p> <p>In the absence of a formal approach, HR lacks consistent market insights to inform decision-making, assess competitiveness, or identify improvement opportunities. This gap increases the risk of inefficient resource allocation, and reduced ability to attract and retain talent.</p>	<p>CLA recommends the district perform a formal HR benchmarking process to compare its practices and compensation structures with relevant market peers. If internal capacity or experience is not available, we recommend an external industry expert be hired to perform this benchmarking.</p>		High

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14	<b><u>HR Procedures</u></b> Procedures exist to standardize and direct the step-by-step completion of processes and controls within the department, and are retained in shared location for department staff to access. Procedures are updated when processes and controls change.	CLA noted HR procedures are not in place to standardize and direct completion of step-by-step processes and controls within the department.  The absence of documented department procedures increases the likelihood of inconsistent work practices, errors, and knowledge gaps across staff. Without standardized guidance, employees may rely on informal or outdated methods, which can lead to operational inefficiencies, compliance failures, service quality issues, and heightened dependency on individual employees' institutional knowledge.	CLA recommends HR management create procedures for staff to assist them in completion of their day-to-day job responsibilities, and formally review and document procedure updates, at a minimum annually.		Moderate
<b>Internal Audit</b>					
15	<b><u>School Funds Audit - Completion</u></b> Per the Tennessee Department of Education's Internal School Funds Manual, in regards to annual school funds audits, "The annual audit must be prepared by a certified public accountant in good standing with the Tennessee Board of Accountancy, or by the Comptroller of the Treasury."	CLA noted the annual school fund audits of each school within the district are performed by the district's internal audit department, and are not prepared by a certified public accountant or the Comptroller of the Treasury. The external auditor compiles reporting from all of the school funds audits performed by the Internal Audit Department, and aggregates the results in their report.  Non-adherence to Internal School Funds Manual requirements increases the risk of financial mismanagement, inaccurate reporting, and noncompliance with state-mandated accounting standards.	CLA recommends the district adhere to Internal School Fund requirements of having annual school funds audits be prepared by a certified public accountant in good standing with the Tennessee Board of Accountancy, or by the Comptroller of the Treasury.		High
16	<b><u>School Funds Audit - Scope Period</u></b> Per the Tennessee Department of Education's Internal School Funds Manual, in regards to annual school funds audits, "Audits should cover at least one fiscal year, 12 months, unless otherwise approved by the Comptroller.	CLA noted the annual school fund audit scope period is tracked and monitored by the Internal Audit Department to cover a calendar year from when the audit commences, but does not cover the district fiscal year, as required.  Non-adherence to Internal School Funds Manual requirements increases the risk of financial mismanagement, inaccurate reporting, and	CLA recommends the district adhere to the following Internal School Fund requirements as stated in the Internal School Funds Manual: "The timing of submission of audit contracts can affect the timeliness of the audit. As a rule, audit contracts should be executed before the end of the fiscal year to be		High

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	Ordinarily, the fiscal year ends on June 30 for Tennessee governmental entities."	noncompliance with state-mandated accounting standards.	audited. However, contracting for the audit of internal school funds is different. Because some of the audit procedures conducted on behalf of the Division of Local Government Audit must be conducted while school is still in session, all county schools should contract by September 30 of the fiscal year to be audited (nine months prior to the end of the fiscal year)."		
17	<b>Internal Audit Reporting Line</b> Leading practice requires the Internal Audit function to maintain organizational independence through a dual reporting structure. Specifically, the Chief Audit Executive should have a functional reporting line to the Audit Committee (or equivalent oversight body of the Board) and an administrative reporting line to senior executive management.	CLA noted the Chief Audit Executive reports functionally to the Legal department, and administratively to the superintendent.  Without a functional reporting line to the Audit Committee, Internal Audit's independence may be impaired, increasing the risk that significant control deficiencies, compliance issues, or fraud risks are not identified, escalated, or addressed in a timely manner.	CLA recommends the Chief Audit Executive have a functional reporting line to the Audit Committee (or equivalent oversight body of the Board) and an administrative reporting line to the superintendent. Functional reporting to the Audit Committee should include: <ul style="list-style-type: none"><li>• Approval of the Internal Audit charter</li><li>• Approval of the risk-based audit plan</li><li>• Evaluation of Internal Audit performance</li><li>• Oversight of the appointment and removal of the Chief Audit Executive</li><li>• Review of significant audit findings and management's corrective actions</li></ul>		High
18	<b>Internal Audit Charter</b> Leading practice requires the Internal Audit function to operate under a formally documented Internal Audit Charter that is approved by the Audit Committee (or equivalent governing body) and reviewed periodically. The	CLA noted the Internal Audit Charter has not been updated since January 2022, and references Shelby County Schools, not Memphis-Shelby County Schools.  In addition, the Charter does not address foundational professional standards followed (i.e., Institute of Internal Auditors, Yellow Book) and is not	CLA recommends the Internal Audit Charter be updated to align with the current Memphis-Shelby County School district, explicitly address foundational professional standards followed (i.e., Institute of Internal Auditors, Yellow Book), and is approved by an Audit		Moderate

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	charter serves as the foundational governance document that defines Internal Audit's purpose, authority, responsibility, and independence, and aligns the function with recognized professional standards.	approved by the Superintendent, an Audit Committee, or equivalent governing body.	Committee or equivalent governing body.		
19	<b><u>Internal Audit Manual</u></b> Leading practice requires the Internal Audit function to maintain a comprehensive, formally documented Internal Audit Manual that provides detailed guidance on how audit activities are planned, executed, reported, and followed up.	CLA noted the Internal Audit function does not maintain a comprehensive, formally documented Internal Audit Manual that provides detailed guidance on how audit activities are planned, executed, reported, and followed up on.  The Manual serves as the primary operational reference for Internal Audit staff and supports consistency, quality, and compliance with professional standards.	CLA recommends Management formally document and implement a comprehensive Internal Audit Manual that defines standardized audit methodologies, roles and responsibilities, documentation requirements, quality assurance practices, and alignment with applicable professional standards. The Internal Audit Manual should be formally approved by the Chief Audit Executive, periodically reviewed, and updated as organizational risks, audit practices, or professional standards evolve.		Moderate
20	<b><u>Internal Audit Universe</u></b> Leading practice requires the Internal Audit function to maintain a comprehensive, documented Internal Audit Universe that identifies all auditable entities within the organization. The audit universe serves as the foundation for risk-based audit planning and should encompass the full scope of the organization's operations.	CLA noted Internal Audit has not established or maintained a comprehensive and documented audit universe identifying all auditable entities across the district. As a result, Internal Audit lacks a complete inventory of processes, functions, systems, and operational areas that may warrant audit coverage. Currently, school fund audits of each school are where team efforts are primarily focused.  Without a formally defined audit universe, Management has limited visibility into the full scope of potential auditable areas, and there is no	CLA recommends Management develop and maintain a comprehensive Internal Audit Universe identifying all auditable entities, including major operational areas, processes, systems, compliance areas, and significant programs. The audit universe should be periodically reviewed and updated to reflect changes in organizational structure, operations, systems, or risk profile.		High

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		documented baseline to demonstrate that all significant risk areas are considered for audit.			
21	<p><b>Internal Audit Risk Assessment</b> Leading practice requires Internal Audit to perform a formal, documented risk assessment to prioritize the audit universe. Risk assessments should consider a combination of quantitative and qualitative risk factors, such as financial impact and materiality, operational complexity, regulatory and compliance exposure, prior audit results, management concerns, volume of transactions, and susceptibility to fraud.</p>	<p>CLA noted Internal Audit has not performed a formal, documented risk assessment to evaluate and prioritize auditable areas within the organization.</p> <p>In the absence of a structured risk assessment process, audit coverage may not be consistently aligned with the district's highest-risk areas, and the rationale for audit selection is not clearly documented. Lack of a formal risk assessment limits Management's ability to assess whether audit resources are being appropriately directed toward areas of greatest significance and risk.</p>	<p>CLA recommends Management implement a formal, documented internal audit risk assessment that incorporates quantitative and qualitative risk factors. The risk assessment should be performed at least annually and incorporate appropriate input from senior management. Documenting and regularly updating the risk assessment will help verify audit priorities are aligned with organizational risks and support informed oversight and decision-making.</p>		High
22	<p><b>Internal Audit Annual and Multi-Year Plans</b> Leading practice is for Internal Audit to develop an annual and multi-year audit plan, based on the risk-ranked audit universe. The annual audit plan should outline, audits and advisory engagements to be performed, estimated timing and resource requirements, coverage of key financial, operational, compliance, and IT risks. Leading practice also includes maintaining a rolling multi-year audit plan (typically three years) to verify all</p>	<p>CLA noted Internal Audit has not developed formal, risk-based annual or multi-year audit plans derived from a documented audit universe and risk assessment.</p> <p>As a result, audit activities may be reactive or inconsistent, and there is limited assurance that audit coverage is sufficient or balanced over time. Additionally, the absence of formally approved plans reduces transparency into audit priorities and limits management's ability to provide effective oversight of Internal Audit activities.</p>	<p>CLA recommends Management develop a risk-based annual and multi-year internal audit plans leveraging the documented audit universe and risk assessment. The plans should define the scope, timing, and resource requirements for planned audit engagements and be formally reviewed and approved by the Audit Committee. Internal Audit should also establish a process to periodically reassess and adjust audit plans in response to significant changes or emerging risks,</p>		High

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	areas receive sufficient audit coverage, based on risk, and long term risks and strategic initiatives are considered.		with changes communicated to the Audit Committee.		
23	<p><b>Audit Committee/Board Reporting</b></p> <p>Leading practice is for the Chief Audit Executive (CAE) to maintain a direct, structured, and recurring reporting relationship with the Board or its Audit Committee, ensuring independence, transparency, and effective oversight.</p> <p>Policy 0024, Board Committees, states the Budget, Finance, and Audit Committee provides oversight and assurance to the Board on audit programs, internal controls, and approves meeting minutes.</p>	<p>CLA noted that while a Budget, Finance, and Audit Committee exists and is a standing agenda item at Board Meetings, the CAE does not present periodically to the Board. In addition, during the FY2024-25 period, the Committee met six times. A review of the agendas, meeting minutes and/or documents provided for review and/or presentation for these meetings showed there was no alignment to any internal or external audit activity or function.</p> <p>Without regular communication, the Board may lack timely visibility into significant control weaknesses, management's responsiveness to audit recommendations, and the overall effectiveness and independence of the Internal Audit function.</p>	<p>CLA recommends the CAE present to the Board at regularly scheduled intervals (e.g., quarterly). Presentations should include:</p> <ul style="list-style-type: none"> <li>• Status of the annual audit plan</li> <li>• Significant findings and emerging risks</li> <li>• Follow up on prior audit recommendations</li> <li>• Resource needs or constraints</li> <li>• Any matters requiring Board attention</li> </ul>		High

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24	<p><b>External Auditor Rotation</b> The Tennessee Comptroller Audit Manual Standards and Procedures states, "The Comptroller's Office encourages auditor rotation when a government engages a CPA firm to perform the annual audit."</p>	<p>MSCS has used the same external auditor to audit their financial statements and school funds since at least the 2015 fiscal year.</p> <p>Long-tenured engagements can create an appearance of reduced independence, familiarity threats, and reduced professional skepticism.</p>	<p>CLA recommends the district rotate external auditor firms every 5 years.</p> <p>Common benefits of rotation include increased independence and objectivity, reduction in familiarity threats with management, and opportunity for improved insights when new auditors reassess past practices.</p>		Moderate
<b>Contracts</b>					
25	<p><b>Contract Communication - Board</b> All contracts are approved and signed according to MSCS policy. When making a request to the Board for approval to enter into a contract, administration shall provide specific information including, but not limited to the topics outlined within Policy "2012 Contract Requirements, Approval and Signature Authority."</p>	<p>CLA notes while Board Briefing materials are consistently submitted to the Board along with each recommended contract for approval, the contents of the briefing materials vary and do not consistently include all the information required as outlined in the "2012 Contract Requirement Approval and Signature Authority" policy. The informational items most commonly omitted include why the recommended contract is the best purchase, other options for addressing the purchase, sustainability plan, implementation plan, and number/description of staff positions to be created as applicable.</p>	<p>In order to establish consistent compliance with required submittal of information to the Board for contract approval, CLA recommends the use of a fillable standard template which includes each of the required information topics as outlined in Contract Requirements Policy 2012.</p>		Moderate

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		<p>Inconsistent inclusion of required information in Board Briefing materials exposes the district to governance, financial, operational, and transparency risks.</p>			
26	<p><b>Contract Quality Assurance</b> Leading practice requires organizations to implement a formal quality assurance process to validate the accuracy, completeness, authorization, and compliance of contracts entered into the contract system of record. The quality assurance control should be designed to verify contract data in the system of record accurately reflects executed agreements.</p>	<p>CLA noted quality assurance is not performed on contracts entered into the system of record, Contract Advantage. Finalized contracts are uploaded and entered into Contract Advantage by individuals from departments across the district. Once items are entered into the system, contract data (e.g., contract value, dates, pricing, amendments, and approval authority) is not reviewed to verify information accurately aligns with fully executed agreements and approved amendments. This has resulted in missing data and incorrect information being populated into the system, such as:</p> <p>A) 25 out of 264 Professional Services contracts in the population of contracts expiring in FY25 or later did not contain a Contract Effective date.</p> <p>B) 21 out of 30 Professional Services contracts tested had contract effective dates which varied from the date entered in Contract Advantage. Many of these deviations were due to the contract term date being entered versus the effective date, which is typically the date the contract is fully executed by both parties.</p> <p>C) 2 out of 30 Professional Services contracts were executed without obtaining the required Purchase Authorization Form (PAF) from Procurement that is to be attached to every contract request to establish evidence the requisition has been approved. Another</p>	<p>CLA recommends management design and implement a formal quality assurance control over contracts entered into the system of record. At a minimum, the quality assurance control should include independent post-entry review of contract records to validate key terms against executed contracts and amendments, confirmation of required approvals and documentation, and timely correction of identified errors. Quality assurance procedures should be standardized, documented, and supported by appropriate segregation of duties.</p>		High

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		<p>contract sample did not contain the revised and final PAF with the contract documentation in the system.</p> <p>D) Two contracts for Professional Services from Christian Brothers University for dual exam credits for the 2024-2025 school year were categorized as "Non-Professional Services" contract type, whereas an agreement to amend one of these contracts for the spring semester (2025-0559) was correctly categorized as "Professional Services." CLA further notes the superseded spring services contract, while it showed an expiration date in the system of 12/31/2024, was still categorized as "Active" in Contract Advantage as of 3/1/2026.</p> <p>E) Professional Services contract 2025-0559 contains an incorrect contract number reference in the first page footer of the final executed copy of the contract.</p> <p>In addition, the Forensic Audit report included in Volume II notes that a contract bypassed the procurement process and no PAF, requisition, or PO were identified.</p> <p>As a result, management has limited assurance that contract data maintained in the system of record is complete and accurate. This increases the likelihood errors or omissions in contract records may go undetected.</p>			
27	<p><b><u>Contract Ongoing Monitoring</u></b> Leading practice requires organizations to implement ongoing monitoring over contracts maintained in the system of record to verify contract data remains accurate, complete, timely, authorized, and compliant throughout the contract</p>	<p>CLA noted ongoing monitoring and reporting controls over contract data entered into the system of record are not in place. Specifically, there is no reporting to detect inaccuracies, missing documentation, delayed entries, or authorization gaps.</p> <p>As a result, management has limited assurance that the contract system of record is complete, accurate,</p>	<p>CLA recommends Management design and implement formal, ongoing monitoring controls and reporting for contract data to verify data is complete, accurate, and exceptions are appropriately identified and corrected. Monitoring results should be routinely</p>		Moderate

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
	lifecycle. Ongoing monitoring should include periodic exception reporting to identify inconsistencies between recorded contract data and executed agreements, amendments, approval requirements, and lifecycle milestones.	timely, and compliant with contracting policies. This increases the risk of incorrect obligations, renewal/expiration oversights, and non-compliant terms. In one instance, CLA observed that a purchase order was issued for a superseded Professional Services contract as the contract was not marked as expired in the system.	reported to management, and remediation activities documented and tracked to closure.		
28	<p><b><u>Contract Authorization</u></b> All contracts are approved and signed according to MSCS policy. All contracts other than Professional Services contract types that are less than or equal to \$99,999 shall be approved and signed by the Superintendent and/or designee, unless exemptions apply.</p>	<p>During testing of contracts less than or equal to \$99,999 requiring Superintendent or designee approval and signature, CLA noted an agreement for dual credit course education services incurred during the fall semester of the 24-25 school year (July 1, 2024 to December 31, 2024) was not approved and executed until December 12, 2024 after services were substantially completed. While no payments were made to the vendor (Christian Brothers University) until after the executed contract was in place, the absence of an approved requisition and executed contract is in violation of the procurement policy published in the Procurement Services Manual which states:</p> <p>“A. All vendors are required to have a valid contract or Purchase Order (purchases over \$3,500) prior to providing services or delivering goods to a school or office within the District. B. MSCS employee must ensure that prior to receipt of services or goods delivered by a vendor, that the appropriate procedures are followed to ensure payment to the vendor. C. An MSCS employee may be subject to personal liability if they willfully or intentionally violate the policies and procedures set forth in this Procurement Manual including liability for the costs of services or goods incurred by the District.”</p>	<p>CLA recommends MSCS establish a formal escalation process when services begin without an executed contract, including:</p> <ul style="list-style-type: none"> <li>• Services and the Superintendent’s designee.</li> <li>• Documentation of the circumstances and responsible personnel.</li> <li>• Corrective action or disciplinary measures when appropriate.</li> </ul>		Moderate

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
		<p>Without an authorized agreement defining scope, pricing, and terms, the District may be unable to enforce service expectations, or challenge disputed charges, increasing the risk of unbudgeted expenditures, vendor disputes, and undermines transparency and weakens internal controls designed to safeguard public funds.</p> <p>In addition, the Forensic Audit report included in Volume II notes an inappropriate concentration of authority whereby individual employees were able to select vendors, execute contracts, and approve invoices without independent review.</p> <p>The Forensic Audit report included in Volume II notes that treating a contract as valid prior to execution creates significant risk. It may result in unauthorized commitments, improper payments, or obligations incurred without legal authority. This is particularly concerning when the same individual has the ability to select vendors, execute contracts, and approve invoices, as it bypasses required authorization controls and undermines governance safeguards (see Contract Authorization observations in the table below</p>			
29	<p><b><u>Contract Authorization</u></b> All contracts are approved and signed according to MSCS policy. Professional Services contracts less than \$75,000 require approval and signature from the Superintendent, and those greater than or equal to \$75,000 require Board approval.</p>	<p>During testing of Professional Services contracts, CLA noted one contract less than \$75,000 (2025-0143 for services to be completed by September 30, 2024) did not contain the signature of the Superintendent preventing it from being a fully executed contract. However, services were rendered by the service provider under the scope of the agreement without an approved requisition and purchase order in place.</p> <p>Additionally, CLA observed one contract that was in a second renewal term during the 2024-2025 school year defined in prior executed contracts to be valued</p>	<p>CLA recommends management design and implement a formal quality assurance control over contracts entered into the system of record. At a minimum, the quality assurance control should include independent post-entry review of contract records to validate key terms against executed contracts and amendments, confirmation of required approvals and documentation, and timely correction of identified</p>		Moderate

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
		at \$75,000. The renewal was executed on September 3, 2024 for \$74,900 placing it below the threshold requiring Board approval without sufficient documentation or explanation to substantiate the fee reduction in the current year, creating the appearance of circumvention of the contract approval policy.	errors. Quality assurance procedures should be standardized, documented, and supported by appropriate segregation of duties.		
30	<b><u>Request for Qualifications</u></b> Policies and procedures are documented that establish expectations applicable to all stakeholders to promote standard operating procedures that align with current processes within each department.	While the Professional Services Contracts Policy (2013) states these types of contracts shall not be based upon competitive bids, the policy does not clearly indicate when a Request for Qualifications ("RFQ") is required, or other required documentation to justify the vendor selection. CLA observed out of 30 Professional Services contracts tested, most samples did not appear to have supporting documentation to justify why a vendor was selected or if there were others considered prior to entering into the contract.	In order to eliminate inconsistent practices and the potential for vendor bias, CLA recommends the Professional Services policies and procedures be updated to include specific requirements for the selection of Professional Services contract awards.		High
<b>Procurement &amp; Vendor Management</b>					
31	<b><u>Vendor Management Program</u></b> Leading practice for vendor management programs is to identify, assess, and monitor risks associated with outsourcing to vendors and service providers. Vendor Management Programs assist in mitigating operational disruptions, monitoring vendor performance, verifying compliance with contractual terms, and assisting in reporting to management and the Board on fiscal responsibility of vendor usage.	CLA noted MSCS has not established a formal Vendor Management Program.  Lack of a formal vendor management program could expose the organization to operational, financial, contractual, and reputational risks, as well as create inefficiencies by leveraging multiple vendors for similar services or not utilizing company funds efficiently.	CLA recommends MSCS implement a Vendor Management Program, governed by leadership across appropriate departments via a work group or management committee, that includes risk rating vendors, tracking high risk vendors, assigning responsible managers, service level agreements, due diligence, and reporting on the status of vendors to leadership.		High

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
32	<b><u>Dormant Vendors</u></b> Leading practice requires vendor master files to be periodically reviewed for purposes of identifying vendors with no purchasing or payment activity over a defined period of time (typically 18-24 months). Vendors meeting the inactivity criteria should be inactivated/not deleted within the system of record to preserve historical records while preventing unauthorized or unnecessary transactions.	CLA noted vendor activity within the vendor master file has not been assessed since implementation of Apecs (before the merger in 2013).  Vendors remaining active with no payment activity over an extended period of time increases the risk of unauthorized or fraudulent payments, as dormant vendors may be used to process invalid transactions.	CLA recommends management establish a timeframe in which vendors should be inactivated in the Apecs system after a period of payment inactivity. CLA also recommends ongoing monitoring by management to assess vendor payment inactivity. Management should work with Apecs on the initial assessment to systemically inactivate vendors who haven't been paid for a set period of time, versus manually creating a report and performing the updates, based on the volume of vendors.		High
33	<b><u>Vendor PO Boxes</u></b> Leading practice requires that vendors maintain a valid physical street address in the vendor master file to support vendor legitimacy verification, regulatory compliance, and fraud risk mitigation.	CLA noted, out of approximately 21,000 active vendors, 1,230 vendors (5.9%) had only a PO Box on file, and not a physical address.  PO Boxes should not be used as the sole address for vendors and permissible only as secondary mailing addresses when a documented business or operational need exists. Exceptions (e.g., government entities or regulated utilities) should be formally approved and documented. Vendor master records should clearly distinguish between physical and mailing addresses, and periodic vendor file reviews should validate the continued appropriateness of any PO Box usage.	CLA recommends management require physical addresses for all vendors during their onboarding process, with any exceptions documented and approved. CLA also recommends ongoing monitoring by management to validate the continued appropriateness of any PO Box usage.		Moderate
34	<b><u>SOC Reports and Reviews</u></b> Service Organization Control (SOC) Reports provide a standardized methodology for end users to evaluate a service provider's internal controls and determine end user control considerations that should be in place	CLA noted critical service providers have not been identified for which SOC Reports should be obtained, and reviewed.  Not obtaining and reviewing SOC reports from critical service providers results in a lack of insight into the service provider's control environment, what the user should have in place in their control	CLA recommends critical service providers be identified, and SOC reports obtained and reviewed and documented for each vendor annually. Content of the review should identify any exceptions noted by the outside auditor, user control considerations and		Moderate

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
	within the control environment. User reviews of SOC reports assess vendor controls, user controls, and subservice organizations involved in the vendor's processing.	environment, and the service provider's ability to protect sensitive data and maintain operational integrity, resulting in financial impacts and operational disruptions.	associated controls in place to identify any gaps, as well as subservice organizations used by the vendor.		
35	<p><b>Vendor Quality Assurance</b> New vendors are set up in Apecs with a unique vendor number based on valid supporting documentation such as W-9's or other valid documents. A TIN match is completed on the IRS website to validate legal entity names and tax ID information is correct for 1099s. Vendor profiles are approved in Apecs by the Purchasing Department.</p>	<p>CLA noted, out of 45 new vendor records tested:</p> <p>A) 1 vendor's business entity type did not agree between Apecs and the W-9.</p> <p>B) 2 vendor addresses did not match the W-9 and no other support was available. One of the address errors was a transposition of the street address.</p> <p>C) 2 vendor records did not contain supporting documentation to substantiate the vendor profile.</p> <p>D) 1 vendor W-9 contained incorrect information not detected at the time of vendor record creation/approval. Procurement corrected these during the audit.</p> <p>E) 3 vendor records did not contain support to substantiate the IRS TIN match was completed at the time of vendor creation. Procurement corrected these during the audit.</p> <p>F) 2 vendors were students who received Valedictorian/Salutatorian merit payments in excess of the IRS tax threshold. Procurement does not complete IRS TIN matches for student profiles and did not complete 1099 information within the vendor profile. Merit awards are typically treated as taxable prizes by the IRS and a 1099 should be issued in these cases.</p>	<p>In order to establish completeness and accuracy over vendor record information, CLA recommends quality assurance review procedures and controls be included in the vendor setup and maintenance process. Best practice control procedures for vendor setup and maintenance include a quality review of the vendor profile against valid support as well as the completeness of all support to be retained with the profile. The quality review is recommended to be completed by an individual who does not have access to set up or modify the vendor information.</p>		Moderate

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
36	<b><u>Single/Sole Source Procurement</u></b> Policies and procedures establish expectations applicable to all stakeholders. Per the Procurement Services Manual, Sole Source Justification Forms require approval from the school's Instructional Area Superintendent, or for Offices, and approval from Senior Staff.	CLA noted the manual and form do not clearly define who is an authorized "Senior Staff" member required to authorize the Sole Source Justification Form, creating ambiguity in the interpretation of a properly authorized form.	In order to eliminate inconsistent practices and the potential for improperly authorized single/sole source purchases, CLA recommends the Procurement policies and forms be updated to clearly define who is authorized as a Senior Staff member.		Low
<b>Accounts Payable</b>					
37	<b><u>Out of Compliance Letters</u></b> Accounts Payable (AP) obtains and verifies required supporting documentation before processing and releasing vendor payments. An Out of Compliance Letter (OOCL) is issued to department personnel for any invoice > \$3,500.01 without an approved PO or an approved contract (if necessary), in which actions must be taken before the District can process a payment. Proper approvals and documentation are submitted back to AP before payment will be made.	CLA noted there were no monitoring or reporting controls implemented for Out of Compliance Letters during fiscal year 2025, as they were processed outside of the Apecs system.  Without a control to identify the population of Out of Compliance letters, there was no sample and subsequent testing CLA was able to perform.	CLA recommends implementing a monitoring control to track Out of Compliance Letters processed by the AP department.  Per AP, they are automating the facilitation and sign-off of Out of Compliance Letters into Apecs. A monitoring control for Out of Compliance Letters should also be implemented to verify Letters are being processed timely and accurately.		Low
38	<b><u>Computer Equipment Procurement</u></b> Leading practice requires all requests for computer equipment (including laptops, desktops, monitors, peripherals, and mobile devices) be reviewed and approved by Information Technology prior to purchase or issuance. Information Technology approval verifies requested equipment aligns with established technology	CLA noted computer equipment procured did not require Information Technology's approval during the 2025 fiscal year.  Computer equipment being acquired or issued without IT review and approval exposes MSCS to increased risk that non-standard or unsupported devices enter the environment, which may result in security vulnerabilities, data protection issues,	CLA recommends purchasing departments obtain IT's approval before computer equipment is purchased. AP recently began adding IT's approval for items which weren't previously part of catalogue approvals.		Moderate

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
	standards, security requirements, compatibility with the existing environment, and lifecycle management practices.	ineffective asset tracking, and higher support and maintenance costs.			
39	<p><b>Accounts Payable Aging Review</b> Leading practice involves Accounts Payable performing a recurring review of aged open accounts payable to verify accuracy, validity, and timely resolution of outstanding obligations. This review should occur at least monthly and include identification of invoices that are past due, unmatched, duplicated, or no longer valid.</p>	<p>CLA noted Accounts Payable currently does not run an aged AP listing for review. Per conversations with AP no periodic review of aged AP is performed. This is a common procedure and or practice. Issues related to not performing this procedure include, risk of overstated Liabilities and Expenses, budget compliance risk, cutoff and risk.</p> <p>Not regularly assessing accounts payable aging increases likelihood of carrying inaccurate or invalid liabilities on its books, increasing the risk of misstated financial reports and weakened budget oversight.</p>	<p>CLA recommends Management generate an aged payables report at least monthly, reviewing all items exceeding established aging thresholds, investigating invoices that appear past due, unmatched, duplicated, or no longer valid. Staff should document the disposition of aged items and a supervisor should review and approve the completed aged-payables analysis to verify timely follow-up, escalation of unresolved items, and adherence to district policy.</p>		Moderate
40	<p><b>Payment Processing</b> Accounts Payable payments are processed via a third party, and department staff reconcile totals from the MSCS payment file to confirmation from the third party of actual payments. Management reviews and signs off on reconciliation and paperwork is filed.</p>	<p>CLA noted two of 15 samples (13%) tested where the MSCS payment file did not reconcile to the amount disbursed by the vendor. The amounts were minor compared to the total disbursement and management acknowledged the outliers.</p> <p>Unreconciled differences between the district's payment file and vendor disbursed amounts, even when individually small, signal weaknesses in payment accuracy, financial controls, and oversight.</p>	<p>CLA recommends management formalize their reconciliation process to verify all MSCS payment files fully match the amounts disbursed by vendors before payments are finalized, and discrepancies are investigated and dispositioned. While these files were maintained separately in employees' filing cabinets, based on who completed the reconciliation for the payment run, we recommend establishing a spreadsheet retained on a shared department drive for completing the reconciliation control, as well as storing electronic reports and</p>		Moderate

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
			third-party email confirmations. The employee performing the reconciliation and supervisor reviewing and approving that any differences have been addressed can be documented on the shared document.		
41	<p><b>Purchases &gt;\$3,500</b> Leading practice requires an approved purchase order before any goods or services are ordered or paid for. MSCS policy requires a purchase order for all disbursements over \$3,500.</p>	<p>CLA noted two of 40 samples (5%) tested for disbursements greater than \$3,500 noted no authorization and/or account coding. Disbursements tested included large contracts with ongoing purchase orders with no significant issues noted, with management acknowledging the exceptions.</p> <p>In addition, the Forensic Audit report included in Volume II notes noted disbursement process related deficiencies, including incomplete or missing supporting documentation. Despite these deficiencies, the transactions reviewed appeared to reflect legitimate District business activities and were approved within the APECS system. While these matters do not indicate fraud, waste, or abuse, they reflect noncompliance with District documentation requirements and internal control weaknesses</p> <p>Payments processed without documented approval or account coding increases the risk of unauthorized expenditures and misclassification of financial activity.</p>	CLA recommends staff responsible for processing payments should verify each invoice or payment request contains the appropriate approval, funding source, and expenditure coding, and return incomplete documentation to the originating department for correction prior to payment. A supervisory review/reporting could be implemented to confirm exceptions are identified, investigated, and resolved.		Low
42	<p><b>Purchases &lt;\$3,500</b> MSCS policy requires purchases for goods and services for amounts less than or equal to \$3,500 to have approval from proper budget center manager and management level above the budget center manager.</p>	<p>CLA noted one of 25 samples (4%) tested for disbursements less than or equal to \$3,500 noted no authorization and or account coding, with management acknowledging the outlier.</p> <p>Payments processed without documented approval or account coding increases the risk of unauthorized</p>	CLA recommends staff responsible for processing payments should verify each invoice or payment request contains the appropriate approval, funding source, and expenditure coding, and return incomplete documentation to the originating department for		Low

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
		expenditures and misclassification of financial activity.	correction prior to payment. A supervisory review/reporting could be implemented to confirm exceptions are identified, investigated, and resolved.		
43	<p><b>Payroll Processing Checklist</b> Using a standardized payroll processing checklist for every payroll cycle is a leading practice that strengthens accuracy, accountability, and internal control reliability. A well-designed checklist outlines all critical steps in the payroll workflow, such as verifying personnel changes, reviewing time and attendance data, confirming exception items, validating deductions and benefits, and reconciling payroll totals, and requires preparer and supervisory sign-off before payroll is finalized. Payroll does maintain a checklist staff leverages and references for guidance during payroll processing.</p>	<p>CLA noted that while Payroll leverages a checklist document to reference during payroll processing, preparer and supervisor sign-off is not documented for each payroll cycle.</p> <p>Without documented evidence that required payroll steps were performed each cycle, the district cannot demonstrate that key controls, such as verifying personnel changes, reviewing time and attendance data, validating deductions, and reconciling payroll totals, were executed consistently. This increases the likelihood of payroll errors, missed steps, unauthorized changes, and incorrect payments going undetected.</p>	<p>CLA recommends Payroll update and complete the payroll checklist for each payroll cycle, from pre-processing through final payroll submission. Management should verify the checklist:</p> <ul style="list-style-type: none"> <li>• Reflects every required payroll activity, including preparatory steps, exception report reviews, reconciliations, approvals, and post-processing tasks</li> <li>• Is reviewed and updated regularly to reflect system changes, policy updates, and process enhancements</li> <li>• Is used consistently by payroll staff for every payroll run to ensure all required steps are completed</li> <li>• Includes documented evidence of completion to support accountability and provide an audit trail.</li> </ul>		Moderate
44	<p><b>Exception Reporting</b> A leading practice is for payroll exception reporting to be reviewed every payroll run through a structured, documented, and independently validated process to verify all anomalies are identified, investigated, and</p>	<p>CLA noted Payroll staff complete the process of completing exception reporting between each trial payroll run and the final payroll run. However, reports reviewed are not retained, and individuals performing the review do not document the actions of their review and actions taken related to the review, to document the control.</p>	<p>CLA recommends the following for exception reports generated between the trial payroll run and the final payroll:</p> <ul style="list-style-type: none"> <li>• Retain copies of all exception reports as part of the payroll processing record</li> </ul>		Moderate

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
	resolved before payroll is finalized. MSCS Payroll including stop pay issues, employees on leave missing proper coding, duplicate or multiple deductions, high dollar/unusual amounts, inactive employees generating pay, missing or late time sheets, excess leave usage, off cycle/missed payment exceptions, and benefit/deduction inconsistencies.	When payroll exception reports are reviewed but not formally documented, the District lacks verifiable evidence key payroll controls were performed. Without clear documentation of who reviewed exceptions, what issues were identified, and how they were resolved, there is an increased risk errors, unauthorized pay changes, or fraudulent activity may go undetected.	<ul style="list-style-type: none"> <li>• Reviewer documents evidence of their review</li> <li>• Document resolution of exceptions, including supporting documentation for adjustments</li> <li>• Supervisory review to confirm reports and related documentation are complete and retained in accordance with record retention requirements.</li> </ul>		

## IT Cybersecurity Risk Assessment

### IT Cybersecurity - Executive Summary

CLA conducted an IT cybersecurity risk assessment of the current environment to identify and evaluate the governance maturity and operational resilience across critical technology domains. Any conclusions reached are our professional judgement based on the relevant data obtained in performing the procedures. Had additional or different information been provided our conclusions may be different. The sufficiency of the procedures is solely the responsibility of management.

Interviews were performed with key Information Technology and Security stakeholders in the District to gain an understanding of processes, governance, and technology configurations in place within the environment. The assessment identified opportunities to enhance a number of key enterprise risk management functions, including identity lifecycle governance, disaster recovery and business continuity planning, vendor security risk management, infrastructure resiliency, and governance documentation maturity.

Based on the results of the assessment, CLA identified the following key observations:

1. [REDACTED]

[REDACTED]

2. [REDACTED]

[REDACTED]

3. [REDACTED]

[REDACTED]

4. [REDACTED]

[REDACTED]

## IT Cybersecurity - Assessment Scope and Summary Observations

CLA conducted an initial cybersecurity assessment designed to evaluate the current state of selected security governance, operational controls, and technical safeguards supporting MSCS's information technology environment. The objective of the assessment was to identify potential control gaps, operational risks, and opportunities to strengthen MSCS's cybersecurity posture. The assessment was conducted through a combination of stakeholder interviews, documentation review, policy evaluation, and analysis of select technical and operational artifacts.

The scope of the engagement focused on ten key cybersecurity domains that represent foundational components of a mature security program. These domains included Information Security Program Management, IT Governance and Risk Management, Identity and Access Management, Vendor Security Risk Management, Business Continuity and Disaster Recovery, Network Protections, Data Security, Endpoint Protection, Logging and Monitoring, and IT Asset Management. Each domain was evaluated to determine whether appropriate policies, procedures, governance structures, and operational practices are in place to support the protection of sensitive information, ensure the availability of critical systems, and maintain appropriate oversight of technology risks across the organization.

The observations and recommendations presented in this report are intended to support leadership in prioritizing improvements, strengthening operational consistency, and advancing the overall maturity of MSCS's cybersecurity program over time. Multiple high-risk observations were identified including [REDACTED]

[REDACTED]. The table below summarizes the distribution of observations by risk rating across the in-scope control domains.

**Table 1: Distribution of Observations by Risk Rating**

Control Domain	High	Moderate	Low	Total
[REDACTED]		4		4
[REDACTED]	2	2		4
[REDACTED]	4	3		7
[REDACTED]	4		1	5
[REDACTED]	4	1	1	6
[REDACTED]	4	3		7
[REDACTED]	3	1	1	5
[REDACTED]	3	1		4
[REDACTED]	4	1		5
[REDACTED]	2	2		4

The following are additional high-risk themes resulting from the IT Cybersecurity Risk Assessment:

- Several foundational cybersecurity policies and operational controls are in place; however, documentation and formal governance structures need to be further strengthened to support consistent implementation and oversight within the environment.

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- IT Governance documentation would benefit from updated templates and increased formalization.

## IT Cybersecurity - Conclusion

The IT Cybersecurity Risk Assessment identified that the MSCS IT and Security team has established several foundational elements of a cybersecurity program, including limited policies, core endpoint protections, and limited network segmentation. These efforts provide a baseline for managing technology risk across a large and complex environment. Building on this foundation, the assessment identified several opportunities to further strengthen the IT organization’s governance, operational consistency, and visibility into cybersecurity risk.

The observations in this report should be viewed as opportunities to advance the maturity of MSCS’s cybersecurity program. Several of the observations relate to enhancing oversight, expanding documentation, [REDACTED] remain protected as MSCS continues to evolve its technology environment and expand its use of integrated educational platforms.

The control table that follows contains the specific recommendations for each observation; however, the following items represent the top recommendations for management’s consideration.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]



**IT Cybersecurity - Detailed Observation Listing**

CLA noted the following opportunities to implement or improve the design and operating effectiveness of internal controls. Observations are rated as high, moderate, or low, as defined on page 6.

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
IT Cybersecurity Risk Assessment					

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
1	[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]
2	[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
1	[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]
[REDACTED]					
1	[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
1	[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]
2	[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
1	[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]
[REDACTED]					
1	[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]
1	[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
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█	█	█	█		█
█	█	█	█		█

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]





#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
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█	█ █	█	█		█
█	█ █ █ █	█	█ █ █ █		█

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
■	[REDACTED]	[REDACTED]	[REDACTED]		■
■	[REDACTED]	[REDACTED]	[REDACTED]		■
■	[REDACTED]	[REDACTED]	[REDACTED]		■

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
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█	█ █	█ █	█ █ █		█
█	█ █ █	█ █	█ █ █ █		█

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
█	█  █	█	█  █		█

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]



#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
■	<p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p>	<p>[Redacted]</p>	<p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p> <p>[Redacted]</p>		■
■	<p>[Redacted]</p> <p>[Redacted]</p>	<p>[Redacted]</p>	<p>[Redacted]</p> <p>[Redacted]</p>		■



#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
1	<p>[REDACTED]</p> <ul style="list-style-type: none"> <li>[REDACTED]</li> <li>[REDACTED]</li> <li>[REDACTED]</li> <li>[REDACTED]</li> <li>[REDACTED]</li> <li>[REDACTED]</li> <li>[REDACTED]</li> <li>[REDACTED]</li> </ul>	[REDACTED]	[REDACTED]		[REDACTED]
2	[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
█	█	█	█		█
█	█	█	█		█
█	█	█	█		█

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]		[REDACTED]

#	Leading Practice/ Control Activity	CLA Observation (and criteria)	CLA Recommendation	Management's Response	Rating
█	█	█	█		█
█	█	█	█		█
█	█	█	█		█

## Information about CliftonLarsonAllen LLP

Established on January 2, 2012, CLA is well positioned with knowledge, insight, and industry-specific accounting, tax, and consulting services. CLA is the result of a union between Clifton Gunderson and LarsonAllen, both established more than 60 years ago. CLA has a national forensic and nonprofit practice.

CLA is one of the largest professional service and accounting firms in the country with a growing global network. With a nationwide network of experienced professionals, clients include law firms, school districts, CEOs, leaders in education, municipalities, governmental agencies, the law enforcement community, commercial businesses, and not-for-profit agencies.

The CLA Cybersecurity practice is a nationally recognized advisory team that helps organizations strengthen cybersecurity governance, manage technology risk, and enhance resilience against an evolving threat landscape.

Dan Resnick is the Managing Principal of the Cybersecurity practice of CLA, where he leads a nationwide team delivering cybersecurity consulting services across technical security assessments, penetration testing, governance and risk programs, and regulatory compliance initiatives. He brings more than 15 years of experience helping organizations strengthen cybersecurity programs, improve risk visibility, and align security capabilities with business objectives. Throughout his career, Dan has worked closely with executive leadership and technology teams to assess security programs, address emerging cyber risks, and support the development of practical, risk-informed security strategies. He holds a Master of Science in Information Systems from Indiana University's Kelley School of Business and maintains multiple industry certifications including CISSP, CISA, and CCSP.

The CLA Business Risk Services provides advisory services focused on helping organizations identify, assess, and mitigate financial, operational, compliance, and governance risks in accordance with applicable professional consulting standards and work closely with leadership to evaluate current-state control environments, identify gaps and improvement opportunities, and prioritize remediation efforts.

Brian Pye is the Managing Principal of the Business Risk Services practice of CLA, where he leads a nationwide team delivering internal audit, risk management and internal control consulting services across the state and local government industry. He brings more than 25 years of professional experience helping organizations strengthen controls, improve governance, and align process improvement with business objectives. Throughout his career, Brian has worked closely with executive leadership and internal audit teams to assess emerging risks, and support the development of practical, risk-informed governance strategies. He holds a Bachelor of science – accounting and business administration from University of St. Thomas in St. Paul, MN. Brian is also on the Board of Directors from the MN chapter of the Institute of Internal Auditors.



# Memphis Shelby County Schools Forensic Audit

## State of Tennessee Comptroller of the Treasury Interim Forensic Audit Report VOLUME II

March 12, 2026

Prepared by:

**Folashade Abiola-Banjac, Esq.**

**Ana Rodriguez, CPA, CFE**

CliftonLarsonAllen LLP

**[CLAconnect.com](https://www.claconnect.com)**

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March 12, 2026

Jason E. Mumpower  
Tennessee Comptroller of the Treasury  
425 Rep. John Lewis Way North  
Nashville, TN 37243

**RE: Memphis Shelby County Schools**

Dear Mr. Mumpower:

CliftonLarsonAllen LLP (CLA) was retained by the State of Tennessee, Comptroller of the Treasury (“Comptroller” or “the State”) to perform a forensic audit with regards to Memphis-Shelby County Schools (MSCS or “the District”) for the fiscal years 2022 to 2024. The purpose of this interim report is to summarize the results of our work as of the date of this report.

We performed our engagement in accordance with the Statement on Standards for Forensic Services No. 1 (SSFS No. 1) of the American Institute of Certified Public Accountants (AICPA) and the Code of Professional Standards of the Association of Certified Fraud Examiners (ACFE). This report does not constitute an audit, compilation, or review, in accordance with standards of the AICPA, the objective of which would be the expression of an opinion on any specified elements, accounts, or items. Accordingly, CLA does not express such an opinion. The professional standards promulgated by the AICPA prohibit CLA from rendering an opinion as to whether there has been any fraud or other criminal activity by anyone associated with this engagement. The professional standards promulgated by the ACFE prohibit Certified Fraud Examiners (CFEs) from expressing opinions regarding the guilt or innocence of any person or party. Therefore, CLA does not render such opinions.

Fraud and irregularities by their very nature are most often hidden, and no absolute assurance can be given that all such matters have been detected. Our engagement cannot be relied on to disclose all irregularities or illegal acts, including fraud that may exist. However, to the extent such matters have come to our attention, we have included them in this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to be 'Folashade Abiola-Banjac'.

**CliftonLarsonAllen LLP**

Folashade Abiola-Banjac, Esq.  
Principal- Leader of Forensic, Litigation and Investigations

## Table of Contents

1.	Executive Summary .....	1
2.	Background.....	19
3.	Scope of Work Performed .....	21
4.	Summary of Work Performed .....	22
A.	Initial Entrance Conference.....	22
B.	Document Request .....	22
C.	Interviews Conducted .....	22
D.	Data Collection and Analysis .....	23
E.	Selection of Samples .....	23
F.	Email Review .....	23
G.	Public Records Research .....	24
H.	Challenges Encountered .....	24
5.	Results of Forensic Audit .....	29
A.	Federal and State Funding Review .....	29
B.	Procurement and Contract Management .....	54
C.	Financial Transactions and Controls.....	108
D.	Governance and Compliance .....	157
E.	Fiscal Agent Oversight.....	169
6.	Preliminary Conclusion.....	192
7.	Professional Standards Followed by CliftonLarsonAllen LLP .....	193
8.	Information about CliftonLarsonAllen LLP.....	194
9.	List of Attachments .....	195

## 1. Executive Summary

### Background

CliftonLarsonAllen LLP was retained by the State to perform forensic audit services regarding MSCS for the period of July 1, 2021, through June 30, 2024. Specifically, CLA conducted a forensic audit of the financial records, transactions, and processes of MSCS to identify and evaluate evidence of fraud, waste, and abuse.<sup>1</sup>

### Memphis Shelby County Schools

Memphis-Shelby County Schools (MSCS) is Tennessee’s largest school district, serving approximately 106,000 students across more than 200 schools, and is Shelby County’s second-largest employer with nearly 14,000 employees. Governed by a nine-member elected Board of Education (“the Board”) MSCS operates with an annual budget of approximately \$1.8 billion and is led by a superintendent responsible for day-to-day operations.

During the forensic audit scope period (July 1, 2021–June 30, 2024), MSCS experienced significant leadership turnover, with three superintendents serving in succession. These transitions contributed to organizational instability, adversely affecting staff retention, institutional knowledge, operational efficiency and internal controls, and increasing overall financial and governance risk.

CLA conducted interviews with MSCS leadership and the Board of Education to gain an understanding of the events that led to the forensic audit. Throughout these discussions the following key issues were raised:

1. Reorganization of the management team with the intent to streamline processes after each superintendent appointment created instability and confusion for the staff.
2. Abrupt changes to the electronic contracts approval process to a manual process resulted in disorganization, documentation issues, delays, and impacts to key programs and initiatives needed by the students of MSCS.
3. Budget decisions resulted in over 1,000 positions eliminated from the District.
4. Lack of consistency and enforcement of the document retention policies due to position eliminations resulted in erosion of institutional knowledge.

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<sup>1</sup> Under ACFE guidance, waste and abuse involve the misuse or mismanagement of resources, often stemming from inefficiency or improper use of authority, without the clear intent to deceive required to constitute evidence of fraud.

### Scope of Work

The scope of work requested by the State was to test, using a risk-based approach, certain financial records and transactions of the District based on specific areas of analysis outlined by the State. The following is a summary of those areas identified by the State that created the basis for CLA's forensic audit procedures:

1. **Federal and state funding review:** Assess compliance, proper allocation, and use of federal and state funds specifically in the following areas:
  - a. Title I, elementary and secondary school emergency relief funds, and Head Start programs
  - b. Charter schools
2. **Procurement and contract management:** Determine whether procurement practices were fair, transparent, and in compliance with policy and law, specifically in the following areas:
  - a. Contracts and solicitations pertaining to specific concerns presented by the State and through anonymous whistleblower complaints
  - b. Inclusion of subcontractors
  - c. Nutrition contracts
  - d. Single source, sole source and emergency contracts
  - e. Professional services contracts
  - f. Low-dollar contracts
3. **Financial transactions and controls:** Detect potential fraud, abuse, or control weaknesses in financial operations, specifically in the following areas:
  - a. Journal entries
  - b. ACH transactions
  - c. Bank statements
  - d. Payroll and employee compensation
  - e. P-card and check requests
  - f. Suspicious accounts
  - g. Travel reimbursements
  - h. Budget issues
4. **Vendors and conflicts of interest:** Identify conflicts of interest, favoritism, or policy violations involving vendors.
5. **Governance and compliance:** Assess compliance with governance policies, particularly related to transparency and ethics.
6. **Fiscal agent oversight:** Examine the role and accountability of SchoolSeed as a fiscal agent.

This report communicates CLA's findings as it pertains to evidence or documentation that is indicative of fraud, waste, or abuse identified by CLA through the performance of the forensic audit. The professional standards promulgated by the AICPA prohibit CLA from rendering an

opinion as to whether there has been any fraud or other criminal activity by anyone associated with this engagement. The professional standards promulgated by the ACFE prohibit Certified Fraud Examiners (CFEs) from expressing opinions regarding the guilt or innocence of any person or party. Therefore, CLA does not render such opinions.

Fraud and irregularities by their very nature are most often hidden, and no absolute assurance can be given that all such matters have been detected. Our engagement cannot be relied on to disclose all irregularities or illegal acts, including fraud that may exist. However, to the extent such matters have come to our attention, we have included them in this report.

This executive summary is not meant to be a standalone document, and it is recommended that the entire report be read to obtain a complete understanding of the work performed, observations, and recommendations by CLA.

### Summary of Work Performed

CLA undertook the following procedures to complete the forensic audit of the District and assessed the areas identified by the State.

- 1. Initial entrance conference:** On August 7, 2025, CLA conducted a virtual entrance conference with District leadership and members of the State of Tennessee, Comptroller of the Treasury office. The purpose of this meeting was to make introductions and discuss timing, expectations, and agree on the cadence of communication between the District and CLA.
- 2. Document request:** Throughout the forensic audit, CLA requested that the District provide specific financial data and documents necessary for CLA to perform analytic procedures, select transaction samples for further examination, and obtain supporting documentation for the transactions tested. Additional document requests were communicated to the District regularly throughout the forensic audit, as it was an iterative process as CLA selected additional transactions for testing and identified additional information needed. CLA encountered considerable delays in receiving responses to several of these requests.
- 3. Interviews conducted:** Beginning on August 11, 2025, and continuing through the date of this report, CLA conducted over 100 interviews of District staff and Board Members to gain an understanding of relevant processes that would inform the analytics and assessment of the areas of concern identified by the State. The purpose of these ongoing interviews was to make relevant inquiries, discuss questions, and review the status of outstanding requests. [Attachment 01](#) includes a list of the interviews performed and the dates of the interviews.
- 4. Data collection and analysis:** In early August 2025, the District provided query access to its business information and accounting system, APECS, that contains modules for human resources/payroll and finance. CLA requested query access to APECS so that financial data and other information available in the system could be directly accessed and retrieved throughout the forensic audit.

CLA exported the District’s financial data directly from APECS, including trial balance summaries, general ledger details, subledger details, disbursement ledgers, and payroll registers. Separately, the District provided CLA with a copy of the chart of accounts for fiscal years 2022 through 2024.

Obtaining the relevant financial data from APECS allowed CLA to perform various analyses prior to selecting risk-based samples for testing. Specific analyses performed for each area of testing are discussed throughout section 5. *Results of Forensic Audit* beginning on page 29.

- 5. Selection of samples:** Within each area of analysis identified by the State, and where appropriate, CLA selected a risk-based sample for testing to assess the specific matter raised by the State and determine if there was evidence indicative of fraud, waste, or abuse. The specific method and scope for selecting each sample varied by area and is discussed further in section 5. *Results of Forensic Audit* beginning on page 29.

Where available, CLA identified supporting documentation in APECS and Contract Advantage for the transactions selected for detailed testing.<sup>2</sup> If sufficient supporting documentation was not located in either of these document repositories, CLA requested additional supporting documentation from the District.

- 6. Email review:** Electronic copies of certain District email accounts were obtained from the District for employees and Board members whom it was believed would have communications relevant to the forensic audit scope. The email files were uploaded to a third-party document review platform, Logikcull, for review and analysis. When documentation was insufficient or when CLA required further context, CLA conducted keyword searches within email files to locate pertinent communications.

CLA experienced a six-week delay in obtaining the requested email files. On August 5, 2025, CLA requested PST email files from the District, which encountered export challenges; after an unsuccessful alternative involving a secure hard drive, CLA was granted Microsoft 365 access on September 16, 2025, enabling direct retrieval of required email accounts, with additional mailboxes obtained as needed during the engagement.

**Table 1: Email Files Retrieved by CLA**

Description	Quantification
Number of Custodians	40
Count of emails/attached documents	3,214,640
Number of pages	20,542,225
Size	2.17TB

- 7. Public records research:** Public records research was conducted to identify associations of District leadership and Board members. The purpose of the public records searches was to identify a list of individuals, organizations, corporations, and addresses associated with each individual that was compared to the various transactions of the District. This

<sup>2</sup> Contract Advantage is the contract lifecycle management software system in use by the District.

procedure can help identify potential fictitious employees or vendors, or possible conflicts of interest. This data was gathered through open-source internet resources and various public records databases.

- 8. Challenges encountered:** CLA's ability to complete planned procedures and obtain sufficient appropriate evidence related to procurement, contracting, and vendor management was materially constrained by the District's delayed and incomplete production of requested records, the absence of centrally maintained procurement data, and fragmented record-keeping practices. These conditions represent scope limitations for purposes of this interim report, and the conclusions presented are based solely on the evidence available as of the report date.

Despite extensive and ongoing efforts by CLA, including repeated document requests, weekly status calls, interviews, monthly onsite visits, and multiple follow-up communications, the District did not provide significant categories of requested procurement and contract documentation. As a result, CLA was unable to fully corroborate procurement methods, contract execution, oversight of deliverables, and invoicing in certain instances, leaving portions of the work unresolved pending receipt of additional information. Challenges were further compounded by records being dispersed across multiple systems with inconsistent retention practices. In addition, delayed access to requested email evidence materially hindered CLA's ability to complete procedures reliant on email communications.

Accordingly, this interim report reflects the results supported by the evidence obtained as of the reporting date and may be revised or supplemented upon receipt and evaluation of outstanding documentation and completion of related procedures.

#### Results of Forensic Audit

The following preliminary results summarize the forensic audit conducted by CLA, the primary objective of which was to perform procedures to assess whether evidence indicative of waste, fraud, or abuse by MSCS District employees and/or the Board of Education existed. CLA's preliminary conclusions are based on the totality of information and documentation made available during the course of the forensic audit.

The interim results of this forensic audit identified two distinct categories of matters. First, evidence indicates that certain transactions totaling \$1,145,909.97 are consistent with the ACFE guidance describing waste and abuse based on factors such as inadequate oversight, unsupported or duplicative billings, contracting and payment activity occurring outside established procurement controls, or payments for services duplicative of existing District resources or benefits. Second, CLA identified a broader population of transactions totaling \$1,729,522.81 that did not rise to the level of waste or abuse but reflected noncompliance with District policies and procedures, indicating significant internal control and documentation deficiencies.

Table 2 summarizes disbursements for which evidence of waste or abuse was identified, and Table 3 lists instances of noncompliance with District policies and procedures. These

summaries are intended to provide transparency into the nature, frequency, and financial impact of the issues identified and to illustrate the control weaknesses that informed the interim conclusions presented. A brief description of the results by testing area is included in this executive summary following these two tables.

**Table 2: Summary of Transactions for Which Evidence Supporting Waste or Abuse Was Identified**

Testing Area	Determination	Description	Amount Disbursed
Contracts	Abuse	The District executed and paid a subsequent contract without clearly authorized renewal provisions and without issuing required purchase orders, creating procurement and compliance violations.	\$ 674,288.00
Contracts	Abuse	Contracts executed and paid outside of established procurement and accounts payable controls resulting in disbursements without required oversight and safeguards.	198,000.00
Contracts	Abuse	Payments made in advance of services being completed; invoices lacked required detail; approval of duplicative or unsupported invoices; unsupported charges for meals, travel, and subcontractors contrary to contractual requirements.	100,000.00
Contracts	Abuse	Inadequate contract oversight and invoicing practices, including unsupported billing, invoices lacking required detail, billing for unrealistic numbers of workdays, and approval of payments without verifiable evidence that services were performed as billed.	84,000.00
Contracts	Waste	Executive coaching contract appears duplicative of existing membership benefits already providing similar services at no additional cost; invoices lacked sufficient detail and did not clearly support the basis for billing.	45,000.00
Payroll	Waste	One former employee received compensation for four months after separating from the District	21,343.36
Payroll	Waste	One employee received duplicate vacation payout.	11,816.61
Contracts	Waste	Additional executive coaching services contracted while similar services were already available and being provided through existing membership benefits, indicating redundant contracting.	11,462.00
Total			<u>\$ 1,145,909.97<sup>3</sup></u>

<sup>3</sup> Abuse and waste attributed to contract amounts disbursed total \$1,112,750.00 Waste attributed to payroll transactions total \$33,159.97 (\$1,112,750.00 + \$33,159.97 = \$1,145,909.97).

**Table 3: Summary of Instances of Noncompliance with Internal Policies**

Testing Area	Determination	Description	Amount Disbursed
Pcards	Noncompliance with Internal Policy	Twenty check requests were missing a signature on the attached invoice.	\$ 1,076,727.11
ACH Transactions	Noncompliance with Internal Policy	Two ACH samples exceeded the dollar threshold requiring a PO or a contract; however, neither was obtained prior to the purchase.	212,159.00
ACH Transactions	Noncompliance with Internal Policy	Fifteen ACH samples were missing a signature on the attached invoice.	164,745.86
Bank Statements	Noncompliance with Internal Policy	Four manual warrant samples were missing a signature on the attached invoice.	106,853.00
Bank Statements	Noncompliance with Internal Policy	Three manual warrant samples exceeded the dollar threshold requiring a PO; however, no POs were obtained for these transactions.	72,601.00
Travel Reimbursements	Noncompliance with Internal Policy	26 travel reimbursements where the employee did not complete their expense report within five to seven days following the conclusion of travel.	31,525.52
Travel Reimbursements	Noncompliance with Internal Policy	26 travel reimbursements where employees did not submit the required travel pre-approval forms with sufficient advance notice prior to travel.	27,121.63
Payroll	Noncompliance with Internal Policy	Ten manual payroll checks were issued without clear or documented justification.	13,765.80
Travel Reimbursements	Noncompliance with Internal Policy	Seven federally funded travel reimbursements did not have the required Travel Justification Form attached to the support in APECS.	9,440.81
ACH Transactions	Noncompliance with Internal Policy	Five ACH samples requiring an AP Payment Request Form; however, the required form could not be located.	7,003.69
Bank Statements	Noncompliance with Internal Policy	One vCard sample exceeded the dollar threshold requiring a PO; however, no PO was obtained for this transaction.	3,422.30
Travel Reimbursements	Noncompliance with Internal Policy	For one travel reimbursement, the travel requisition was submitted after the date of travel.	2,131.05
Pcards	Noncompliance with Internal Policy	Two check requests requiring an AP Payment Request Form; however, the required form could not be located.	1,692.80
Travel Reimbursements	Noncompliance with Internal Policy	On one travel reimbursement, no receipts were provided for taxi, luggage fees, and airport parking.	213.23
Travel Reimbursements	Noncompliance with Internal Policy	On one travel reimbursement, the valet parking was incorrectly marked as tolls on the expense report.	99.85
Travel Reimbursements	Noncompliance with Internal Policy	One travel reimbursement included the purchase of a preferred seat.	20.16
Total			<u>\$ 1,729,522.81</u>

## 1. Federal and State Funding Review

### Title I, ESSER, and Head Start Funding:

***Based on procedures performed, CLA has not identified evidence of fraud, waste, or abuse related to federal grant programs including Title I, ESSER, Head Start.***

Review of Title I, ESSER and Head Start is approximately **70% complete**. The most significant issues identified relate to insufficient, incomplete, or unclear supporting documentation. Documentation maintained within APECS did not consistently demonstrate the purpose, allowability, or compliance of transactions, necessitating repeated follow-up inquiries and additional explanations from District personnel. Although many transactions were ultimately determined to be compliant, the lack of contemporaneous documentation limited the District's ability to readily demonstrate compliance and increased reliance on institutional knowledge. Additionally, certain expenditures were recorded to central office location codes rather than applicable school location codes, complicating traceability and assessment of school-level benefit. With respect to ESSER funding, CLA identified weaknesses in inventory organization and tracking within the educational warehouse. While ESSER transactions tested were traceable, ESSER-funded inventory was often commingled with non-ESSER inventory without consistent physical identification, and ESSER-specific catalog numbering practices were not formalized or consistently applied.

### Charter School Disbursements:

***Based on procedures performed, CLA has not identified evidence of fraud, waste, or abuse related to the distribution of state, local and federal funding to charter schools.***

Charter School distribution testing and review is approximately **80% complete**. Based on the procedures performed to date, CLA identified areas of noncompliance related to missing documentation and unexplained variances for charter school reimbursements processed outside of the charter school office. A portion of the sample tested lacked invoices or sufficient supporting documentation beyond reimbursement requests, and in other instances, invoiced amounts did not agree to reimbursed amounts without adequate explanation. These deficiencies resulted in approximately 25 percent of the sample tested being noncompliant and required expansion of the sample. In contrast, the charter school office demonstrated strong internal controls and effective use of the CRATE system, supporting reliable document retention, review, and correction of errors prior to payment. CLA did not identify issues with reimbursements processed through the charter school office.

## 2. Procurement, Contract and Vendor Management

***Based on procedures performed, CLA preliminarily identified evidence suggesting contracts totaling approximately \$1,112,750.00 are consistent with the ACFE guidance describing waste and abuse due to weaknesses in the District's management, oversight,***

***and control environment related to professional and non-professional services contracting.***

The procurement, contract, and vendor management portions of the scope of work are approximately **25% complete**, and preliminary evidence suggests that contracts totaling approximately \$1,112,750.00 are consistent with the ACFE guidance describing waste and abuse. CLA experienced multiple delays during the engagement primarily due to the lack of supporting documentation and the absence of centrally tracked procurement data. In early August 2025, CLA requested a comprehensive listing of single-source, sole-source, and emergency contracts. After multiple requests and follow ups, in December 2025, MSCS informed CLA that it was unable to produce the requested listing necessary to allow CLA to select contracts for testing because these contract classifications were not centrally tracked. As a result, CLA initiated an independent process to identify the population of single-source, sole-source, and emergency contracts. This process requires CLA to review approximately 4,000 contracts across multiple MSCS systems, examine all available documentation to determine procurement treatment prior to the identification of the testing population and subsequent testing procedures required to determine whether the contracts adhere to policies and procedures or result in the identification of additional instances of evidence of fraud, waste, or abuse. This requires a significant increase in efforts to complete the contracts and procurements testing and is the reason for the percentage of completion.

The contracts for which preliminary evidence is consistent with the ACFE guidance describing waste and abuse are detailed in the chart below. Each contract is discussed in detail in Section 5.B. *Procurement and Contract Management*.

**Table 4: Preliminary Contract Determinations of Fraud, Waste, or Abuse**

Vendor	Contract #	Determination	Description	Amount Contracted	Amount Disbursed
Principal Mentor 01	2022-0634	Abuse	Inadequate contract oversight and invoicing practices, including unsupported billing, invoices lacking required detail, billing for unrealistic numbers of workdays, and approval of payments without verifiable evidence that services were performed as billed.	\$ 30,000.00	\$ 30,000.00
	2023-0310	Abuse		30,000.00	30,000.00
	2024-0362	Abuse		24,000.00	24,000.00
Security Consultant 01	2022-0308	Abuse	Contracts executed and paid outside of established procurement and accounts payable controls resulting in disbursements without required oversight and safeguards.	99,000.00	99,000.00
	2023-1008	Abuse		99,000.00	99,000.00
Charter School Consultant 01	2022-0639	Abuse	Payments made in advance of services being completed; invoices lacked required detail; approval of duplicative or unsupported invoices; unsupported charges for meals, travel, and subcontractors contrary to contractual requirements.	40,000.00	40,000.00
	2023-0435	Abuse		60,000.00	60,000.00

Vendor	Contract #	Determination	Description	Amount Contracted	Amount Disbursed
Council of the Great City Schools	2023-0426	Waste	Executive coaching contract appears duplicative of existing membership benefits already providing similar services at no additional cost; invoices lacked sufficient detail and did not clearly support the basis for billing.	45,000.00	45,000.00
Forward Consulting	2021-1042	Waste	Additional executive coaching services contracted while similar services were already available and being provided through existing membership benefits, indicating redundant contracting.	30,000.00	11,462.00
YMCA of Memphis & the Mid-South	2023-0911	Abuse	The District executed and paid a subsequent contract without clearly authorized renewal provisions and without issuing required purchase orders, creating procurement and compliance violations.	1,300,000.00	674,288.00
Total				\$1,757,000.00	\$ 1,112,750.00

Additionally, CLA observed systemic internal control deficiencies, most notably an inappropriate concentration of authority whereby individual employees were able to select vendors, execute contracts, and approve invoices without independent review. Taken together, these issues reflect structural and governance challenges rather than isolated lapses and expose the District to continued financial, compliance, and reputational risk absent corrective action. Further testing and analysis are ongoing, and final conclusions will incorporate the results of expanded sampling and any additional documentation received.

### 3. Financial Transactions and Controls

#### Journal Entries

***Based on procedures performed, CLA did not identify evidence of fraud, waste, or abuse related to the journal entries tested.***

Journal entry testing is approximately **50% complete**. Approvals were consistently documented within APECS, indicating that key front-end approval controls over journal entry processing are generally operating as designed. CLA's review identified that the most significant risk related to journal entries was not the substance of the transactions themselves, but deficiencies in the District's records-management practices. Supporting documentation was not centrally organized or consistently retained within APECS and was often dispersed across multiple departments, systems, and legacy applications, some of which were no longer accessible. These conditions materially delayed forensic audit procedures, required extensive follow-up across departments, constrained the finance function's ability to independently verify underlying transactions, and limited the extent to which additional testing could be efficiently completed. Accordingly, due to the

District's poor records management, CLA determined that further journal entry testing and research would not yield meaningful progress or satisfaction of the testing requirements.

#### ACH Transactions

***Based on procedures performed, CLA identified ACH transactions totaling \$383,908.55 issued in violation of District policies and procedures.***

ACH testing is approximately **90% complete**. Disbursement testing primarily identified process-related deficiencies, including incomplete or missing supporting documentation. Despite these deficiencies, the transactions reviewed appeared to reflect legitimate District business activities and were approved within the APECS system. While these matters do not indicate fraud, waste, or abuse, they reflect noncompliance with District documentation requirements and internal control weaknesses.

**Table 5: ACH Transactions Preliminary Determinations of Noncompliance with Internal Policy**

Determination	Description	Amount Disbursed
Noncompliance with Internal Policy	Two ACH samples exceeded the dollar threshold requiring a PO or a contract; however, neither was obtained prior to the purchase.	\$ 212,159.00
Noncompliance with Internal Policy	Fifteen ACH samples were missing a signature on the attached invoice.	164,745.86
Noncompliance with Internal Policy	Five ACH samples requiring an AP Payment Request Form; however, the required form could not be located.	7,003.69
Total		<u>\$ 383,908.55</u>

#### Bank Statements

***Based on procedures performed, CLA identified manual warrants totaling \$182,876.30 issued in violation of District policies and procedures.***

Bank statement testing is **90% complete**. The observations arising from disbursement testing primarily reflected process-related deficiencies, most notably instances of incomplete or missing supporting documentation. These deficiencies did not prevent or impede payment, and the expenses reviewed generally appeared to represent legitimate District business activities. In certain instances, transactions did not include all required physical supporting documentation in accordance with District policy; however, the transactions were approved within the APECS system. These matters do not indicate waste or abuse but rather reflect noncompliance with internal documentation requirements and constitute an internal control deficiency.

**Table 6: Bank Statements Preliminary Determinations of Noncompliance with Internal Policy**

Determination	Description	Amount Disbursed
Noncompliance with Internal Policy	Four manual warrant samples were missing a signature on the attached invoice.	\$ 106,853.00
Noncompliance with Internal Policy	Three manual warrant samples exceeded the dollar threshold requiring a PO; however, no POs were obtained for these transactions.	72,601.00
Noncompliance with Internal Policy	One vCard sample exceeded the dollar threshold requiring a PO; however, no PO was obtained for this transaction.	3,422.30
Total		<u>\$ 182,876.30</u>

### Payroll and Employee Compensation

***Based on the procedures performed, CLA preliminarily identified evidence suggesting payments totaling \$33,159.97 in payroll and vacation/final pay are consistent with the ACFE guidance describing waste. Further, CLA identified 10 manual check payments totaling \$13,765.80 made in violation of District policies and procedures.***

Payroll testing is approximately **50% complete**. CLA's payroll, employee compensation, qualifications, and Forms I-9 procedures did not identify conclusive indicators of ghost employees or systemic compensation fraud; however, testing revealed pervasive documentation and records-management deficiencies that materially impaired the forensic audit. CLA initially selected a sample of 196 employees representing \$45,595,023.95 in compensation for testing; however, due to disorganized HR files and the inability to consistently locate contemporaneous support, the effective testable sample had to be reduced to 80 employees totaling \$16,642,531.45. CLA also tested 40 manual payroll checks totaling \$614,980.63, 30 post-termination payment cases totaling \$1,458,376.85, and analyzed direct-deposit data for 17,089 active employees to identify duplicate bank routing and account numbers. In this reduced population, CLA identified payments related to a terminated employee who continued to receive approximately four months of salary after separation from the District. CLA did not identify evidence that the District timely detected the overpayments or maintained documentation demonstrating efforts to recover the funds. These unrecovered payments amounted to \$21,343.36. Further, CLA determined that vacation and final pay calculations were not fully supported or reconciled for at least two employees and therefore the duplicative vacation payout of approximately \$11,816.61 is classified as waste. Lastly, CLA determined that ten manual payroll checks were issued without clear or documented justification as required by MSCS policies and procedures. Therefore, these ten manual payroll checks totaling \$13,765.80 were issued in violation of the District's policies and procedures.

**Table 7: Evidence of Waste Totaling \$33,159.97 as It Relates to Payroll**

Determination	Description	Amount Disbursed
Waste	One former employee received compensation for four months after separating from the District.	\$ 21,343.36
Waste	One employee received duplicate vacation payout.	11,816.61
Total		<u>\$ 33,159.97</u>

**Based on procedures performed, CLA determined the District failed to locate and provide 100 out of 250 employee Forms I-9 selected for compliance testing.**

CLA notes the most significant compliance issue identified related to employment eligibility verification and records retention. Specifically, USCIS Form I-9 compliance is required and CLA attempted to conduct this testing by inspecting archived HR records to locate the required documentation for the 250 employees selected for testing.<sup>4</sup> However, the location of the Form I-9 storage at Central Office lacked a door and the room containing employees personally identifiable information (PII) was secured only by a curtain. The state of the room was in disarray with significant disorganization as shown below.

**Figure 1: Forms I-9 Storage at Central Office**



<sup>4</sup> United States Citizenship and Immigration Services (USCIS) guidance (including Handbook for Employers, Form M-274 and Form I-9 instructions): Forms I-9 must be completed at hire (Section 1 by the first day; Section 2 within three business days) and retained three years after hire or one year after employment ends, whichever is later.

CLA notes due to the disorganized state of the documents, both the District and CLA attempted to locate the employee Forms I-9, on multiple occasions, and failed to locate many of the files due to the complete lack of organization. These conditions represent a significant compliance and records-management concern. Given the substantially reduced testable sample and the consistency of deficiencies identified across payroll, compensation, and HR records, CLA concluded that additional testing would not yield meaningful incremental insight beyond the matters already observed. Therefore, 100 out of 250 employees failed the Form I-9 retention and completeness USCIS requirements due to the District's inability to provide the documentation needed to demonstrate adherence with the requirements.

#### P-Cards and Check Requests

***Based on procedures performed, CLA identified P-card and Check requests totaling \$1,078,419.91 issued in violation of District policies and procedures.***

P-Card testing is **90% complete**. Based on the procedures performed to date, CLA did not identify evidence of fraud, waste, or abuse related to P-cards and check requests. The observations resulting from disbursement testing primarily consisted of process-related deficiencies, most notably instances of incomplete or missing supporting documentation which did not prevent or impede payment. However, based on the analysis and testing performed, the expenses reviewed appeared to reflect legitimate District business activities. In some cases, transactions did not include all required physical supporting documentation as required by District policy; however, the transactions were approved within the APECS system. These instances do not indicate waste or abuse but reflect noncompliance with internal documentation requirements, representing an internal control failure.

**Table 8: P-Card and Check Requests Preliminary Determinations of Noncompliance with Internal Policy**

Determination	Description	Amount Disbursed
Noncompliance with Internal Policy	Twenty check requests were missing a signature on the attached invoice.	\$ 1,076,727.11
Noncompliance with Internal Policy	Two check requests were below the dollar threshold requiring an AP Payment Request Form; however, the required form could not be located.	1,692.80
Total		<u>\$ 1,078,419.91</u>

#### Suspicious Accounts

***Based on procedures performed, CLA did not identify evidence of fraud, waste, or abuse related to suspicious accounts.***

Suspicious account testing is **90% complete** and will remain open through completion of the forensic audit, as procedures are embedded throughout the financial transactions and controls workplan. CLA did not identify suspicious account activity; however, testing was

prolonged due to inactive location codes, legacy account structures, and supporting documentation maintained outside the system of record. These conditions required additional manual procedures and, as a result, conclusions in this area remain preliminary pending completion of related workplan steps.

### Travel Reimbursements

***Based on procedures performed, CLA identified \$70,552.25 in travel reimbursements issued in violation of District policies and procedures.***

Travel reimbursement testing is **90% complete**. Based on the procedures performed to date, CLA did not identify evidence of fraud, waste, or abuse related to travel reimbursements. The observations resulting from disbursement testing primarily consisted of process-related deficiencies, most notably instances of incomplete or missing supporting documentation which did not prevent or impede payment. However, based on the analysis and testing performed, the expenses reviewed appeared to reflect legitimate District business activities. In some cases, transactions did not include all required physical supporting documentation as required by District policy; however, the transactions were approved within the APECS system. These instances do not indicate waste or abuse but reflect noncompliance with internal documentation requirements, representing an internal control failure.

**Table 9: Travel Reimbursements Preliminary Determinations of Noncompliance with Internal Policy**

Determination	Description	Amount Disbursed
Noncompliance with Internal Policy	26 travel reimbursements where the employee did not complete their expense report within five to seven days following the conclusion of travel.	\$ 31,525.52
Noncompliance with Internal Policy	26 travel reimbursements where employees did not submit the required travel pre-approval forms with sufficient advance notice prior to travel.	27,121.63
Noncompliance with Internal Policy	Seven federally funded travel reimbursements did not have the required Travel Justification Form attached to the support in APECS.	9,440.81
Noncompliance with Internal Policy	For one travel reimbursement, the travel requisition was submitted after the date of travel.	2,131.05
Noncompliance with Internal Policy	On one travel reimbursement, no receipts were provided for taxi, luggage fees, and airport parking.	213.23
Noncompliance with Internal Policy	On one travel reimbursement the valet parking was incorrectly marked as tolls on the expense report.	99.85
Noncompliance with Internal Policy	One travel reimbursement included the purchase of a preferred seat.	\$20.16
Total		<u>\$ 70,552.25</u>

### Budget Analysis

***Based on procedures performed, CLA did not identify evidence of fraud, waste, or abuse related to budget analysis.***

Review of budget-related testing is approximately **45% complete**. CLA did not identify pervasive budgeting errors indicative of fraud, waste, or abuse. The primary issue identified was fragmented and decentralized records-management practices related to budget revisions, transfers, and discretionary expenditures, which limited traceability and prolonged testing. While one minor miscoding of \$6,561.00 for a three-door reach-in freezer was identified and corrected, other procedures remain ongoing due to outstanding documentation and clarification of approval workflows, rather than unresolved analytical concerns.

## **4. Governance and Compliance**

### Compliance

***Based on procedures performed, CLA did not identify evidence of fraud, waste, or abuse related to Board compliance.***

Review of Board compliance is **70% complete**. Based on the results of work performed through the date of this interim report, the Board generally demonstrated adherence to key governance and ethics requirements during the forensic audit period. However, isolated compliance and conduct deficiencies were identified. Specifically, lapses in the timely public filing of required Statements of Disclosure of Interests, as well as an instance of Board Member conduct inconsistent with established Board policies, indicate weaknesses in oversight, compliance monitoring, and role clarity. Although management and the Board took corrective actions upon identification of these matters, including locating missing disclosures and issuing a formal reprimand, these observations underscore the need to strengthen controls, clarify accountability, and provide ongoing training to promote consistent compliance with ethical and governance standards.

### Procurement Correspondence

***Investigative procedures are still in process for procurement correspondence.***

Review of procurement correspondence testing is **50% complete**. As of the date of this interim report, CLA has not yet completed the investigative procedures necessary to develop observations relevant to this section; therefore, no preliminary observations are presented. Additionally, as other areas of analysis within the forensic audit continue to be performed, CLA will assess whether information identified may indicate potential conflicts of interest. Accordingly, this area of analysis remains open and will continue to be evaluated through the remainder of the engagement.

Compliance Letters

***Based on procedures performed, CLA concluded that the District's Out-of-Compliance letter process was inconsistently applied and inadequately documented during the scope period.***

Review of compliance letter testing is **70% complete**. CLA concluded that the District's Out-of-Compliance letter process was applied inconsistently and insufficiently documented during fiscal years 2022 and 2023, resulting in limited evidence of enforcement or disciplinary follow-through for procurement noncompliance under Policy 2006. Although the volume of Out-of-Compliance letters increased in fiscal year 2023, required documentation was not consistently retained in employee HR files, signed letters were not centrally maintained, and management was unable to explain process breakdowns due to staff turnover. Subsequent revisions to Policy 2006 in late 2023 raised the compliance threshold and eliminated disciplinary requirements, coinciding with a decline in Out-of-Compliance letters in fiscal year 2024. Overall, the District lacked a consistently enforced and well-documented control framework to support accountability for procurement noncompliance during the period reviewed.

Open Meetings

***Investigative procedures are still in process for open meetings.***

Review of open meetings testing is **30% complete**. As of the date of this interim report, CLA has not yet completed the investigative procedures necessary to develop observations relevant to this section; therefore, no preliminary observations are presented at this time. Accordingly, this area of analysis remains open and will continue to be evaluated through the remainder of the engagement.

**5. Fiscal Agent Oversight**SchoolSeed Fund Usage

***Based on procedures performed, CLA's ability to assess SchoolSeed's broader fiscal agent role or the completeness of MSCS-related financial activity was materially limited.***

Review of SchoolSeed fund usage testing is **10% complete**. Based on work performed to date, CLA conducted targeted forensic procedures to evaluate SchoolSeed's role as a fiscal agent for funds benefiting the District. Testing focused on the 2023 and 2024 MSCS Leadership Symposiums due to SchoolSeed's limited production of financial records. Procedures performed included interviews with SchoolSeed leadership; review of District contract and vendor records; and transaction-level testing of revenues, expenses, and administrative fees using general ledger data and supporting documentation provided by SchoolSeed. This testing identified significant documentation and recordkeeping deficiencies, including unsupported and partially supported transactions; reliance on internally prepared spreadsheets in lieu of third-party evidence; variances between recorded amounts and supporting documentation; transactions reflected in supporting files but not recorded in the general ledger; and inconsistent application and

documentation of administrative fees. CLA also identified discrepancies between SchoolSeed's representations that no contracts existed with MSCS and District records reflecting multiple executed agreements and related payments involving SchoolSeed. Due to the absence of complete general ledger data, bank statements, and organization-wide financial records, procedures could not be extended beyond the Leadership Symposium activities. As a result, CLA's ability to assess SchoolSeed's broader fiscal agent role or the completeness of MSCS-related financial activity was materially limited.

### Conclusion

Based on the procedures performed to date, CLA preliminarily identified evidence suggesting \$1,145,909.97 in funds disbursed are consistent with the ACFE guidance describing waste and abuse. This includes \$1,112,750.00 related to disbursements for professional and non-professional services contracts classified as waste or abuse due to inadequate oversight, unsupported or duplicative billings, contracting and payment activity occurring outside established procurement controls, and services that were duplicative of existing benefits. In addition, CLA identified evidence of \$33,159.79 in disbursements for payroll-related waste, consisting of \$21,343.36 in post-separation compensation paid to a former employee and \$11,816.61 related to an unsupported duplicative vacation payout.

Additionally, CLA identified widespread instances of noncompliance with District policies and procedures totaling \$1,729,522.81, which, while not rising to the level of fraud, waste, or abuse, reflect significant internal control failures and governance weaknesses. These matters relate to ACH disbursements, manual warrants, manual checks, P-card and check request activity, and travel reimbursements processed without required documentation, approvals, or adherence to procurement requirements.

The forensic audit identified significant and recurring internal control, documentation, and records-management deficiencies that materially impaired the District's ability to demonstrate compliance, accountability, and effective stewardship of public funds. While many transactions reviewed appeared to represent legitimate District business activities, the absence of contemporaneous support, fragmented systems, inconsistent enforcement of policies, and reliance on institutional knowledge rather than documented controls increased the risk of error, noncompliance, and undetected misconduct. Several areas of the forensic audit remain in progress, and these conclusions are preliminary pending completion of remaining procedures and review of additional documentation.

To address the internal control deficiencies and issues identified through the performance of this forensic audit, this interim report includes 79 observations and provides 77 recommendations to be considered to strengthen MSCS internal control processes.

## 2. Background

CliftonLarsonAllen LLP was retained by the State to perform forensic audit services regarding MSCS for the period of July 1, 2021, through June 30, 2024. Specifically, CLA conducted a forensic audit of the financial records, transactions, and processes of MSCS to identify and evaluate evidence of fraud, waste, and abuse.

### Memphis Shelby County Schools

MSCS is Tennessee’s largest school district, serving approximately 106,000 students across more than 200 schools located throughout the city of Memphis and the unincorporated areas of Shelby County.<sup>5</sup> MSCS is also Shelby County’s second- largest employer, with nearly 14,000 employees, including more than 6,000 teachers.<sup>5</sup> MSCS is among the largest school districts in the United States with a total budget of approximately \$1.8 billion.<sup>6</sup>

The Shelby County Board of Education is comprised of nine elected Board Members representing all districts in Shelby County.<sup>7</sup> The Board governs the business operations of MSCS and is responsible for establishing policies, adopting budgets, and appointing the superintendent of schools. Once the Board approves the operating budget, it must also be approved by the Shelby County Commission.<sup>7</sup>

The superintendent functions as the District’s chief executive officer, responsible for overseeing day-to-day operations and ensuring implementation of Board policies.<sup>7</sup> MSCS is organized into various departments, each led by administrative personnel who support the District’s primary revenue sources.<sup>8</sup> Major expenditures are allocated to instruction, support services, administration, transportation, facility operations, charter schools, centralized nutrition services, debt service, and capital security.<sup>7</sup>

During the scope period of the forensic audit (July 1, 2021, through June 30, 2024), three different superintendents held the role.<sup>9</sup> Specifically, Dr. Joris Ray served as superintendent until his resignation in August 2022. On August 30, 2022, Tutonial “Toni” Williams was appointed following Dr. Ray’s resignation and served throughout fiscal year 2023 and most of fiscal year 2024 until the permanent appointment of Dr. Marie N. Feagins in February 2024. Dr. Feagins officially began her tenure on April 1, 2024, and on January 21, 2025, the MSCS Board of Education voted to terminate her contract following several months of controversy.

The multiple leadership transitions created instability which has had measurable operational, financial and governance impacts on MSCS. The turnover impacted the retention of staff,

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<sup>5</sup> <https://www.scsk12.org/about/>

<sup>6</sup> <https://www.scsk12.org/nr/?PN=article&aid=2372>

<sup>7</sup> <https://www.scsk12.org/board/>

<sup>8</sup> The primary revenue sources for MSCS include the State of Tennessee, Shelby County, the Federal government, and the City of Memphis.

<sup>9</sup> Per interviews with MSCS leadership.

eroded institutional knowledge, created inefficiencies in the organizational stability of the core functions at MSCS, and increased internal control weaknesses and financial risks.

CLA conducted interviews with MSCS leadership and the Board of Education to gain an understanding of the events that led to the need for a forensic audit. Throughout the discussions the following key issues were raised:

1. Reorganization of the management team with the intent to streamline processes after each superintendent appointment created instability and confusion for the staff.<sup>10</sup>
2. Abrupt changes to the electronic contracts approval process to a manual process resulted in disorganization, documentation issues, delays, and impacts to key programs and initiatives needed by the students of MSCS.<sup>11</sup>
3. Budget decisions that resulted in over 1,000 positions eliminated from the District.<sup>12</sup>
4. Lack of consistency and enforcement of the document retention policies due to position eliminations and erosion of institutional knowledge.<sup>13</sup>

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<sup>10</sup> CLA notes most of these leaders have been employees of MSCS throughout the full scope period and note the most disruptive changes occurred during the previous superintendent's tenure.

<sup>11</sup> Multiple MSCS employees communicated that the most disruptive change occurred in the contracts process. The previous superintendent implemented a manual folder-based process in which all contracts were required to be submitted in physical folders, color-coded as green, yellow, or red to denote their level of importance. Once the contracts were approved and endorsed by the previous superintendent the final contract would be uploaded into Contract Advantage. This was a sharp change from the fully electronic contracts process.

<sup>12</sup> MSCS leadership communicated that the Board approved the previous superintendent's plans to eliminate over 1,000 District positions. The reason given for the position cuts involved the sunset of COVID relief act funds and the need to reduce the budget back to pre-COVID levels.

<sup>13</sup> Interviews revealed a lack of understanding of the key positions that were needed by MSCS and therefore, many positions that were cut were necessary for the District.

### 3. Scope of Work Performed

CLA performed a forensic audit of the District for the period of July 1, 2021, through June 30, 2024, utilizing a risk-based approach that targets higher risk transactions through analytics to identify specific transactions for detailed testing.

CLA and the State agreed that CLA would perform forensic audit services related to six areas identified by the State. The six areas of analysis include: (1) federal and state funding, (2) procurement and contract management, (3) financial transactions and controls, (4) vendors and conflicts of interest,<sup>14</sup> (5) governance and compliance, and (6) fiscal agent oversight. The specific areas of analysis requested by the State are identified at the beginning of each subsection in section 5. *Results of Forensic Audit* beginning on page 29.

The procedures included below provide an overview of the work performed that resulted in the observations that are communicated in this interim report.

- A. Planning and strategy – Accomplished through planning and meetings with the State to discuss the engagement process and agree on an outline of responsibilities, timeframes, and deadlines.
- B. Assessment – Accomplished through the review of the District’s data and financial and compliance reports. This phase also included interviews with MSCS employees to understand current and historical processes and procedures relevant to the forensic audit. Where appropriate, CLA reviewed information from anonymous complaints. CLA obtained from the District relevant process and procedure manuals and financial data to conduct appropriate financial analytics.
- C. Forensic evaluation – Documented processes and internal controls of the District to help inform the risk-based analytics and sample selection process. Developed testing criteria for the various areas to be examined.
- D. Testing and analysis – Included the performance of public records searches for certain individuals and entities as determined appropriate through the course of the forensic audit. CLA obtained and reviewed the email boxes for individuals considered to be District leadership and other individuals whose emails may contain relevant information. Selected samples and completed testing for the various areas of analysis identified by the State are described in additional detail in section 5. *Results of Forensic Audit beginning on page 29.*
- E. Reporting – Included bi-monthly verbal status updates to the State and progress reports as requested.

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<sup>14</sup> Due to the overlap in governing policies and the procedures performed during this engagement, the Vendors and Conflicts of Interest section and the Procurement and Contract Management section have been combined into a single section titled *Procurement, Contract, and Vendor Management*.

#### 4. Summary of Work Performed

In order to complete the scope of work agreed upon by the State and CLA, the following work was conducted by CLA to complete the forensic audit of the District.

##### A. Initial Entrance Conference

CLA conducted a virtual initial entrance conference with the State and the District on August 7, 2025. In attendance were Lee Ann West and Katie Armstrong, from the State, and Dr. Roderick Richmond, current MSCS superintendent; Tito Langston, Assistant Superintendent of Operations; Gary Hannah, Chief of Staff; Justin Bailey, General Counsel; Derrick Morris, Director II of Federal Programs and Operations; Leslie Knighten, Controller; Richard Berroa, Information Technology Officer; LaQueeya Braxton, Director of Procurement; and William Fulton, Director of Internal Audit. The purpose of this conference was to make introductions and discuss timing, expectations, and agree on the cadence of communication between the District and CLA. Additionally, systems used by the District for financial and procurement purposes were discussed and access was subsequently granted to CLA.

An in-person kickoff meeting took place at the MSCS District offices on August 11, 2025, bringing together CLA staff and District leadership to formally commence the forensic audit and the on-site work scheduled for that week.

##### B. Document Request

In early August 2025, an initial document request was submitted to the District to obtain financial data and documents needed to perform analytics and ultimately select a sample of transactions for testing. The document request lists were updated and communicated to the District frequently. CLA began meeting with District leadership as needed to discuss the status of document requests on August 25, 2025, and a weekly virtual meeting between District leadership and CLA was established beginning October 20, 2025, to discuss the status of document requests and answer any questions that may have arisen.

##### C. Interviews Conducted

CLA visited the District from August 11, 2025, through August 14, 2025, to conduct initial process interviews of District staff. CLA maintained a monthly onsite presence at MSCS throughout the forensic audit.<sup>15</sup> Additional interviews were conducted both on-site and virtually over the course of the forensic audit. In sum, CLA conducted over 100 interviews and numerous phone calls. The purpose of these interviews was to gather detailed information on the processes occurring within the District as it relates to financial transactions and procurement. During this time, CLA also conducted interviews of MSCS

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<sup>15</sup> CLA visited MSCS every month (August to February) to conduct interviews, review documents, perform walkthroughs and obtain contextual information for the different areas of examination.

Board Members and County commissioners. A schedule of the interviews conducted to date is included in this report as [Attachment 01](#).

#### **D. Data Collection and Analysis**

In August 2025, the District provided CLA query access to the human resources/payroll and financial modules within its business information and accounting system, APECS allowing CLA to directly access and retrieve relevant data throughout the forensic audit.<sup>16</sup> CLA exported District financial data directly from APECS, including trial balance summaries, general ledger details, subledger details, disbursement ledgers, and payroll registers. Separately, the District provided CLA with a copy of the chart of accounts for fiscal years 2022 through 2024. The collected data was uploaded into CLA's data analysis software where it was indexed, summarized, and analyzed.<sup>17</sup> Prior to performing any analysis, CLA reconciled revenue, expenses, assets and liabilities from the general ledger detail to the trial balances. CLA then reconciled the trial balance accounts to the District's audited financial statements for fiscal years 2022 through 2024, with minimal differences, which confirmed the APECS data exported was complete and accurate.

Obtaining the relevant District financial data from APECS allowed CLA to perform various analyses prior to selecting risk-based samples for testing. Specific analyses performed for each area of testing are discussed throughout section 5. *Results of Forensic Audit* beginning on page 29.

#### **E. Selection of Samples**

Within each area of analysis (discussed in section 5. *Results of Forensic Audit* beginning on page 29), and where appropriate, CLA selected a risk-based sample for testing to assess the specific area of analysis identified by the State and determine if there was evidence indicative of fraud, waste, or abuse. The specific method and scope for selecting each sample varied by area and is discussed further in the results section. Where available, through the query access the District provided CLA for APECS, and Contract Advantage, CLA identified supporting documentation for the transactions selected for detailed testing.<sup>18</sup> If sufficient supporting documentation was not located in either of these document repositories, CLA requested additional supporting documentation from the District.

#### **F. Email Review**

On August 5, 2025, CLA requested that the District provide electronic copies of specific email accounts in PST format for upload to a secure, designated SharePoint site intended

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<sup>16</sup> CLA also received access to the District's human resources system, iCIMS, which did not contain financial data requiring reconciliation.

<sup>17</sup> Prior to upload, some data sets were normalized to ensure the data would transfer accurately between its native file format at the data analysis software.

<sup>18</sup> Contract Advantage is the contract lifecycle management software system in use by the District.

for file transfers. The District encountered challenges in exporting the files as requested. On August 21, 2025, CLA supplied the District with a secure, empty 4TB hard drive for uploading the PST email files as an alternative solution; however, the District did not return the hard drive to CLA. On September 16, 2025, CLA was granted authorization to access the MSCS Microsoft 365 platform for the purpose of retrieving email files and promptly initiated the file download process.<sup>19</sup> The email files were uploaded to a third-party document review platform, Logikcull, for review and analysis.<sup>20</sup> Throughout the course of the engagement, CLA has retrieved the email boxes of additional individuals as needed. The review encompassed correspondence files for approximately 40 current and former District Board members and employees as summarized in Table 10.

**Table 10: Email Files Retrieved by CLA**

Description	Quantification
Number of Custodians	40
Count of emails/attached documents	3,214,640
Number of pages	20,542,225
Size	2.17TB

### G. Public Records Research

Public records research was conducted to identify associations of District leadership and MSCS Board members. The purpose of the public records searches was to identify a list of individuals, organizations, corporations, and addresses associated with each individual that was compared to the various transactions of the District. This procedure can help identify potential fictitious employees or vendors, or possible conflicts of interest. This data was gathered through open-source internet resources and various public records databases, including databases detailing real property ownership and Secretary of State's databases for corporate affiliations.

### H. Challenges Encountered

CLA performed the procedures described in this section in accordance with the AICPA Statement on Standards for Forensic Services No. 1 (SSFS No. 1). However, CLA's ability to complete planned procedures and obtain sufficient appropriate evidence related to procurement, contract, and vendor management was materially constrained by the District's failure to timely produce certain requested records and by the absence of centrally maintained procurement data. These conditions constitute scope limitations for purposes of this interim report. Accordingly, the conclusions presented in this report are

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<sup>19</sup> CLA was granted access to the eDiscovery platform within Microsoft 365 and was not provided with administrative privileges for the District's entire Microsoft 365 cloud environment.

<sup>20</sup> Logikcull is a cloud-based eDiscovery software used by CLA to conduct digital evidence review.

based solely on the evidence available as of the report date and may be revised upon receipt and evaluation of outstanding information.

#### Non-Production and Late Production of Supporting Documentation

Completion of procurement and contract testing required access to supporting documentation to substantiate procurement method, approvals, contract execution, amendments, contract monitoring, invoice support, and payment authorization. CLA issued its initial document request in early August 2025 and provided MSCS with rolling lists of requested documents and follow-up questions throughout the engagement. From September 2025 through February 2026, CLA conducted weekly status calls with District leadership, performed interviews, and exchanged extensive email correspondence to obtain documentation not readily available in APECS and to resolve open items. Further, CLA conducted monthly onsite visits to discuss outstanding documents, conduct walkthroughs and search for physical documents needed to perform testing.

In preparation for issuance of this interim report, CLA provided MSCS with a consolidated list of contracts-related missing documentation and unresolved questions and requested responses by February 13, 2026. As of the date of this report, despite multiple follow-up efforts by CLA, including an on-site visit during the week of February 20, 2026, MSCS has not produced the requested information or formally indicated that the items cannot be produced.

Where documentation was not provided, CLA was unable to complete planned procedures designed to corroborate procurement methods, validate approvals and authority, confirm contract execution and amendments, evaluate oversight of deliverables, and substantiate invoicing. In such instances, CLA was left to conduct extensive document and email review and interviews to try and obtain the information needed. Conclusions were limited to the incomplete record available, and certain matters remain unresolved pending receipt of requested evidence.

#### Delayed Access to Email Evidence

The testing procedures involved an examination of pertinent email communications to gain insight into the circumstances related to disbursements, transactions, and additional procedures outlined in this report. As discussed in section F. Email Review on page 23, CLA requested email files for relevant current and former employees and Board Members on August 5, 2025. MSCS did not provide the requested email files and CLA was granted access to retrieve the files directly approximately six weeks later.

This delay materially hindered CLA's ability to timely corroborate contract documentation, resolve gaps in contract files, and complete testing procedures that relied on email evidence to confirm decision-making, approvals, and contextual information.

### Decentralized Application Ownership and Limited IT Governance Increase Access Control and Data Security Risk

A significant portion of business applications are procured and managed outside of centralized IT oversight, with departments retaining ownership and administrative control over many systems. While certain core systems are integrated with Azure-based SSO, numerous applications operate independently without consistent enforcement of SSO, MFA, centralized logging, or standardized provisioning and deprovisioning controls. This decentralized model reduces visibility into where sensitive data resides, how access is granted and revoked, and whether vendor security practices meet district expectations. As a result, the organization faces heightened risk of unauthorized access, inconsistent identity governance, data leakage, and service disruption across systems that support financial, HR, and instructional operations.

### Fragmented Systems and Inconsistent Record Retention

CLA encountered recurring challenges arising from fragmented record retention across multiple systems, including Contract Advantage, APECS, shared drives, and email repositories, and from inconsistent practices regarding where executed contracts and supporting documentation were maintained. In multiple instances, key records were not co-located, requiring CLA to reconstruct contract histories across systems and submit repeated follow-up requests to locate documentation not available in APECS or Contract Advantage. Additionally, CLA identified multiple information systems utilized by MSCS in the performance of its operations. CLA requested and was granted access to the majority of these systems, as shown in Table 11, to obtain information necessary to perform procedures within the scope of this engagement.

**Table 11: Systems Currently in Use by MSCS<sup>21</sup>**

Area	Application	System Description
Core	APECS	Enterprise financial and HR system supporting payroll processing (time tracking, attendance, paystubs), budget management (general ledger, financial reporting, audits), procurement (requisitions, purchase orders, vendor management), HR records, benefits administration, and employee timekeeping
Budgeting	Allovue Allocate	Budgeting and financial planning tool used for allocations, forecasting, and monthly budget-to-actual reviews, including staffing. Integrates with APECS for data feeds
Budgeting	ePlan	State of Tennessee budgeting application used for budget planning and uploads to the State, including budget templates and approval tracking
Budgeting / Grants	School Funds Online	System used by school secretaries to record and manage school-level financial transactions and compliance. All schools use the same platform
Procurement	Contract Request	Tool used to administer the contract fulfillment process, typically for one-year contract terms
Procurement	Contract Advantage	Repository for fully executed contracts. Used for managing and executing procurement contracts
Audit	TeamMate+	Internal audit management tool used to support audit planning, execution, and documentation
Audit	Lighthouse	Third-party complaint and ethics hotline provider
Administration	iCIMS	Applicant tracking and onboarding system. Applicants upload documents directly, and employee files remain in iCIMS as part of the hiring record
Accounts Payable	FIS Global	Third-party financial application used for check processing and bank integrations, including ACH and virtual card payments. Includes Positive Pay for check fraud prevention
HR / Payroll	UKG	Biometric timekeeping system primarily used by Security and Nutrition Services staff. Job data exports into APECS for approval
Administration	PowerSchool	Student information system containing personal data for all students
Procurement	NASPO	Cooperative purchasing platform operated by the National Association of State Procurement Officials, providing access to competitively sourced contracts for goods and services, including emergency and IT purchases
Procurement	IonWave	Electronic bidding and billing system used for goods and street bids posted by procurement services

The above-described conditions increased the effort required to obtain forensic audit evidence, delayed completion of procedures, and limited CLA's ability to verify the completeness of contract files. Where executed contracts or supporting documentation

<sup>21</sup> The systems CLA was granted access to include: APECS, Allovue Allocate, ePlan, School Funds Online, Contract Advantage, Contract Request, TeamMate+, Lighthouse, and iCIMS.

could not be confirmed, determinations were limited to the evidence available as of the interim report date.

#### Degradation of Institutional Knowledge

During the scope period, MSCS faced multiple leadership transitions. The turnover impacted the retention of staff, eroded institutional knowledge, created inefficiencies in the organizational stability of the core functions at MSCS, and increased internal control weaknesses and financial risks. The forensic audit has been impacted considerably resulting in the need for multiple interviews about specific areas of the scope of work to obtain a clear understanding of the processes that were in place. The lack of consistent knowledge around processes, procedures and applications has resulted in CLA conducting over 100 interviews to obtain information relevant to the forensic audit. Refer to [Attachment 01](#) for the list of interviews conducted.

#### Interim Status

Due to the scope limitations described above, most notably the absence of centrally tracked special procurement data, delayed production of email evidence, and continued non-production of requested supporting documentation, the procedures addressed in this report remain subject to the availability of additional information. Accordingly, this report reflects the results supported by the evidence obtained as of the interim reporting date and may be refined or supplemented upon receipt and evaluation of outstanding documentation and completion of related procedures.

## 5. Results of Forensic Audit

The following sections provide the details of the area(s) of analysis identified by the State or through other communications to CLA, analysis performed, sample selection methodology, results from testing, observations, and recommendations for process improvements. The observations and recommendations are based upon the work performed by CLA as of the time of this interim report.

### A. Federal and State Funding Review

This section focuses on obtaining an understanding of selected federal programs, including Title I, Elementary and Secondary School Emergency Relief (ESSER), and Head Start Programs. The scope of this section is to assess compliance, proper allocation, and use of federal and state funds. This included obtaining an understanding of each program, verifying that total funds were properly received, recorded, and deposited, and evaluating whether expenditures complied with applicable federal requirements. This included assessing whether costs were allowable under program guidelines and appropriately allocable to the respective grants.

Due to the varying internal policies and procedures applicable to each type of transaction when determining allowability and allocability under the grant, each grant has been divided into four subcategories of activity: disbursements, travel, journal entries, and payroll. Each subcategory was reviewed separately to account for the specific rules and documentation standards that apply to the specific type of expenditure. This approach allows for a more precise assessment of compliance with federal regulations and the terms and conditions of each grant program.

#### *i. Federal and State Funding – Title I*

##### Area of Analysis

This section focuses on obtaining an understanding of the costs associated with various Title I grants received by the District during the scope period. The procedures performed include reconciliation to the General Ledger, analysis, and sample testing, which were designed to assess whether the District appropriately applied requirements related to allowability, compliance with applicable federal regulations, and proper allocation of costs charged to the grants.

Title I grants are ongoing federal education grants designed to provide supplemental funding to school districts that serve high percentages of students from low-income families. The purpose of Title I is to help make certain that all students have access to a high-quality education and support programs that improve academic achievement. Title I funds are federal pass-through grants. The U.S Department of Education awards Title I funds annually to the State Educational Agencies (SEAs) and then the SEAs allocate and distribute those funds to the local educational agencies (LEAs) based on a federal allocation formula that considers student enrollment and poverty levels.

The following section presents the results, as of the date of this interim report. The section describes the procedures performed and summarizes the District's compliance with applicable federal requirements related to the use of Title I funds.

#### Percentage Completion: 70%

While substantive testing has been completed for approximately 90% of the population, portions of the associated workpapers remain under supervisory review and subject to follow up questions prior to finalization. Accordingly, after considering the status of the review process, this section is currently assessed as 70% complete. Completion will increase as outstanding review comments are resolved and additional documentation is received.

Delays are primarily attributable to the time and effort required to extract data from multiple modules within APECS, as well as the need for additional coordination with the District to obtain supporting documentation for items not available within the system. With respect to the specific expenses funded with Title I Funds, Travel testing is 100% complete. Payroll testing has not yet commenced, and journal entry and disbursement testing related to 174 transactions remain in progress.

#### Applicable Policies/Procedures and Best Practices

CLA reviewed all available District policies and procedures, applicable federal guidance, and supplemented this review with interviews of the District's director of federal programs and the director of grant management and compliance in order to gain an understanding of the District's practices and controls related to grant administration and compliance.

The District receives Title I funds from the state of Tennessee and uses these funds within the District school system and also disburses a portion of funds to the charter schools authorized by the District.

With respect to charter school payments, the Schedule of Expenditures of Federal Awards (SEFA) included in the District's financial statements contains the following statement: "There were no federal awards passed through to subrecipients." This statement communicates that the District is taking responsibility for all Title I funds expended by the charters as it relates to federal funding and the requirements under Uniform Grant Guidance (UGG).<sup>22</sup> The District retains responsibility for funds expended by charter schools under applicable grants. Charter schools are therefore required to submit reimbursement requests with complete supporting documentation, including proof of payment. Upon review and verification of allowability, the District reimburses the charter schools for eligible grant expenses.

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<sup>22</sup> The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) are codified at 2 CFR Part 200.

The Code of Federal Regulations 2 CFR § 200.403(c) states, costs must meet specific criteria to be allowable including: “be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the recipient or subrecipient.” Accordingly, from a compliance perspective, all schools, are expected to follow applicable District internal policies in addition to the requirements set forth in the grant compliance supplement.

The District uses a policies and procedures manual that is aligned with the requirements of the UGG and has also released a reference guide to assist all employees and charter schools in complying with the Title I program. The manual contains the internal controls and grant management standards used by the District to confirm compliance with federal funds.

Accordingly, in compliance with UGG:

- Title I activities and expenditures must be reasonable, necessary, and aligned with identified student needs based on a comprehensive needs assessment. Procedurally, schools participating in Title I are required to engage in annual planning and oversight activities, including the development and implementation of a school improvement plan. Schools are also required to conduct an annual Title I meeting to inform parents of program participation, requirements, and opportunities for involvement, with all supporting documentation maintained for compliance and monitoring purposes.
- Fiscal procedures governing Title I require that all expenditures be preapproved, properly documented, and processed through the District’s established financial systems. Purchases must include clear justification demonstrating how the expense supports instructional goals and benefits eligible students. Budget monitoring is conducted throughout the year to confirm expenditure remains within approved allocations, and budget revisions or transfers are subject to review and approval by designated federal programs management.
- Payroll and staffing procedures require that employees are funded in whole or in part with Title I resources. Documentation should include required time and effort, including semi-annual certifications.<sup>23</sup> The director of federal programs communicated that the District uses semi-annual certifications, personnel activity reports, and reconciliations to comply with time and effort requirements. Additionally, as an internal policy the District does not allow overtime to be charged through Title I, in order to reduce risk of unallowable payroll expenditures.
- Inventory and asset management procedures apply to all equipment purchased with Title I funds. Such equipment must be properly tagged, recorded, and tracked in accordance with District inventory policies and used

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<sup>23</sup> Per conversation with the director of federal programs every position funded through Title I at the District is 100% funded and no employee’s salary is split between Title I and another funding source.

exclusively for instructional purposes. These items must be fully traceable. Schools are responsible for maintaining accurate inventory records and following established procedures for reporting missing, stolen, transferred, or disposed items. These controls help safeguard assets purchased with federal funds.

CLA visited the educational warehouse where lower value supplies are stored and reviewed the associated standard operating procedures (SOPs). The director of federal programs communicated that Title I supplies are typically shipped directly to individual schools and are not stored at the general (or “mixed”) educational warehouse. Accordingly, the controls around the storage and handling of warehouse supplies will be further discussed and reviewed in the next section *5.A.ii Federal and State Funding – ESSER*.

Best practices for Title I administration include proactive planning, clear documentation, and ongoing communication among program staff, school leadership, and parents. Effective Title I programs are regularly monitored to confirm funds are used as intended and achieve educational outcomes.

#### Analysis and Sample Selection

To select the sample CLA used a risk-based approach informed by data analytics, including analysis summarized by relevant attributes, including transaction type, funding source, dollar value, payee and account. This analysis was further supplemented by a review of an already established allegations and complaints listing. From the full Title I population, CLA selected 200 general transactions totaling \$8,744,883.13 over the scope period of fiscal years 2022 to 2024. Table 12 explains the distribution of this sample across the four categories: disbursements, journal entries, payroll, and travel.

**Table 12: Distribution of Title I Categories Tested**

Category	Total Tested	Amount Tested
Disbursements	148	\$3,544,297.43
Journal Entries	26	2,707,493.71
Payroll <sup>24</sup>	18	2,428,716.79
Travel	8	64,375.20
Total	200	\$8,744,883.13

For each sample selection, CLA tested compliance with both applicable federal compliance requirements, and the District policies and procedures relevant to each transaction category. CLA accessed the District’s APECS system to retrieve and review supporting documentation and approvals. For information not available within APECS, CLA requested documentation through inquiry with appropriate District personnel. For distributions selected that were made to a charter school, CLA

<sup>24</sup> As of the date of this interim report, CLA continues to make progress in testing for this area.

additionally utilized the Title I CRATE.<sup>25</sup> Testing has been completed for all disbursements, journal entries, and travel transactions; however, as of the date of this interim report, a full review of these transactions has not been completed. Payroll testing remains in progress due to delays in correspondence and the unavailability of certain supporting documentation in APECS.

#### Results of Analysis and Testing

Based on the testing performed as of the date of this interim report, CLA has not identified areas of noncompliance, fraud, waste, or abuse. The observations identified primarily relate to insufficient and incomplete supporting documentation, as well as an initial lack of clarity of the supporting documentation available in APECS. In several instances, the documentation uploaded to APECS did not clearly demonstrate the purpose, allowability, or compliance of the transaction. Consequently, the compliance of certain transactions could not be initially determined based solely on the documentation maintained in APECS and required multiple additional inquiries with District personnel and several follow-up requests.

**Observation #1** Inconsistent written documentation to support travel requests.

CLA noted inconsistent application of providing written justification on travel forms as required by District policy.<sup>26</sup> In the travel expenses sampled, CLA did receive additional information to confirm it was in fact travel in accordance with the grant, through further inquiries. See Recommendation #1.

**Observation #2** Supporting documentation was missing from APECS.

Supporting documentation related to disbursements for District-operating public schools, including multiple quotes, contracts, and requests for proposal (RFPs), were not consistently uploaded and retained within APECS.<sup>27</sup> Based on discussions with District personnel, this was attributed in part to storage limitations within APECS.

Although the District-operated public schools had some missing documentation, underlying support for disbursements related to charter school expenditures were identified in APECS and were

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<sup>25</sup> Title I CRATE by 806 Technologies is a web-based compliance and documentation management platform used by the charter office at the District to receive, document, and approve transactions before they are moved to APECS.

<sup>26</sup> 2020-Travel Expense Policy.

<sup>27</sup> This statement does not include charter schools.

maintained in the District's secondary storage management system, CRATE.<sup>28</sup>

**Observation #3** Journal entries lack sufficient clarity.

Journal entries often lacked sufficient clarity regarding the purpose or rationale for the adjustment. The journal entries often described what accounts were being adjusted but failed to describe the reasons for the adjustments. While supporting documentation was available for all five out of five samples tested and reviewed as of the date of this interim report, they did not have justification as to why the entries occurred. These samples required additional inquiry to verify the reason they were made to confirm compliance with the grant. See Recommendation #2.

**Observation #4** There was inconsistent use of the location code within the general ledger.

CLA observed that certain Title I expenditure transactions were recorded using location code 1000 (Central Office) in the general ledger rather than the specific school location to which the expenses related. The controller acknowledged that assigning expenses to the appropriate school location is considered best practice and that this best practice has been communicated to the departments; however, this practice is not consistently followed. If the correct location is not entered, it creates difficulty in determining which school location benefited from the expenditure. See Recommendation #3.

**Observation #5** Recurring journal entries are not memorialized in a standard operating procedures manual. Regularly occurring and appropriately documented journal entries are used to correct expenditures initially charged to federal grants that are subsequently determined to be unallowable. This includes, for example, the removal of overtime and hybrid retirement payroll costs for employees fully funded by Title I, consistent with internal policy and Title I allowability requirements. However, the process for documenting and recording journal entries is not listed in an SOP.<sup>29</sup> See Recommendation #4.

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<sup>28</sup> CRATE is utilized by multiple departments within the District, including the grants office.

<sup>29</sup> This practice is followed by the District's federal funds department; however, it is not formally documented in an approved policy or SOP.

### Interim Conclusions

Based on the procedures performed as of the date of this interim report, CLA has not identified areas of noncompliance, fraud, waste, or abuse. The observations identified primarily relate to insufficient and incomplete supporting documentation, as well as an initial lack of clarity of the supporting documentation available in APECS. CLA gained clarity only after multiple further inquiries and requests for additional documentation. This conclusion is preliminary, as review and testing of selected Title I expenditures have not yet been completed and this section of the forensic audit has not been finalized.

### Recommendations

CLA recommends the following regarding Title I expenditures.

**Recommendation #1** CLA recommends that the District consistently apply the written justification requirements in its travel policy by requiring that each travel justification explicitly demonstrates the necessity of the travel and its direct relationship to the applicable Title I grant award.

**Recommendation #2** CLA recommends that the District require a written justification for the reason why a journal entry is being booked, and require that the justification is either attached or recorded as a note within APECS.

**Recommendation #3** CLA recommends that the District develop a formal SOP to document the process for recurring journal entries. Documenting the process for recurring journal entries is important to promote consistency, accuracy, and transparency in financial reporting.

**Recommendation #4** CLA recommends that the District develop a written standard operating procedure requiring the use of the specific school location code when expenditures are directly related to a particular school. Establishing this requirement would promote consistent accounting practices, improve the accuracy of financial reporting at the school level, and enhance transparency over how resources are allocated and spent.

#### *ii. Federal and State Funding – ESSER*

### Area of Analysis

This section focuses on obtaining an understanding of the costs associated with various ESSER grants received by the District during the scope period. The procedures performed include analysis and sample testing, which were designed to assess whether the District appropriately applied requirements related to allowability,

compliance with applicable federal regulations, and proper allocation of costs charged to the grants.

The ESSER grants were temporary emergency relief federal funding programs created to help school districts respond to and recover from the impacts of the COVID-19 pandemic. ESSER funds were intended to support safe school programs, address learning loss, provide mental health support, improve air quality, and maintain continuity of education services. The U.S. Department of Education distributed ESSER funds to the SEAs, and the SEAs allocated and distributed those funds to the LEAs. ESSER funding was provided in three funding phases, ESSER, ESSER 2.0, and ESSER 3.0. All grants are now closed out, but ESSER, ESSER 2.0, and ESSER 3.0, were all relevant to the forensic audit scope period.

#### Percentage Completion: 75%

While substantive testing has been completed for approximately 90% of the population, portions of the associated workpapers remain under supervisory review and subject to follow up questions prior to finalization. Accordingly, after considering the status of the review process, this section is currently assessed as 75% complete. Completion will increase as outstanding review comments are resolved and additional documentation requested is obtained for the specific samples being tested.

Delays are primarily attributable to the time and effort required to extract data from multiple modules within APECS, as well as the need for additional coordination with the District to obtain supporting documentation for items not available within the system. With respect to the specific expenses funded with ESSER funds, travel testing is 100% complete, payroll testing has not yet commenced, and journal entry and disbursement testing related to 179 transactions remain in progress.

#### Applicable Policies/Procedures and Best Practices

CLA reviewed all available District policies and procedures, applicable federal guidance, and supplemented this review with interviews with the District's director of federal programs, and the director of grant management and compliance. In addition, CLA conducted a site visit to the District's educational warehouse, where COVID-19 related supplies, including but not limited to, face masks, hand sanitizer, instruction materials, textbooks, and other consumable supplies are stored. These procedures were performed to obtain an understanding of the District's practices and internal controls related to grant administration and compliance.

As ESSER was a one-time federal program, the District did not develop grant specific policies and procedures unique to ESSER funding. Instead, the District administered ESSER funds in accordance with existing federal guidance and the internal policies and procedures manual, which is aligned with the requirements of the UGG and relates to all federal grants, as discussed in the previous section.

The Federal guidance for the ESSER grants requires recipients to demonstrate that costs incurred by SEAs and subrecipients are allowable under the applicable statutory and regulatory provisions and are consistent with the purpose of the Education Stabilization Fund (ESF) Fund, which is to prevent, prepare for, and respond to COVID-19.<sup>30</sup>

#### Analysis and Sample Selection

CLA deployed a risk-based approach informed by data analytics, including analysis summarized by relevant attributes, including transaction type, funding source, dollar value, payee and account. This analysis was further supplemented by conducting research and email review to identify allegations and complaints potentially relevant to ESSER. From the full ESSER population, CLA selected 200 transactions totaling \$86,596,219.13 over the scope period of FY 2022-2024.<sup>31</sup> Table 13 indicates the distribution of this sample across the four categories: disbursements, journal entries, payroll, and travel.

**Table 13: Distribution of ESSER categories tested.**

Category	Total Tested	Amount Tested
Disbursements	154	\$ 37,867,492.10
Journal Entries	25	42,374,959.65
Payroll <sup>32</sup>	16	6,326,232.41
Travel	5	27,534.97
Total	200	\$ 86,596,219.13

As described previously, for each sample selection, CLA tested compliance with both applicable federal compliance requirements, and the District policies and procedures relevant to each transaction category. CLA accessed the District's APECS system to retrieve and review supporting documentation and approvals. For information not available within APECS, CLA obtained necessary documentation through inquiry with appropriate District personnel. For distributions selected that were made to a charter school, CLA additionally utilized Title I CRATE. Testing has been completed for all disbursements, journal entries, and travel transactions; however, a full review of disbursements and journal entry transactions is ongoing.<sup>33</sup> Payroll testing remains in progress due to delays in correspondence and the unavailability of certain supporting documentation in APECS, which resulted in follow up requests to the District to provide the documentation not already available in APECS or through CRATE.

#### Results of Analysis and Testing

Based on the testing performed to date as of this interim report, CLA has not yet been able to determine if there are areas of noncompliance, fraud, waste, or abuse. The

<sup>30</sup> Compliance Supplement, 84.425D.

<sup>31</sup> The full population includes ESSER, ESSER 2.0, and ESSER 3.0.

<sup>32</sup> As of the date of this interim report, CLA continues to make progress in testing for this area.

<sup>33</sup> Travel testing of transactions and associated review for ESSER funds are fully complete.

issues identified primarily relate to insufficient and incomplete supporting documentation available in APECS, lack of clarity of the supporting documentation uploaded to APECS, and opportunities to strengthen organization and federal grant knowledge within the educational warehouse.<sup>34</sup>

In several instances, the documentation did not clearly demonstrate the purpose, allowability, or compliance of the transaction as it relates to COVID-19. As a result, the compliance of certain transactions could not be readily determined based solely on the documentation maintained in APECS and required additional inquiries and explanations from District personnel.

**Observation #6** There was insufficient documentation attached to the transaction in APECS to clearly demonstrate the purpose and alignment with ESSER.

**Observation #7** The District's supporting documentation did not always clearly demonstrate the relation between certain expenditures and COVID-19-related purposes. As of the date of this interim report, based on the work completed to date, the transactions tested and reviewed were found to be compliant with ESSER fund requirements.

**Observation #8** Inventory storage and tracking of ESSER-funded supplies were insufficient.

CLA reviewed inventory storage and tracking practices through a visit to the District's educational warehouse. During this visit, CLA observed that certain COVID-19-related items, such as face masks and hand sanitizer, were appropriately stored separately in a secured area of the warehouse. However, other ESSER-funded supplies, including textbooks and instructional materials, were stored alongside non-ESSER inventory without consistent physical identification or coding. While these items could be traced to ESSER funding within APECS, doing so required additional steps and was not readily apparent from warehouse storage practices alone.

When ESSER-funding inventory is commingled with non-ESSER inventory and not clearly identified, the District increases the risk that it cannot readily demonstrate that grant-funded assets are being used, safeguarded, and tracked in accordance with grant requirements. See Recommendation #5.

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<sup>34</sup> ESSER supplies are stored in the educational warehouse before they are distributed to the individual schools.

**Observation #9** Textbooks purchased with ESSER funds were not cataloged consistently.

CLA observed that, under a prior administration, certain ESSER-funded textbooks were intended to be identified using catalog numbers ending with the letter “E” to distinguish them from non-ESSER inventory. However, this practice was not formalized through a documented SOP and is not reflected in the current policy. As a result, consistency in identifying and tracing ESSER-funded inventory relied on system inquiries and staff knowledge rather than documented procedures, which creates a risk.

CLA tested one purchase order, which included multiple catalog numbers, that occurred during the time that the “E” practice was in place for the catalog number. Regarding the one random sample selected, these textbooks catalog numbers should have had the “E” identifier; however, they were entered incorrectly without the suffix. As a result, the catalog numbers for this sample reflected the standard general fund structure rather than the ESSER-designated structure.

However, although the District did not consistently follow its own catalog number policy, it demonstrated to CLA the ability to trace transactions and inventory to ESSER funding for the transactions tested. Opportunities exist to improve documentation clarity, consistency, and ease of traceability to support more efficient assessment of allowability and compliance.

**Observation #10** There was insufficient justification to demonstrate grant compliance in Travel Justification Forms filed in APECS.

Justifications provided on the “Travel Justification Form for Employee” lacked sufficient detail to demonstrate how the travel was related to the ESSER grant. Specifically, the documentation often lacked a clear explanation of reasons for the employee’s travel and how it was necessary for the grant purpose, or how the travel supported activities to prevent, prepare for, and respond to COVID-19. However, through additional inquiry, CLA was able to determine that these instances of travel were compliant with ESSER guidelines. See Recommendation #6.

**Observation #11** There was inconsistent use of the location code within the general ledger for ESSER expenditures.

CLA observed that certain ESSER expenditure transactions were recorded using location code 1000, Central Office in the general ledger rather than the specific school location to which the

expenses related. Failure to enter the correct location increases the difficulty in determining which school location benefited from the expenditure and impairs the District's ability to effectively track inventory.

### Interim Conclusions

Based on the procedures performed as of the date of this interim report, CLA has not determined areas of noncompliance, fraud, waste, or abuse. This is an interim conclusion, as review and testing of selected ESSER expenditures has yet to be completed and this section of the forensic audit has not been finalized.

### Recommendations

CLA recommends the following regarding ESSER expenditures.

**Recommendation #5** The District should consider updating its warehouse storage guidelines to ensure that supplies purchased with federal grant funds are clearly labeled and stored in locations that are easily identifiable by warehouse personnel. In addition, the District should consider revising the warehouse standard operating procedures to explicitly reference federal grants, such as ESSER and Title I, and outline expectations as a best practice for the handling, identification, and tracking of grant funded inventory.

The District should also consider providing training to warehouse staff on federal grant organization and the importance of grant compliance to promote consistency, accountability, and awareness across warehouse operations.

**Recommendation #6** The District should consider updating and consistently enforcing the policy concerning written justification statements within the Travel Expense Policy. This states that the written statement must justify that travel is necessary to the specific federal award. Although the ESSER grants have concluded, strengthening compliance with this requirement would help guarantee that all federal grants, including future temporary or emergency programs, are supported by documentation that clearly demonstrates compliance with applicable grant requirements when travel expenses are incurred.

*iii. Federal and State Funding – Head Start*Area of Analysis

This section focuses on obtaining an understanding of the costs associated with various Head Start grants received by the District during the scope period. The procedures performed include analysis and sample testing. These procedures were designed to assess whether the District appropriately applied requirements related to allowability, compliance with applicable federal regulations, and proper allocation of costs charged to the grants.

The Head Start grants are federal discretionary grants awarded by the Office of Head Start (OHS) at the Department of Health and Human Services. The programs are designed to promote school readiness for children, birth to age five, who are from low-income families. The grant supports early learning and education as well as family engagement, mental health, and nutrition services. Head Start funds are awarded directly to the LEA after an application, assuming they meet the eligibility criteria and provide services to low-income children.

The District operated Head Start programs for the entirety of the forensic audit scope period; however effective fiscal year 2026, the District has lost its Head Start funding and program responsibility has transitioned to Porter-Leath.<sup>35</sup> Porter-Leath is a Memphis-based nonprofit founded over 175 years ago. They provide community-centered support for children and families in the mid-south and have been serving Head Start since 2001.

Percentage Completion: 45%

Approximately 45% of the population has been tested, portions of the associated workpapers remain under supervisory review and subject to follow up questions prior to finalization. Completion will increase as testing is finalized, outstanding review comments are resolved and additional documents are obtained.

Delays are primarily attributable to information obtained during CLA's third visit to the District in January 2026, including the identification of budget materials that CLA had previously been told did not exist, as well as the time and effort required to extract data from multiple modules within APECS. Additional delays resulted from the need for further coordination with the District to obtain supporting documentation not readily available in APECS. With respect to Head Start, all required supporting documentation requested has been obtained; however, certain documentation is maintained in a ShareFile rather than APECS, which has required additional follow-up and inquiry. With respect to the specific expenses funded with Head Start funds, travel testing is 100% complete. Payroll testing has not yet commenced, and journal

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<sup>35</sup> CLA reviewed the deficiency letters for matters that could affect the scope or testing of the engagement and noted that the deficiency letters did not relate to financial noncompliance.

entries and disbursement testing related to 117 transactions remain in progress at both the initial testing and review phase.

#### Applicable Policies/Procedures and Best Practices

CLA reviewed all available District policies and procedures, applicable federal guidance, the District's accounting and the financial procedures manual specifically developed for the Head Start program. Additionally, CLA supplemented this review with interviews of the District's executive director of early childhood in order to gain an understanding of the District's practices and controls related to grant administration and compliance.

During the scope period the District maintained comprehensive policies and procedures governing the administration of Head Start funding that were designed to maintain compliance with applicable federal, state, and local requirements. The District created a manual specifically for the Head Start Program that was used in conjunction with the District's policies and procedures. The District also prepared a PowerPoint presentation that was used in annual trainings. The policies and procedures manual formally adopted the requirements of 45 CFR Part 75, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.<sup>36</sup>

The District's Head Start program operated on a calendar year basis beginning January 1 and ending December 31. Fiscal accountability was maintained through the use of the District's APECS system, which allowed Head Start transactions to be separately identified while remaining integrated within the District's general ledger. The District's policies prohibited the charging of unsupported, unallowable, or improperly allocated costs to the Head Start program and it is the responsibility of the District's Head Start administrative staff to determine the allowability of costs with UGG guidance.

Individual budgets were prepared for funding sources, and each grant or program manager was required to be aware of budget modification requirements. Budget development and management procedures were structured to align financial resources with programmatic goals identified through community needs assessments, program assessments, and federal grant guidance. Annual budgets and subsequent amendments were developed collaboratively by program leadership and fiscal staff and were subject to review and approval by both the Policy Council and the MSCS Board of Education. Procurement and purchasing activities related to Head Start funding were required to follow the District's procurement policies. There were specific lists to follow regarding the procedures for allocability, determining reasonableness, and allowability. Sole-source contract procurement was allowed under Head Start, only when specific circumstances exist. Travel and professional development expenditures charged to Head Start funding were subject to advance

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<sup>36</sup> Adopting the requirements of 45 CFR Part 75 was effective August 2022.

approval and require a complete travel authorization packet, including documented justification.

Collectively, these policies and procedures reflect best practices in federal grant administration, including centralized fiscal oversight, segregation of duties, strong documentation standards, routine reconciliations, and active governance involvement. While the District lost its Head Start funding effective July 1, 2025, and program operations transitioned to Porter-Leath, the accounting and financial controls were not cited in any deficiency letters, and the factors contributing to the loss of funding were outside the accounting and financial control environment.

#### Analysis and Sample Selection

CLA deployed a risk-based approach informed by data analytics, including analysis summarization by relevant attributes, including transaction type, funding source, dollar value, payee and account. This analysis was further supplemented by conducting research and email review to identify allegations and complaints potentially relevant to Head Start. From the full Head Start population of \$72,731,011.48, CLA selected 200 transactions totaling \$3,804,811.52 over the scope period of fiscal year 2022 to 2024. Table 14 explains the distribution of this sample across the four categories: disbursements, journal entries, payroll, and travel.

**Table 14: Distribution of Head Start categories tested.**

Category	Total Tested	Amount Tested
Disbursements <sup>37</sup>	120	\$ 2,747,803.51
Journal Entries	41	788,293.04
Payroll <sup>37</sup>	27	243,457.32
Travel	12	25,257.65
Total	200	\$ 3,804,811.52

For each sample selection, CLA tested compliance with both applicable federal compliance requirements, and the District policies and procedures relevant to each transaction category. CLA accessed the District's APECS system to retrieve and review supporting documentation and approvals. For information not available within APECS, CLA obtained necessary documentation through inquiry with the executive director of early childhood. Testing has been completed for all journal entries and travel transactions; however, testing and review is still ongoing for the payroll and other disbursement transactions. Delays in progress relate to the volume of transactions being tested and the unavailability of certain supporting documentation in APECS which then required additional requests and follow-up discussions.

#### Results of Analysis and Testing

Based on the testing performed as of the date of this interim report, CLA has not been able to determine if there are areas of noncompliance, fraud, waste, or abuse and notes the issues identified primarily relate to insufficient and incomplete supporting

<sup>37</sup> Testing is currently ongoing.

documentation, as well as lack of clarity of the supporting documentation uploaded to APECS. In several instances, the documentation did not clearly demonstrate the purpose, allowability, or compliance of the transaction. As a result, the compliance of certain transactions could not be readily determined based solely on the documentation maintained in APECS and required additional inquiry with and requests of District personnel.

**Observation #12** Head Start has strong, well-documented policies and procedures.

The District has developed comprehensive, well written policies and procedures specifically tailored to the Head Start program. The policies are reinforced with annual training presentations, to ensure all Head Start staff are knowledgeable of District requirements and federal compliance obligations. This demonstrates a strong commitment to consistent implementation and staff awareness as it relates to Head Start funding.

**Observation #13** The Head Start program executive director was highly knowledgeable of program requirements.

The District's executive director of early childhood has nearly 30 years of experience with the District and has served in the executive director role for approximately six years. This long tenure facilitated effective and efficient communication during information requests, as the executive director demonstrated a strong understanding of both District policies and applicable federal guidelines, contributing positively to program oversight and compliance.

**Observation #14** There was reliance on shared drive storage for supporting documentation rather than maintenance of these records within APECS.

CLA observed that certain underlying support could not be located within APECS and was instead maintained on a shared drive. In this instance, the practice did not result in compliance issues; however, it did cause delays in testing. These delays were mitigated by the long tenure and institutional knowledge of the executive director. Nevertheless, due to the potential impact of staff turnover, maintaining documentation outside of APECS is not considered a best practice and may pose challenges to the existence of documentation, timely access, and continuity in the future. See Recommendation #7.

**Observation #15** There was inconsistent use of the location code within the general ledger.

CLA observed that certain Head Start transactions were recorded using location code 7211 - Head Start Education in the general ledger rather than recording to the specific school location to which the expenses related. Failure to enter the correct location increases the difficulty in determining which school location benefited from the expenditure. See Recommendation #8.

#### Interim Conclusions

Based on the procedures performed as of the date of this interim report, CLA has not identified areas of noncompliance, fraud, waste, or abuse. Concerns identified primarily relate to insufficient and incomplete supporting documentation, as well as lack of clarity of the supporting documentation uploaded to APECS. This conclusion is preliminary, as review and testing of selected Head Start expenditures have not yet been completed and this section of the forensic audit has not been finalized.

#### Recommendations

CLA recommends the following regarding improvements to the policies and procedures of the Head Start grant. Although the Head Start program is not continuing, the District continues to operate four additional Pre-K programs serving approximately 3,500 students; therefore, these recommendations remain applicable and can be used to support the ongoing programs.

**Recommendation #7** The District should consider implementing a centralized document storage solution, either within APECS or another system better suited for comprehensive document management, to serve as a single repository for all key records. This repository should be capable of housing all supporting documentation, including large contracts, multiple vendor quotes, grant documents, and any other relevant materials. Given regular staff turnover over time, a centralized storage location would improve accessibility, reduce the need for repeated inquiries, and mitigate the risks associated with maintaining documentation in individual ShareFile locations with limited user access. Establishing a centralized repository would further support continuity, transparency, and efficient retrieval of documentation regardless of personnel changes.

**Recommendation #8** CLA recommends early childhood education staff more consistently utilize the general ledger location code when recording Head Start expenditures on the general ledger. A significant portion of Head Start expenses have been charged to location code 7211, early childhood education, rather than to the specific school location where the costs were incurred.

As the appropriate location codes are already established within the general ledger, charging expenses to the actual school location would enhance the District's ability to trace, analyze, and report expenditures by site. Improved use of location codes would provide clearer insight into which costs are attributable to each school.

*iv. Charter Schools – Distribution of state, local, and federal funding to charter schools*

Area of Analysis

The State requested that CLA identify all charter schools authorized to operate under MSCS and verify the accurate distribution of state, local, and federal funding to those charter schools.

Percentage Completion: 80%

Charter School distribution testing and review is approximately 80% complete. Completion of this section remains preliminary due to delays in obtaining responsive communications related to the charter school allocation process.<sup>38</sup> Additionally, a review of charter school-related budgets has not yet been conducted due to challenges in identifying and interpreting the source data. As of October 2021, the charter school office was established and expected to be responsible for all transactions relating to charter schools; however, CLA noted additional challenges related to inconsistent processes for charter school funding, as not all charter school disbursements are processed through the District's charter school office. This inconsistency has increased the time required to obtain responses to inquiries and supporting documentation. Due to issues identified within this section related to missing supporting documentation, the initial sample selected must be expanded, which will require additional time. See the analysis and sample selection section for a more detailed understanding. As of the date of this interim report, the charter school distribution testing will remain open pending completion of outstanding document requests, allocation analysis, and the associated budget review.

Applicable Policies/Procedures and Best Practices

CLA reviewed applicable policies and procedures related to charter school funding and further supplemented this review by conducting interviews with the controller, the director of charter schools, and the assistant superintendent of operations to obtain a more comprehensive understanding of the District's processes. In addition,

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<sup>38</sup> In certain instances, relatively straightforward documentation requests have required multiple follow-up communications (5+) over several days before confirmation was received that the requested documentation could not be located.

CLA considered relevant guidance in T.C.A. § 49-13-112(a) issued by the state of Tennessee.<sup>39</sup>

Distributions by the District are administered through a combination of state formula payments, Basic Education Program (BEP) or Tennessee Investment in Student Achievement (TISA) allocations and reimbursements for federal and state grant funded expenditures, with controls designed to confirm allowability, documentation, and appropriate approvals.<sup>40</sup>

- The BEP and TISA payments are allocations based on a funding formula prescribed by the state of Tennessee. The reimbursements are from any federal or state grants where funds are being provided to charter schools by the LEA or the District. In this instance the charter schools must submit a reimbursement request form designed by the District, an invoice, proof of payment, and any other documents required by the District's policies and procedures. The charter school office indicated it centralizes most charter school reimbursements through CRATE to improve tracking and support compliance.
- The charter school office noted that items routed through this office are submitted by charter schools into CRATE and reviewed through a multi-level approval workflow. It was communicated to CLA that charter schools are expected to submit supporting documentation with reimbursement requests and that reimbursements should not be processed without adequate support. For expenditures that require a larger volume of supporting documentation, for example the documentation required for a contract, this supporting documentation may be maintained in CRATE while disbursement packets are transmitted to the accounts payable department for processing and storage within APECS.
- Additionally, charter school office leadership noted that charter school distributions should follow "the most restrictive" requirements across federal and state rules because funds flow through the District and are reflected on the District's SEFA, noting the District has no sub-recipients and is fully responsible and accountable for all funds used by the charter schools, emphasizing the importance of consistent compliance with governing requirements and internal controls. Best practices highlighted by the process include maintaining a clear mapping and timeline of the distributions and approvals within CRATE.

The charter school office was established and operational starting in early fiscal year 2022, with CRATE being implemented in late fiscal year 2022. The charter office is still

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<sup>39</sup> T.C.A. stands for Tennessee Code Annotated.

<sup>40</sup> Beginning in FY2024, BEP payments were replaced by TISA payments.

evolving and although most charter school distributions are processed by this office, not all charter school distributions follow this process.

#### Analysis and Sample Selection

The analysis performed first sought to identify all disbursements made to charter schools by examining payments recorded as charter school disbursements within the District's bank statements. CLA then reconciled these disbursements to the general ledger to match each payment to the corresponding charter school location code. CLA encountered limitations in completing this reconciliation due to inconsistent application of location codes used to identify the different charter schools within the general ledger. To address this limitation, CLA reviewed the payee descriptions recorded in the general ledger in addition to the location codes to confirm that no charter school disbursements were omitted from the analysis.

From this population, CLA excluded Fund 12, as transactions within this fund were being tested separately within the federal funds section of this report. From the remaining population, CLA selected a sample of 21 disbursements for detailed testing over the scope period of fiscal years 2022 to 2024. In selecting the sample, CLA applied professional judgment and gave special consideration to transactions associated with charter schools that were the subject of reported complaints or allegations.

#### Results of Analysis and Testing

CLA noted the following during the charter school distribution testing process:

**Observation #16** There was missing supporting documentation in violation of Board policy 3012 – *Records Management* as well as the Statutory framework for District and School Audits in T.C.A. § 49-13-127.<sup>41</sup>

CLA observed that two out of 21 charter school disbursements tested did not have supporting documentation attached beyond the reimbursement request submitted by the charter school.<sup>42</sup> Both transactions related to the Safe Schools grant issued by the state of Tennessee.<sup>43</sup> CLA submitted follow-up inquiries to both the chief of safety and security, who approved and signed the reimbursement requests, and to the assistant superintendent of operations; however, after several weeks, and over five inquires the supporting documentation could not be located. CLA was informed that the documentation may be contained within boxes

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<sup>41</sup> This requirement notes that documentation must be kept for five years after an audit.

<sup>42</sup> At minimum this should include an invoice and proof of payment.

<sup>43</sup> The Safe Schools Grant is a non-recurring grant used to implement security, prevention, and intervention strategies into all Shelby County Schools.

of files in storage; however, the documents have not been located as of the date of this interim report. These conditions indicate the District's records were not consistently organized, retained, or readily retrievable in a manner that supports timely, efficient, and accurate access to information.

The two transactions without supporting documentation totaled \$66,096.26 and were noted to be both for alarm monitor and security guard services; however, without invoices CLA cannot confirm that the transactions were in fact for these services. CLA notes there were no receipts, invoices, or contracts available or provided to CLA even after multiple requests. These results indicate that for approximately 10% of the sample tested, the District's records were not consistently organized, or readily retrievable in a manner that supports timely, efficient, and accurate access to information as required under Board policy 3012 – *Records Management*. Consequently, the sample will require expansion.

**Observation #17** There were missing supporting explanations or reconciliations.

CLA observed that, for three of the 21 charter school disbursements tested, the supporting invoices did not match the amounts reimbursed. In these instances, the invoice totals exceeded the reimbursement amounts requested, which reduced the risk of over-reimbursement. However, upon inquiry, the variances could not be explained either by the chief of safety and security, who approved and signed the reimbursement requests, or the assistant superintendent of operations.

The two transactions for which no adequate explanation for the variance was provided totaled \$31,374.50 and represent approximately 15% of the sample tested. It should be noted that both Observation #16 and Observation #17 relate to reimbursements issued to charter schools that were processed outside of the charter office. See Recommendation #9.

**Observation #18** There was inconsistent use of the location code within the general ledger.

During the analysis of total distributions to charter schools, CLA identified limitations resulting from the inconsistent use of charter school location codes in the general ledger. According to discussions with the controller, departments have been instructed to use the specific school location code; however, CLA notes this guidance is not always consistently applied. Failure to enter the correct location increases the difficulty in determining

which school location benefited from the expenditure. See Recommendation #10.

**Observation #19** CRATE system capabilities are being used to their full potential and are very well organized.

The CRATE system, implemented in Spring 2022, was observed by CLA to be a well-organized and effectively utilized tool within the charter school office.<sup>44</sup> This web-based system functions efficiently throughout the entire process, from initial document upload through multiple levels of approval, document retention, and submission to the accounts payable department. While CLA recognizes that other departments have access to CRATE and may use it in varying capacities, the charter school office's consistent and comprehensive use demonstrates full utilization of the system's capabilities and is considered a departmental strength.

During sample testing, CLA observed that an incorrect account number on a reimbursement request was identified and corrected through the multi-level approval process. Although the error was not detected by the initial reviewer, it was identified by a subsequent reviewer prior to submission to accounts payable. CLA further noted that, upon inquiry, all supporting documentation related to this transaction was easily located due to the organized storage of records within the CRATE system.

**Observation #20** There are inconsistencies regarding the allocation of grants to the appropriate funds.

The controller communicated there was a practice of assigning certain grants to Fund 01, General Fund, versus Fund 08, Discretionary Grants, or Fund 12, Federal Grants and these would typically not be handled through the charter school office. As a general rule and as a best practice starting in fiscal year 2025, after all the existing grants performance periods under former leadership have ended, Fund 01 will not include grants or projects unless a match requirement exists. See Recommendation #11.

#### Interim Conclusions

Based on the procedures performed to date, CLA has identified areas of noncompliance for charter school disbursements; however, no evidence of fraud or waste has been identified. The evidence of noncompliance discovered was

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<sup>44</sup> Prior to the implementation of the CRATE system paper reimbursement requests were used.

attributable only to transactions handled outside of the charter school office. Approximately 25% of the transactions tested failed to meet requirements for compliance due to lack of documentation. Consequently, the sample will be expanded. In addition, this conclusion is preliminary, as a review of charter school budgets, as well as review of BEP/TISA allocations, remains in progress.

### Recommendations

CLA recommends the following regarding charter school disbursements:

**Recommendation #9** The District should consider requiring that all charter school distributions, including all state, local, and federal grant payments, with the exception of facilities and nutrition related disbursements, be processed through the charter school office. Centralizing all charter related disbursements within the charter school office would promote consistency in processing, improve oversight and accountability, strengthen compliance with applicable state and federal requirements, and enhance transparency over charter school funding. This approach would also reduce the risk of missing documentation and inconsistent treatment across departments and support more effective monitoring, reporting, and reconciliation of charter school distributions.

**Recommendation #10** The District should consider establishing and enforcing a requirement that all charter school disbursements be charged to the applicable charter school location code. Any deviations from this requirement should be limited, formally approved, and clearly documented within APECS to guarantee consistency, auditability of charter school transactions, and facilitate a more efficient and effective way to analyze all charter school disbursements.

**Recommendation #11** The District should consider establishing and formally documenting a policy, or matrix that clearly identifies (1) which grants are to be administered and disbursed through each District fund, and (2) the designated responsible department or party for each grant. This matrix should be communicated and made accessible to all relevant District employees and charter school staff. Implementing this practice would strengthen accountability, clarify roles and responsibilities, promote consistent processing of grant disbursements, and enhance compliance with applicable state and federal requirements.

- v. *Charter Schools – Investigate any ties between charter school leadership and current and former MSCS Board members/administrators*

Area of Analysis

This section covers the investigation into potential ties between charter school leadership and current and former MSCS Board members. In addition, this section also addresses the concerns raised in the allegations listing.

Percentage Completion: 70%

As of the date of this interim report, this section is approximately 70% complete. The public records search continues due to the large number of individuals reviewed.

Applicable Policies/Procedures and Best Practices

CLA reviewed the Board policy 4003 - *Conflicts of Interest*, noting “Senior management employees or key employees shall not have a direct or indirect financial or material interest in any business or organization that has a business relation with Shelby County Schools.” CLA then reviewed the business relationships to determine if any would violate the policy.

Analysis and Sample Selection

In response to the concerns outlined in the allegations identified through research and email review conducted, CLA compiled a comprehensive list of charter school leaders for fiscal years 2022 through 2024. In addition, CLA assembled a roster of all current and former MSCS Board Members and administrators within the scope period. The identification of these individuals was based on information provided by the District and supplemented by a review of the District’s website to verify both current and former leadership. Through this process CLA identified 475 individuals that held leadership positions during the scope period. Following identification, CLA conducted public records searches for each individual using CLEAR.<sup>45</sup> However, the searches were limited to name only identifiers, which in some instances made it difficult to determine the appropriate individual as multiple persons in the Memphis area shared the same names and ages.

The CLEAR reports provided information on potential addresses, telephone numbers, court records including bankruptcy and criminal records, and lists of associated entities and individuals. After the reports were compiled CLA reviewed each report and identified key information for comparison with other analyses.

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<sup>45</sup> CLEAR is a web-based program that retrieves publicly available information, including addresses, telephone numbers, and associated individuals or entities.

### Results of Analysis and Testing

Through the public records search, CLA identified and reviewed CLEAR results for 283 individuals in leadership positions. For 23 of the 475 individuals, the volume of potential matches associated with their names prevented CLA from determining the correct individual.

Additionally, nine individuals did not generate results in CLEAR, which may be attributable to the use of alternate names or identifying information not available at the time of the search. As of the date of this interim report, CLEAR reports for the remaining 160 individuals have not yet been processed and reviewed.

CLA reviewed eight individuals associated with a charter school for which the results of research and email review revealed allegations existed. However, the review of the CLEAR reports associated with them did not result in matches that reveal concerns. The CLEAR report for the individual mentioned in the allegations did not describe any concerning information pertaining to the forensic audit scope period.

**Table 15: Results of CLEAR Reports**

Status	Number
Individuals Identified and Reviewed	283
Unable to Identify the Correct Individual <sup>46</sup>	23
No Individuals Matched <sup>47</sup>	9
Pending Review	160
Total	475

### Interim Conclusions

Based on the results of the public records research conducted to date, CLA has not identified any noncompliance with policy 4003, significant concerns, or notable issues among the individuals reviewed. However, a portion of the identified individuals have not been reviewed as this analysis is ongoing.

### Recommendations

Based on the workplan steps performed related to ties between charter school leadership and the District leadership, CLA has not identified any recommendations within this section as of the time of this interim report.

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<sup>46</sup> The CLEAR search returned multiple records associated with individuals sharing similar names.

<sup>47</sup> CLEAR did not identify reportable data linked to the particular name.

## B. Procurement and Contract Management

The scope of work included an extensive review of the procurement and vendor management processes. This section focuses on evaluating whether procurement and contract management practices were fair, transparent, competitive, and compliant with applicable laws, policies, and Board approval requirements.

Based on procedures performed to date, CLA identified conditions consistent with abuse totaling approximately \$382,000.00 and waste totaling approximately \$75,000.00, resulting from unsupported or unverifiable invoicing, payments inconsistent with contract terms, duplication of services, and circumvention of established procurement and accounts payable controls. CLA did not identify evidence of fraud, waste, or abuse related to professional services contracts.

These issues were driven by inadequate documentation, insufficient monitoring of consultant performance, and an inappropriate concentration of authority whereby individual employees were able to select vendors, execute contracts, and approve invoices without independent review. Collectively, these deficiencies reflect structural control and governance failures rather than isolated lapses and expose the District to continued financial, compliance, and reputational risk absent corrective action.

### Percentage Completion: 25%

SSFS No. 1 permits the issuance of interim reports and interim findings or conclusions for work completed to date, provided that any scope limitations are clearly disclosed and conclusions remain subject to revision if additional information becomes available. Accordingly, should additional information or documentation be obtained after issuance of this interim report, certain observations and interim conclusions may be revised, updated, or deleted in the final report. While certain testing procedures have been completed, portions of the associated workpapers remain under supervisory review and subject to follow-up inquiries prior to finalization.

CLA experienced delays during the engagement primarily due to limitations in the availability of supporting documentation and the absence of centrally tracked procurement data. In early August 2025, CLA requested a comprehensive listing of single source, sole source, and emergency contracts. CLA and MSCS engaged in ongoing communications, including weekly meetings beginning in September 2025, to follow up on this and other outstanding requests. During this period, MSCS indicated that the requested contract listing was in progress. In December 2025, MSCS informed CLA that it was unable to produce the listing because these contract classifications were not centrally tracked.

As a result, CLA undertook an independent process to identify the population of single source, sole source, and emergency contracts. This process requires review of approximately 4,000 contracts across multiple MSCS systems and examination of available documentation to determine procurement treatment. Identification of the

testing population and related audit procedures remains in progress and is expected to require significant additional effort.<sup>48</sup>

Throughout the forensic audit, CLA conducted weekly status calls, interviews, and extensive email correspondence to identify documentation needs, posed follow-up questions, and requested additional information. CLA provided MSCS with rolling lists of requested documents and asked MSCS to either produce the requested information, indicate when information could not be produced, or provide explanatory or alternative documentation.

In preparation for issuance of this interim report, CLA provided MSCS with a consolidated list of contracts-related missing documentation and unresolved questions and requested a response by February 13, 2026. As of the date of this report, and despite multiple follow-up efforts by CLA, including an on-site visit during the week of February 20, 2026, the requested information has not been provided.

In addition, contract testing procedures include review of relevant email communications to understand the context surrounding contract execution and to identify potential conflicts of interest. CLA requested email files for relevant individuals on August 5, 2025. Receipt of these files was delayed by approximately six weeks, resulting in additional delays across contract testing procedures.

Finally, as testing progresses, additional samples continue to be added to the testing population in response to emerging risks identified. Analysis of these supplemental samples remains in progress.

#### Sample Selection

CLA requested a report containing all contracts within the forensic scope period and received an initial listing of 2,914 contracts. Subsequent to this request, MSCS provided an additional listing of 1,190 professional services contracts, 287 of which were not included in the initial report provided to CLA, increasing the total population to 3,201.<sup>49</sup> In order to test contracts according to their governing procedures, the listing was divided into four categories: low-dollar contracts that did not require a requisition, professional services contracts, non-professional services contracts, and special procurement contracts.<sup>50,51</sup> For each area, CLA obtained information regarding processes and procedures through interviews and documentation.

Contract execution and payment practices were analyzed to confirm whether goods and services were received prior to payment and that expenditures were supported by appropriate approvals and documentation such as purchase orders (PO or PO's), invoices,

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<sup>48</sup> This includes contracts that fall under the fiscal year 2025 scope period reviewed in the Internal Controls report.

<sup>49</sup> MSCS was unable to provide an explanation as to why those 287 contracts were not included in the originally-provided listing.

<sup>50</sup> For the purposes of this report, low-dollar contracts refer to those contracts falling beneath the dollar threshold requiring a requisition.

<sup>51</sup> For the purposes of this report, special procurements refer to single source, sole source, or emergency contracts.

and receipts. Vendor qualifications, licensing, and compliance with strategic sourcing and professional services requirements are also being assessed to determine whether vendors met minimum eligibility standards at the time of award.

CLA used a risk-based approach to select a sample of contracts for testing in each of the four areas focusing on relevant allegations and areas of concern, including the following:

- (1) Relevant allegations identified on the scope of work;
- (2) Anonymous allegation submissions to MSCS Internal Audit via Lighthouse;<sup>52</sup>
- (3) Allegations identified through interviews and research;
- (4) Contracts valued at an amount close to but below approval thresholds;

Additional contracts were randomly selected to create a sample size of 10% of the total population or greater in each of the four areas. Further selections were made for testing as required during the process. Details regarding each sample will be provided in subsequent sections.

Contracts related to Nutrition are not included in the sample listed above and will be discussed separately in *5.B.v: Nutrition Contracts*.

#### Testing criteria

The contracts were tested for compliance with MSCS internal policies, and where applicable, the Code of Federal Regulations, (CFR), *§200.318 General Procurement Standards* through *CFR §200.326 Contract Provisions*.<sup>53</sup> For each contract tested, CLA assessed the following:

- (1) Adherence to policies and procedures;
- (2) The deliverables were met by the vendor;
- (3) Sufficiency of contract oversight;
- (4) Potential conflicts of interest with MSCS employees and Board Members;
- (5) Evidence of fraud, waste, or abuse.

CLA obtained copies of the *Procurement Services Reference Manual* and other internal policies and procedures related to the approval and execution of contracts. On November 28, 2023, the Board approved changes in procurement thresholds and approval requirements.<sup>54</sup> Most notably, the revised policies increased the dollar threshold for purchases that do not require a requisition from \$500.00 to \$3,500.00, thereby expanding the range of goods and services that may be procured without initiating a requisition. Correspondingly, the lower dollar bands for goods and services purchases subject to

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<sup>52</sup> Lighthouse is a third-party, confidential, and anonymous hotline provider used by the District to report fraud, ethics violations, harassment, and HR misconduct.

<sup>53</sup> Per the Procurement Services Reference Manual, the follows CFR §200.318 General Procurement Standards through 200.326 Contract provisions. In instances where purchasing requirements differ, the District adheres to the most restrictive requirement unless otherwise provided in the applicable federal regulations.

<sup>54</sup> Contracts were tested to the appropriate criteria based on the execution date of the contract.

requisition, quote, and purchase order requirements were adjusted to begin at \$3,500.00 rather than \$500.00.<sup>55</sup>

In addition, the revised policies lowered the professional services Board approval threshold from \$100,000.00 to \$75,000.00, resulting in professional service contracts and amendments requiring Board approval at a lower dollar value than in prior years. The contract amendment provisions were updated accordingly to clarify that professional services amendments are governed by the revised \$75,000.00 threshold, even where the general amendment framework continues to reference \$100,000.00.

The revised policies did not change the overall procurement workflow, approval structure, or sequencing of required steps, including requisition intake, competitive bidding or RFP/IFB requirements, contract execution, and Board approval processes. Key competitive procurement triggers, including the \$25,000.00 threshold for formal bids or RFPs and the \$100,000.00 benchmarks for non-professional services contracts remained substantively unchanged.

CLA noted that per Board policy *2006: Purchasing Authority*, and *2012: Contract Requirements, Approval, and Signatory Authority*, a purchase order is considered a legal document and is required for every purchase over the \$500.00/\$3,500.00 threshold, but that a written contract is only a requirement in the 18 circumstances listed in policy 2012. Therefore, CLA did not view the mere absence of a contract as a violation of policy unless the 18 circumstances referenced in policy 2012 applied to the disbursement.

Further, CLA conducted extensive email review to obtain contextual information, additional documentation and in some cases, to obtain the underlying support needed to complete testing. A total of 37 PST email files were uploaded and reviewed by deploying a number of keywords searched to identify communication relevant to the contract.

**Table 16: Email Review Population**

Email Review	
Number of Custodians	38
Count of emails/attached documents	3,118,714
Number of pages	20,258,376
Size	2.13TB

The specific policies and procedures relevant to each testing area are discussed in greater detail in the sections below.

*i. Contracts and Solicitations – Professional Services*

Area of Analysis

Assess compliance, oversight and potential conflicts of interest as it pertains to professional services contracts and related disbursements.

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<sup>55</sup> For purposes of this report, this is referred to as the \$500.00/\$3,500.00 threshold.

### Applicable Policies/Procedures and Best Practices

CLA reviewed all available District policies and procedures, applicable federal guidance, and supplemented this review with interviews of procurement, contracts, legal, and accounts payable personnel in order to gain an understanding of the District's practices and controls related to procurement, contracts and vendor management.

A professional services contract is a written agreement for services provided by an individual or organization possessing specialized, professional, or intellectual expertise that is acquired through advanced education, training, or experience, as distinguished from services that are routine, repetitive, or primarily manual in nature. District policies define professional services to include, but not limited to, auditing, accounting and financial services, legal services, medical services, insurance, business and educational consulting, professional development, research and evaluation services, surveys and studies, technical and information-technology services, and software development.

Professional services contracts are not subject to competitive bidding requirements and instead must be awarded based on demonstrated competence, qualifications, integrity, and the ability to perform the required services at a fair and reasonable cost, although RFQ or RFP processes may be used to document and support the selection decision.

No single policy documents the full lifecycle of a professional services contract, requiring the process to be reconstructed across Purchasing Authority, Contract Requirements, Procurement guidance, and Accounts Payable procedures. Based on a thorough examination of relevant policies and procedures, as well as information gathered during interviews, CLA has developed an understanding of the process at a high level as outlined below:

#### *1. Contract Initiation*

The process begins when a department identifies a need for professional services and submits a requisition via APECS. The procurement team issues a Procurement Advisory Form, (PAF), approved by the director of procurement, and sends it to the requestor. The requestor must then submit the PAF and supporting documents to Contract Request, starting the contract process with the Office of the General Counsel. CLA interviews revealed that the requestor self-classifies the contract as professional or non-professional in the Contract Request portal; this classification is not checked by procurement or legal at intake and is corrected later if a contract advisor finds it inaccurate.

#### *2. Contract Drafting, Review, and Execution*

The legal department/contract administration team oversees contract drafting, review, and execution. Each request is assigned to a contract advisor who drafts or reviews agreements using District-approved templates, negotiates terms with

vendors, and consults internal stakeholders as needed. After finalizing terms, contracts are signed via DocuSign and stored electronically in Contract Advantage, the District's official contract repository.<sup>56</sup>

### 3. *Approval Authority and Board Review*

Per Board policies *2013: Professional Services Contracts* and *2012: Contract Requirements, Approval and Signing Authority*, all professional services contracts require a written contract, prior legal review by the Office of General Counsel, and approval by the superintendent, the superintendent's designee, or the Board of Education depending on contract value and term. On August 29, 2023, Board policy 2013 was revised to lower the Board approval threshold from \$100,000.00 for professional services contracts to \$75,000.00. Both the original and the revised version of Board policy 2013 require Board approval of any professional services contract extending beyond one year, regardless of dollar amount.

### 4. *Service Delivery and Oversight*

The contract monitor is accountable for monitoring vendor performance, ensuring that services are delivered as specified in the contract, and authorizing invoices to confirm that these services have been rendered. Procurement and Legal are not responsible for monitoring performance after contract execution.

### 5. *Invoice Review and Payment*

Accounts Payable matches vendor invoices to purchase orders and contracts, verifies receipt of goods or completion of services, and checks approval signatures against dollar thresholds.<sup>57</sup> AP relies on departmental approval for contracted work and does not independently verify compliance with deliverables.

In addition to the policies and procedures set by MSCS, the contracts often contained additional clauses addressing invoicing, payment, and the provision of services. While it was not a requirement for an MSCS-drafted contract to be used, many of the contracts reviewed by CLA were drafted by MSCS. Contracts drafted by MSCS generally included provisions such as prohibiting vendor payments prior to the receipt of goods or services, restricting the assignment of contractual obligations without prior written consent from MSCS, and specifying payment terms.

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<sup>56</sup> CLA was informed that for a period of time in fiscal year 2024, a disconnect between DocuSign and Contract Advantage occurred, causing executed contracts not to be retained in Contract Advantage. The District does not retain physical copies of executed contracts.

<sup>57</sup> The contract monitor is responsible for verifying the receipt of goods and services in APECS while the accounts payable team confirms that receipt is noted in APECS prior to processing an invoice.

### Analysis and Sample Selection

The District supplied CLA with a list of all contracts executed during the scope period, including their associated dollar values. The District’s report also identified each contract by “contract type.” CLA subsequently segregated all contracts classified as professional services or consulting to determine the overall population of professional services agreements. Upon analyzing this population, CLA employed a risk-based methodology to select a sample of contracts for testing, prioritizing relevant allegations and specific areas of concern, including the following:

- 1) Relevant allegations identified on the scope of work;
- 2) Anonymous allegation submissions to MSCS Internal Audit via Lighthouse;
- 3) Allegations identified through interviews and research;
- 4) Contracts valued at an amount close to but below approval thresholds;

Additional contracts were randomly selected to create a sample size of at least 10% of the total professional services contract population.

The results of that analysis yielded 149 initial contracts to be tested in detail. CLA retrieved or requested supporting documentation for each contract. The District granted CLA access to their contract management system, Contract Advantage; their business information and accounting system, APECS; and their internal procurement drive. To the extent documentation for a contract was limited, or CLA wanted additional context, CLA searched the email files for communication surrounding a contract/contractor. For instances where the required supporting documentation was not readily available to CLA, CLA made requests and inquiries to the District; however, the District has not provided a response to those requests at the time of drafting this report.

During the testing process, further contracts were incorporated into the testing population according to the risk-based sample selection methodology. As testing remains ongoing and new samples are continually being introduced, the definitive population size and value will be disclosed in the final report.

**Table 17: Professional Services Testing Population**

Selection	Total Population	Total Contracts Tested	Percentage Tested	Total Contract Value
Initial selection	895	149	17%	\$ 23,738,141.39
Additional selection <sup>58</sup>		8	1%	420,510.00
Total	895	157	18%	\$ 24,158,651.39

For each contract included in the sample, CLA performed detailed testing, summarized in the high-level outline below. The testing was designed to assess compliance with applicable requirements; evaluate the effectiveness of management

<sup>58</sup> CLA anticipates testing additional contracts in line with risk-based methodology prior to the issuance of a final report.

review and oversight controls; and identify indicators of noncompliance, control breakdowns, or potential fraud, waste, or abuse.

1. *Contract Initiation and Approval*

CLA completed detailed testing to determine whether:

- a. The execution and approval of the professional services contracts complied with policies and procedures;
- b. Oversight of the contract by the designated contract monitor was sufficient;
- c. The contractual obligations were met by the contractor;
- d. There was any indication of fraud, waste, or abuse.

2. *Management Review and Approval*

CLA completed detailed testing to determine whether:

- a. The invoices contained appropriate approval signatures.

3. *Invoice Submission*

CLA completed detailed testing to determine whether:

- a. A completed payment request form was submitted to Accounts Payable;
- b. Documentation was provided in support of the payment request.

4. *Receipt of Services*

CLA completed detailed testing to determine whether:

- a. Services were received prior to payment;
- b. The services received and the transaction amounts were reasonable;
- c. The purchase appears to be for services needed in the performance of official duties and for use and benefit of the District.

5. *Conflicts of Interest*

CLA completed detailed testing to determine whether:

- a. A conflict of interest or the appearance of a conflict of interest exists;
- b. Evidence that an employee accepted a favor, gift, service or accommodation as part of this procurement process;
- c. The contracts and procurement documentation contain the required conflict of interest language.

### Results of Analysis and Testing

A risk-based sample of 157 professional services contracts was initially selected for detailed testing. The findings revealed several process deficiencies, such as incomplete or missing supporting documentation, a lack of contract oversight, and improper invoice approvals. Following comprehensive analysis and detailed transaction testing, CLA identified conditions consistent with potential abuse, including inadequate support to demonstrate what services were performed. As a result, we were unable to assess whether invoicing accurately reflected services rendered or whether District funds were used appropriately, consistent with ACFE investigative standards and AICPA professional guidance. CLA did not identify any indications of malfeasance or evidence of fraud.

The preliminary results of this testing and observations are as follows:

**Observation #21** The conflict-of-interest language required by Policy 4003 was not identified on any documentation.

Policy 4003: Conflict of Interest requires “All Shelby County Schools procurement documents shall contain a clause reserving the right of the school district to review vendor, supplier, or contractor records to determine whether a conflict of interest exists.” CLA did not identify any documentation containing this clause. Although the standard contracts provided by the District typically contained a clause requiring vendors to retain records pertaining to the contract for three years, they did not include any provisions addressing the retention in relation to a determination of potential conflicts of interest. CLA consulted with General Counsel regarding the omission of this requirement; however, General Counsel was unable to offer an explanation.

**Observation #22** CLA observed a lack of oversight of the consultants engaged as principal mentors, leading to instances where work was invoiced despite not being completed. CLA also identified a lack of review of the underlying support for the stated work performed.

Several contracts were identified in which former MSCS employees were contracted to provide mentorship to select MSCS principals.

**(1) Vendor: Principal Mentor 01**

Two professional services contracts with vendor Principal Mentor 01,<sup>59,60</sup> were included in the initial professional services testing population. As part of a risk-based sample selection methodology, a third contract with Principal Mentor 01 was selected to address areas exhibiting heightened risk characteristics identified during the course of the initial review.

**Table 18: Principal Mentor 01 Contracts**

Contract #	Execution	Expiration	Amount
2022-0634	2/18/2022	6/30/2022	\$ 30,000.00
2023-0310	10/19/2022	6/30/2023	30,000.00
2024-0362	11/6/2023	11/11/2023	24,000.00
Total			<u>\$ 84,000.00</u>

**Contract 2022-0634, \$30,000.00**

The details of contract 2022-0634 per the agreement and the scope of work are as follows:

**Scope:** As stated in the contract “to assist the District in building leadership capacity of principals to ensure conducive environment for learning and Covid testing.”

**Compensation (SOW):** “Consultant shall be paid \$500 per day for services satisfactorily performed in accordance with this Agreement for an amount not to exceed \$30,000. Such compensation shall be due and payable upon submission of invoices and reports to the Office of Superintendent. The invoices shall set forth in detail the services performed by consultant, the date and location where such services were performed, the amount due consultant as compensation for such services, any and [sic] other information reasonably requested by the District. Said invoices shall be submitted monthly. The dates, times, and locations shall be mutually agreed upon by the parties.”

**Compensation (Contract):** “Upon completion of the Services, Consultant shall submit an invoice to SCBE with the following information: (i) a detailed description of the Services rendered; (ii) names of the employees rendering the Services; and (iii) dates on which the Services were rendered. Under no circumstance should Consultant invoice SCBE for Services not yet completed. SCBE will pay all accurate invoices within thirty (30) days following receipt of such invoice and all invoices shall include adequate supporting documentation as required.”

<sup>59</sup> The consultant’s name is redacted for privacy.

<sup>60</sup> Principal Mentor 01 is a former MSCS District employee.

The contract was signed by the former deputy superintendent, strategic operations<sup>61</sup> and finance and by the director of federal programs and grants on behalf of the District.

CLA identified five disbursements to Principal Mentor 01 related to this contract.

**Table 19: Disbursements Related to 2022-0634**

Invoice No.	Tran. Date	Inv. Date	Payments
SVC033122	4/6/2022	3/31/2022	\$ 8,500.00
SVC042922	5/2/2022	4/29/2022	7,250.00
SVC053122	6/3/2022	5/31/2022	10,500.00
10006	6/15/2022	4/29/2022	2,000.00
10005	6/15/2022	4/29/2022	1,750.00
Total			<u>\$ 30,000.00</u>

CLA reviewed invoices authorized by the former deputy superintendent, strategic operations, for each of the five disbursements. Each invoice contained an identical description of services provided and payment calculation method, with variations only in date ranges and quantities specific to each invoice.

CLA made the following observations on these disbursements:

- The invoices provided are not in compliance with the terms of contract 2022-0634, as they do not indicate the specific dates on which the work was performed; instead, they list a date range during which a quantity of workdays occurred.

**Figure 2: Example of Principal Mentor 01 Consulting Invoice for Contract 2022-0634**

Item(s)	Date	Description	Quantity	Unit Price	Amount
Consultation	2/21/2022 to 3/31/2022	Consultation with principals on creating environment for learning and Covid-testing	17 days	500.00	8,500.00

- The description of services included on all five invoices does not provide a “detailed description of the services rendered” and instead provides an identical summary of the scope of work on each invoice.
- Invoice #SVC033122 and invoice #10005 both cover the time period of March 1, 2022 through March 31, 2022 for a combined 20.5 days of work. Because the actual dates that the work was completed were not detailed on the invoice, CLA is unable to determine whether Principal Mentor 01 received payment for work previously billed or why work for the same time period was billed months apart. Invoice # SVC033122 was received by Accounts Payable in April 2022 and invoice #10005 was received by Accounts Payable in June 2022.

<sup>61</sup> The former deputy superintendent separated from the District in November 2022.

- Invoice # SVC042922 and invoice #10006 both cover the time period of April 1, 2022 through April 29, 2022 for a combined 18.5 days of work. Because the actual dates that the work was completed were not detailed on the invoice, CLA is unable to determine whether Principal Mentor 01 received payment for work previously billed or why work for the same time period was billed a month apart. Invoice # SVC042922 was received by Accounts Payable in May 2022 and invoice #10006 was received by Accounts Payable in June 2022.
- Invoice # SVC053122 bills the time period of May 2, 2022 through May 31, 2022, for a total of 21 days of work. The scope of work attached to professional services agreement 2022-0634 states that the contract terminates on May 18, 2022, but that the “Consultant agrees to provide to the District and/or principals reasonable follow-up and/or support services in connection with the coaching and/or mentoring sessions.” The 2021-2022 MSCS academic calendar shows that school was in session 20 days in May 2022. CLA was informed in interviews that the principal mentoring activities only occurred on days school was in session.

**Contract 2023-0310, \$30,000.00**

In accordance with the risk-based sample selection methodology, Contract 2023-0310 was included as an additional item beyond the original sample population. The details of contract 2023-0310 per the agreement and the scope of work are as follows:

**Scope:** “To assist the District in building leadership capacity of principals and teacher leaders.”

**Compensation (SOW):** “Consultant shall be paid \$500 per day for services satisfactorily performed in accordance with this Agreement for an amount not to exceed \$30,000.”

**Compensation (Contract):** “Upon completion of the Services, Consultant shall submit an invoice to SCBE with the following information: (i) a detailed description of the Services rendered; (ii) names of the employees rendering the Services; and (iii) dates on which the Services were rendered. Under no circumstance should Consultant invoice SCBE for Services not yet completed. SCBE will pay all accurate invoices within thirty (30) days following receipt of such invoice and all invoices shall include adequate supporting documentation as required.”

CLA identified five disbursements to Principal Mentor 01 related to this contract.

**Table 20: Disbursements Related to 2023-0310**

Invoice No.	Tran. Date	Inv. Date	Payments
10001	12/5/2022	10/31/2022	\$ 4,000.00
10003	12/20/2022	12/19/2022	6,000.00
10002	12/20/2022	11/30/2022	6,750.00
10004	2/8/2023	1/31/2023	7,000.00

Invoice No.	Tran. Date	Inv. Date	Payments
10007	3/27/2023	2/28/2023	6,250.00
Total			<u>\$30,000.00</u>

CLA reviewed invoices authorized by the deputy superintendent for each of the five disbursements. Each invoice contained an identical description of services provided and payment calculation method, with variations only in date ranges and quantities specific to each invoice.

**Figure 3: Example of Principal Mentor 01 Consulting Invoice for Contract 2023-0310**

Item(s)	Date	Description	Quantity	Unit Price	Amount
Consultation	10/20/22 to 10/31/22	Consultation with principals on mentoring principals on mutually agreed upon area(s) for growth	8.00 days	500.00	4000.00

CLA made the following observations on these disbursements:

- The invoices provided are not in compliance with the terms of contract 2023-0310, as they do not indicate the specific dates on which the work was performed; instead, they list a date range during which a quantity of workdays occurred.
- The description of services included on all five invoices does not provide a “detailed description of the services rendered” and instead provides an identical summary of the scope of work on each invoice.

**Contract 2024-0362, \$24,000.00**

The details of contract 2024-0362 per the agreement and the scope of work are as follows:

**Scope:** “To assist the District in building leadership capacity of principals to ensure conducive environment for learning and Covid testing.”

**Compensation (SOW):** “Consultant shall be paid \$500 per day for services satisfactorily performed in accordance with this Agreement for an amount not to exceed \$24,000. Such compensation shall be due and payable upon submission of invoices and reports to the Office of the Deputy Superintendent. The invoices shall set forth in detail the services performed by the consultant, the date and location where such services were performed, the amount due the consultant as compensation for such services, and any other information reasonably requested by the District. The invoice will be submitted at the conclusion of the contract. The dates, times, and locations of services shall be mutually agreed upon by the parties.”

**Compensation (Contract):** “In consideration of Consultant's performance of the Services delineated above, MSCS agrees to pay, for services rendered, up to an

amount not to exceed under this Agreement the total amount Twenty-Four Thousand and 00/100 Dollars (\$24,00.00), as outlined in Exhibit A. Consultant shall submit monthly invoices to MSCS with the following information: (i) a detailed description of the services rendered; and (ii) hours worked on each of the services rendered. Under no circumstance should Consultant invoice MSCS for a Service that is not yet completed. MSCS will pay all accurate invoices within thirty (30) days following receipt of such invoice and all invoices shall include adequate supporting documentation as required.”

The contract was signed by the current deputy superintendent, and by the director of federal programs and grants on behalf of the District.

CLA identified three disbursements to Principal Mentor 01 related to this contract.

**Table 21: Disbursements Related to 2024-0362**

Invoice No.	Tran. Date	Inv. Date	Payments
00009	1/26/2024	11/30/2023	\$ 8,000.00
00010	1/26/2024	12/8/2023	8,000.00
00011	1/26/2024	12/15/2023	8,000.00
Total			<u>\$ 24,000.00</u>

CLA reviewed invoices authorized by the deputy superintendent for each of the three disbursements. Each invoice contained an identical description of services provided and payment calculation method, with variations only in months specific to each invoice. The invoices relating to 2024-0362 do not include a range of dates or a quantity of days worked, and instead only list the month in which the work occurred and the total amount billed. Each invoice reflects a billing amount of \$8,000.00, corresponding to 16 workdays at a rate of \$500.00 per day.

**Figure 4: Example of Principal Mentor 01 Consulting Invoice for Contract 2024-0362**

Item(s)	Date	Description	Amount
Consultation	December 2023	<ol style="list-style-type: none"> <li>1. Mentor principals and teacher leads to monitor and improve instruction for student impact by learning loss for the subgroups: economically disadvantaged students, students with disabilities and English Learners.</li> <li>2. Provide professional learning opportunities for principals and teacher leads to understand their data (grades, assessments, attendance, chronic absentee rate, discipline, etc.) and how to use it to improve practice, strategies and results consistent with best practice.</li> <li>3. Guide and assist principals and teacher leaders in the development of a strong instructional culture and collaborative relationships with teachers, parents and other community members to support students in the subgroups: economically disadvantaged students, students with disabilities and English Learners.</li> </ol>	\$8000.00

CLA made the following observations on these disbursements:

- The invoices provided are not in compliance with the terms of contract 2024-0362, as they do not indicate the specific dates on which the work was performed; instead, they list the month during which work occurred. The invoices do not specify the dates of work performed or indicate the number of days worked.
- The description of services included on all five invoices does not provide a “detailed description of the services rendered” and instead provides an identical summary of the scope of work on each invoice.
- Invoice #00010 is dated December 8, 2023 and bills for \$8,000.00 of work completed in December 2023, equating to 16 days at a rate of \$500 per day. Invoice #00011 is dated December 15, 2023 and bills for \$8,000.00 of work completed in December 2023, equating to 16 days at a rate of \$500 per day. Combined the two invoices bill for \$16,000.00 of work occurring in December 2023, equating to 32 days of work at a rate of \$500 per day. The month of December has a total of 31 days, including weekends and holidays. The MSCS 2023-2024 academic calendar shows that schools were in session for a total of 13 days in December 2023. Therefore, it would not have been possible for Principal Mentor 01 to complete 32 days of work in December 2023. Both invoices were approved by the deputy superintendent via signature on each invoice; however, the signatures were not dated.

CLA conducted extensive document review and multiple interviews with the deputy superintendent, a current MSCS principal that participated in the mentor program as a mentee, and the chief of business operations to understand the breadth of the principal mentoring program and how the program was conducted, monitored, and billed. Through these interviews and through context gained via a search of relevant email communications, CLA learned the following:

- CLA spoke with the deputy superintendent to understand how comfort was gained as to the days invoiced on contracts 2023-0310 and 2024-0362. The deputy superintendent stated that she was aware of what work was being conducted due to meetings she held with Principal Mentor 01 and therefore was comfortable with the description of work included on the invoices.
- When asked how the deputy superintendent confirmed the days worked for the invoices related to contracts 2023-0310 and 2024-0362, she stated both that she would call the principals to confirm, and that a secretary would call the principals to confirm the dates worked.
- CLA spoke with a current MSCS principal that participated in the mentoring program with Principal Mentor 01. The principal stated that he did not receive any phone calls or email communications regarding confirmation of the days he worked with Principal Mentor 01.
- The principal stated that there were no records kept as to the days and times Principal Mentor 01 was on site.

- CLA asked the deputy superintendent to explain why Principal Mentor 01 was paid for more days of work than what occurred on the academic calendars. She stated that the mentors would attend family support gatherings and community events with the principals on weekends.
- CLA learned in other interviews that consulting activities only occurred on days when school was in session. The principal interviewed by CLA indicated that Principal Mentor 01 would visit the school approximately once a month during the mentoring program and there was little communication between monthly visits.
- CLA inquired as to whether there was a legitimate reason for Principal Mentor 01 invoicing for 32 days in December 2023 given the fact that there are only 31 days in the month. The deputy superintendent stated that he may have had two mentees in one day. CLA notes that the contracted compensation rate was \$500.00 per day and there were no stipulations allowing for additional payment for multiple mentees per day.
- Both the deputy superintendent and the principal indicated there were not any records, reports, metrics or data kept in relation to the principal mentor program.
- CLA was unable to determine why Principal Mentor 01's compensation was contracted at a daily rate and how the rate of \$500.00 was agreed upon.

The invoicing and approval procedures related to the three Principal Mentor 01 contracts totaling \$84,000.00 indicate concerns regarding the use of public resources and oversight practices. Instances such as billing for unrealistic workdays, insufficient supporting documentation, and limited invoice detail demonstrates conduct that departs from prudent business practice and indicates misuse of position and controls. These observations are consistent with the ACFE's definition of abuse as mismanagement or misuse of resources, including using authority inappropriately even when fraud intent is not established.

## (2) Vendor: Process to Progress

CLA identified vendor Process to Progress, LLC as another vendor contracted to perform principal mentoring services in the District and completed detail testing on three contracts associated with this vendor.<sup>62</sup>

**Table 22: Process to Progress, LLC Contracts**

Contract #	Execution	Expiration	Amount
2022-0180	08/26/2021	06/30/2022	\$ 45,000.00
2022-0566	01/28/2022	09/30/2022	40,000.00
2023-0419	11/17/2022	06/30/2023	90,000.00
Total			<u>\$ 175,000.00</u>

<sup>62</sup> Process to Progress, LLC is the corporation of a former MSCS employee who provides consulting services to the District.

**Contract 2022-0180, \$45,000.00 and Contract Amendment 2022-0566, \$40,000.00**

The details of contract 2022-0180, per the agreement and the scope of work are as follows:

**Scope:** “Consultant will provide mentoring services to principals.”

**Compensation (SOW):** “This engagement will be conducted on a contract for the amount of \$45,000 that will provide mentoring for 400 hours up to 10 mentees, 40 hours each or prorated to meet the number of mentees offered. Example five (5) mentees will receive 80 hours.”

**Compensation (Contract):** “Upon completion of Consultant’s services, SCBE agrees to pay Consultant an amount not to exceed amount of Forty-Five Thousand and 00/100 Dollars (\$45,000.00) Upon completion of the Services, Consultant shall submit an invoice to SCBE with the following information: (i) a detailed description of the Services rendered; (ii) names of the employees rendering the Services; and (iii) dates on which the Services were rendered. Under no circumstance should Consultant invoice SCBE for Services not yet completed. SCBE will pay all accurate invoices within thirty (30) days following receipt of such invoice and all invoices shall include adequate supporting documentation as required.”

**2022-0566, Amendment to 2022-0810:** “SCS and Consultant now wish to amend the Agreement to: (1) include additional Services; (2) extend the dates for which the Services will be performed to September 30, 2022; (3) and increase to the compensation amount of the Agreement by Forty Thousand and 00/00 Dollars (\$40,000.00) for a total compensation amount of Eighty-Five Thousand and 00/100 Dollars (\$85,000.00).”

The contract and the amendment were signed by the current deputy superintendent on behalf of the District.

CLA identified nine disbursements to Process to Progress, LLC related to this contract 2022-0180. The documentation for select disbursements is summarized in Table 23.

**Table 23: Disbursements Related to 2022-0180**

Invoice No.	Tran. Date	Inv. Date	Payments
1000	11/15/2021	10/1/2021	\$ 4,500.00
1001	11/23/2021	11/2/2021	4,415.63
1002	12/10/2021	11/8/2021	5,850.00
1003	1/19/2022	1/10/2022	4,050.00
1004	2/9/2022	2/8/2022	5,062.50
1005	3/14/2022	3/10/2022	4,500.00
1006	4/6/2022	4/5/2022	4,500.00
1007	5/11/2022	5/5/2022	4,162.50
1008	6/3/2022	6/2/2022	4,275.00
Total			<u>\$ 41,315.63</u>

CLA made the following observation on these disbursements:

- The detail saved in APECS for each invoice varied. Invoice# 1000 only includes the hours and rates worked at certain schools during the period of September 9, 2021 through September 27, 2021. An email was identified saved separately from the invoice detailing the individuals mentored with dates and times to support invoice #1000. Invoice #1001 included a copy of the spreadsheet detailing the dates and times of the mentoring activities attached to the invoice. Invoice #1006 included a memo indicating that a sign-in sheet and agenda were attached, however, those documents are not available in APECS. Invoice #1002 did not include any of the supporting documents.

CLA is unable to determine whether the supporting documentation was not submitted by Process to Progress, LLC or if all supporting documentation was not stored in APECS; however, it appears that the vendor was in the practice of keeping detailed records and submitting the records to the District, but that the support documents were uploaded to APECS inconsistently by the District.

CLA reviewed the five disbursements related to the contract amendment and made similar observations as to the inconsistency of documentation retained in APECS.

- Contract Amendment 2022-0189 is classified in Contract Advantage as non-professional services, despite the original contract being classified as professional services. CLA was informed in interviews that the contract requestor determines the contract type when submitting the information in Contract Request, and that the legal department should be correcting the contract type if necessary.

**Figure 5: Contract Advantage Classifications**

Contract Name	Contract #	SCS Entity	Contracting Party	Responsible Person	Contract Type
Process to Progress LLC- Professional Services- 2022-2023	2023-0419	Strategic Leadership	Process to Progress LLC		Professional Services
Process to Progress LLC - Amendment to 2022-0189 (Principal Mentoring)	2022-0566	Academics	Process to Progress LLC		Non-Professional Services
Process to Progress LLC - Principal Mentoring Service	2022-0180	Strategic Leadership	Process to Progress LLC		Professional Services

### **Contract 2023-0419, \$90,000.00**

CLA reviewed contract 2023-0419 and determined that this contract had a similar scope, documentation, and observations as contract 2022-0810 and amendment 2022-0566. No additional observations were noted.

While CLA noted inconsistent recordkeeping and documentation retention practices related to invoices and contract classification, these deficiencies appear administrative in nature. Based on the procedures performed, there is no evidence that these issues resulted in fraud, waste, or abuse, as the services were performed, payments were supported by some level of documentation, and no improper benefit or misuse of funds was identified.

**Observation #23** CLA observed established policies and procedures were not adhered to when contracting a consultant, resulting in a vendor performing work outside of the official procurement framework and \$198,000.00 being invoiced to the District without an allocated budget for these funds.

**(1) Vendor: Security Consultant 01**

Two professional services contracts for vendor Security Consultant 01 were identified included in the initial professional services testing population.

**Table 24: Security Consultant 01 Contracts**

Contract #	Execution	Expiration	Amount
2022-0308	10/07/2021	06/30/2022	\$ 99,000.00
2022-1008	06/29/2022	06/30/2023	99,000.00
Total			<u>\$ 198,000.00</u>

**Contract 2022-0308, \$99,000.00**

Contract 2022-0308 was selected as part of the risk-based sample methodology due to the amount of the contract falling immediately below the Board approval threshold.

**Scope:** See Figure 6 for the 2022-0308 contract scope.

**Figure 6: Scope of Contract 2022-0308**

<b>SHELBY COUNTY SCHOOLS SCOPE OF SERVICES</b>	
Provide institutional security services, including, but not limited to:	
1.	Serve as Shelby County Schools's ("SCS") advisor on matters related to the security of its buildings, programs, and events.
2.	Assist SCS with development and revision of its safety plans and adherence to obligations contained in the School Security Act of 1981 (Tennessee Code Annotated Section 49-6-4201 et seq.) and the Schools Against Violence in Education Act or SAVE Act (Tennessee Code Annotated Section 49-6-801 et seq.).
3.	Review, analyze, and assess SCS's security program to identify strengths, weaknesses, and provide recommendations.
4.	Assist SCS with assessing, developing, and/or revising protocols and training modules for active shooter preparation.
5.	Evaluate and assist with developing security strategies for emergency response situations, incident prevention, and event security procedures.
6.	Maintain availability to SCS Superintendent, or his designee, to respond and advise on security related inquiries that may arise.

**Compensation:** "In consideration of the consulting services rendered, including any and all extraordinary reasonable expenses, CLIENT shall pay CONTRACTOR amount not to exceed Ninety-Nine Thousand Dollars (\$99,000) (the "Fee") in monthly installments, with the first invoice dated on or about October 15, 2021. CLIENT shall pay CONTRACTOR within 30 days after receiving such invoice-or any

invoice for any extraordinary reasonable expenses, approved in advance by CLIENT.”

The contract was signed by the superintendent at the time and the former general counsel and chief legal officer on behalf of the District.

CLA identified nine disbursements related to contract 2022-0308, shown in Table 25 below.

**Table 25: Disbursements Related to 2022-0308**

Invoice No.	Invoice Date	Acct Date	Description	Payment
1001	10/5/2021	9/2/2022	OFFICE OF GENERAL COUNSEL-SERVICES	\$11,000.00
1002	11/15/2021	9/2/2022	OFFICE OF GENERAL COUNSEL-SERVICES	11,000.00
1003	12/15/2021	9/2/2022	OFFICE OF GENERAL COUNSEL-SERVICES	11,000.00
1004	1/15/2022	9/2/2022	OFFICE OF GENERAL COUNSEL-SERVICES	11,000.00
1005	2/15/2022	9/2/2022	OFFICE OF GENERAL COUNSEL-SERVICES	11,000.00
1006	3/15/2022	9/2/2022	OFFICE OF GENERAL COUNSEL-SERVICES	11,000.00
1007	4/15/2022	9/2/2022	OFFICE OF GENERAL COUNSEL-SERVICES	11,000.00
1008	5/15/2022	9/2/2022	OFFICE OF GENERAL COUNSEL-SERVICES	11,000.00
1009	6/15/2022	9/2/2022	OFFICE OF GENERAL COUNSEL-SERVICES	11,000.00
Total				<u>\$99,000.00</u>

CLA made the following observations on contract 2022-0308 and the related disbursements:

- All payments to Security Consultant 01 related to contract 2022-0308 were issued via check #726001 dated September 2, 2022. No purchase order, PAF, or requisition documentation was found for any of the disbursements, suggesting that this contract did not adhere to the established procurement process.

Per the *Procurement Services Reference Manual*, pg. 12, “For purchases over \$500.00, the District requires verification of the budget for the total amount of the goods and/or services. Procurement’s receipt of the requisition with the purchase total is confirmation that the budget is verified and encumbered.” By sidestepping the procurement process, the funds for the \$99,000.00 were not encumbered.

A payment request form was submitted to AP on August 31, 2022 by the former general counsel for the full \$99,000.00 contract amount. Per MSCS policies and procedures in place at the time, payments supported by a payment request form “typically are made for an invoice that is \$500.00 and under and without an APECS PO, the request form must have an itemized invoice attached, the account code expense and approval signatures.”

- An email chain between Security Consultant 01 and MSCS employees was identified showing that Security Consultant 01 was not a registered MSCS vendor until June 29, 2022 despite the contract being executed in October 2021.

Per MSCS policies, procedures and the information obtained in interviews, the MSCS procurement team is responsible for new vendor approval and registration. This includes receiving and reviewing the vendor's W-9 information, performing an IRS TIN match, and verifying that the vendor is not on any debarment or suspension lists.

When the procurement process was bypassed for contract 2022-0308, Security Consultant 01 was able to perform work for the District as an unregistered vendor and without going through any of the necessary checks and balances.

- CLA was unable to locate any evidence that an Out-of-Compliance letter was issued prior to the payment being processed. The MSCS procurement policies in place at the time state "A requisition is required for each purchase over \$500. If AP receives an invoice for a purchase over \$500 and the employee did not receive an approved purchase order, the employee will receive an Out-of-Compliance letter that will go into their HR file. After receipt of an Out-of-Compliance letter(s), the employee may be disciplined by HR."

CLA spoke with the assistant superintendent of operations regarding the out of compliance letter for contract 2022-0308. He indicated that he developed the out of compliance letter program and stated that in order for a vendor in an out of compliance situation to be paid, an Out-of-Compliance letter has to be signed. When inquired regarding this particular contract, the assistant superintendent acknowledged recollection of the vendor's completed work but was unable to recall any details concerning an out-of-compliance letter. Despite efforts to locate a copy of the letter, the assistant superintendent was not successful in finding one. To date, CLA has not been provided with the signed out-of-compliance letter.

**Contract 2022-1008, \$99,000.00**

Contract 2022-1008 was selected as part of the risk-based sample methodology due to the amount of the contract falling immediately below the Board approval threshold.

**Scope:** See Figure 7 for the 2022-1008 contract scope.

**Figure 7: Scope of Contract 2022-1008**

<b>MEMPHIS SHELBY COUNTY SCHOOLS SCOPE OF SERVICES</b>	
Provide institutional security services, including, but not limited to:	
1.	Serve as Memphis Shelby County Schools's ("SCS") advisor on matters related to the security of its buildings, programs, and events.
2.	Assist MSCS with development and revision of its safety plans and adherence to obligations contained in the School Security Act of 1981 (Tennessee Code Annotated Section 49-6-4201 et seq.) and the Schools Against Violence in Education Act or SAVE Act (Tennessee Code Annotated Section 49-6-801 et seq.).
3.	Assist with implementation of security recommendations provided through scope of current and previous relationship with Contractor and consistent with developed and revised security plans.
4.	Draft, review, analyze, and revise written solicitations for services and goods related to the developed and revised security plans to ensure such are consistent with MSCS security goals.
5.	Review, analyze, and assess MSCS's security program to identify strengths, weaknesses, and provide recommendations throughout implementation of developed and revised security plan.
6.	Assist SCS with assessing, developing, and/or revising protocols and training modules for active shooter preparation.
7.	Evaluate and assist with developing security strategies for emergency response situations, incident prevention, and event security procedures.
8.	Maintain availability to MSCS Superintendent, or his designee, to respond and advise on security related inquiries that may arise.

**Compensation:** "In consideration of the consulting services rendered, including any and all extraordinary reasonable expenses, CLIENT shall pay CONTRACTOR amount not to exceed Ninety-Nine Thousand Dollars (\$99,000) (the "Fee") in monthly installments, with the first invoice dated on or about July 15, 2022. CLIENT shall pay CONTRACTOR within 30 days after receiving such invoice-or any invoice for any extraordinary reasonable expenses, approved in advance by CLIENT."

The contract was signed by the former Superintendent and the former General Counsel and Chief Legal Officer on behalf of the District.

CLA identified 12 disbursements related to contract 2022-1008, shown in Table 26 below.

**Table 26: Disbursements Related to 2022-1008**

Invoice No.	Invoice Date	Acct Date	Description	Payment
1010	7/15/2022	8/24/2023	PY-SECURITY CONSULTING SERVICE	\$ 8,250.00
1011	8/15/2022	8/24/2023	PY-SECURITY CONSULTING SERVICE	8,250.00
1012	9/15/2022	8/24/2023	PY-SECURITY CONSULTING SERVICE	8,250.00
1013	10/15/2022	8/24/2023	PY-SECURITY CONSULTING SERVICE	8,250.00
1014	11/15/2022	8/24/2023	PY-SECURITY CONSULTING SERVICE	8,250.00
1015	12/15/2022	8/24/2023	PY-SECURITY CONSULTING SERVICE	8,250.00
1016	1/15/2023	8/24/2023	PY-SECURITY CONSULTING SERVICE	8,250.00
1017	2/15/2023	8/24/2023	PY-SECURITY CONSULTING SERVICE	8,250.00
1018	3/15/2023	8/24/2023	PY-SECURITY CONSULTING SERVICE	8,250.00
1019	4/15/2023	8/24/2023	PY-SECURITY CONSULTING SERVICE	8,250.00
1020	5/15/2023	8/24/2023	PY-SECURITY CONSULTING SERVICE	8,250.00
1021	6/15/2023	8/24/2023	PY-SECURITY CONSULTING SERVICE	8,250.00
Total				<u>\$99,000.00</u>

CLA made the following observations on contract 2022-1008 and the related disbursements:

- Similar to 2022-0308, this contract bypassed the procurement process and no PAF, requisition, or PO were identified. The invoices were submitted via a payment request form authorized by the chief of safety and security. The full \$99,000 was paid via check # 758130 in FY2024 for work completed in FY2023. Because no requisition or PO was issued, the funds were not encumbered.
- Beginning in July 2023, it was noted that discussions took place regarding the withholding of payment contingent upon the signing of an Out-of-Compliance letter. The assistant superintendent of operations directed that such a letter be issued to the chief of safety and security; however, the chief of safety and security declined to accept the letter, citing that the contract had been initiated by the general counsel and the superintendent at that time.

The disagreement surrounding who would sign the Out-of-Compliance letter and the account from which the unencumbered \$99,000.00 would be paid from continued through August 2023.

- An email dated August 24, 2023 from the assistant superintendent of operations indicated that he would “get” the chief of safety and security to sign an Out-of-Compliance letter. When interviewed, neither the assistant superintendent of operations nor the chief of safety and security had any recollection of the circumstances surrounding an out of compliance letter for Security Consultant 01.

The assistant superintendent of operations was unable to provide CLA with any evidence that an out of compliance letter was signed.

Based on the procedures performed, there is sufficient evidence to conclude that the payments related to contracts 2022-0308 and 2022-1008 totaling \$198,000.00 constituted abuse. The contracts and related payments repeatedly bypassed established procurement and accounts payable controls, including requisition, purchase order, vendor registration, budget encumbrance, and out-of-compliance requirements, contrary to MSCS policies and procedures. As a result, significant District funds were disbursed without required oversight, documentation, or internal control safeguards. While no evidence of intentional deception was identified, the pattern of control circumvention, lack of documentation, and failure to enforce compliance mechanisms resulted in improper use of District resources and exposed the District to financial and compliance risk.

**Observation #24** CLA observed that Contracts 2022-0639 and 2024-0435 contained conflicting terms and lacked oversight.

**(1) Vendor: Charter School Consultant 01**

Two contracts were identified for Charter School Consultant 01, the current CEO of a charter school network operating under the MSCS umbrella.

**Table 27: Charter School Consultant 01 Contracts**

Contract #	Execution	Expiration	Amount
2022-0639	02/24/2022	12/22/2022	\$ 40,000.00
2024-0435	02/04/2024	06/30/2024	60,000.00
Total			<u>\$ 100,000.00</u>

**Contract 2022-0639, \$40,000**

**Scope:** A detailed scope and timeline of deliverables is attached to contract 2022-0639.

**Figure 8: 2022-0639 Scope Excerpt**

<p><b>Scope of work:</b> (see Appendix for a timetable with milestones)</p> <ul style="list-style-type: none"> <li>Engage, lead and facilitate multiple stakeholder conversations</li> <li>Organize and convene at least four Frayser Collaborative meetings</li> <li>Organize and convene at least four community conversations</li> <li>Manage a subcontractor for a community needs assessment</li> <li>Organize, convene and facilitate at least four Frayser school leader conversations</li> <li>Manage the creation and implementation of a monitoring tool for participating schools relative to partnership goals</li> <li>Organize and facilitate at least four bi-monthly meetings in Phase 2</li> <li>Write and submit at four reports to SCS (two mid-year and 2 end of year reports)</li> </ul>
---

**Compensation (Contract):** “In consideration of Consultant's performance of the Services delineated above, SCBE agrees to pay up to an amount not to exceed Forty Thousand Dollars (\$40,000.00) (the “Fee”). Consultant shall submit monthly invoices to SCBE with the following information: (i) a detailed description of the services rendered; and (ii) hours worked on each of the services rendered. Under no circumstance should Consultant invoice SCBE for a Service that is not yet completed.”

**Compensation (SOW):****Figure 9: Budget included in the SOW for contract 2022-0639**

<b>BUDGET</b>	
<u>Year 1 - Phase 1</u>	
Consultant's time (\$250 x 60 hrs)	\$15,000
Subcontractor for needs assessment	\$12,000
Incentives and Meals	\$ 7,000
Subcontractor for project assistant	\$ 4,000
Mileage and travel (.56 cents a mile)	\$ 2,000
<b>Total: \$40,000</b>	

The contract was signed by the current deputy superintendent on behalf of the District.

One disbursement related to this contract in the amount of \$40,000.00 was identified.

**Table 28: Disbursement related to Contract 2022-0639**

Invoice No.	Tran. Date	Inv. Date	Payments
SVC033122	04/05/2022	03/31/22	\$ 40,000.00
Total			\$ 40,000.00

CLA made the following observations on contract 2022-0639 and the related disbursements:

- Charter School Consultant 01 was paid in advance of services being completed.

Section 2. Compensation in the contract states "Under no circumstance should Consultant invoice SCBE for a Service that is not yet completed." The sole invoice provided by Charter School Consultant 01 and approved by the deputy superintendent was paid in full approximately six weeks subsequent to the contract execution date. The SOW attached to the executed contract includes a timeline of deliverables extending through September 2022 and includes the submission of four reports to the District. The deputy superintendent informed CLA that any reports received from Charter School Consultant 01 were verbal.

- The invoice provided by Charter School Consultant 01 lacks the required information.

The contract states that Consultant shall submit monthly invoices to SCBE with the following information: "(i) a detailed description of the services rendered; and (ii) hours worked on each of the services rendered." The sole

invoice submitted by the consultant and approved by the deputy superintendent included a one-sentence description as justification for \$40,000.00.

**Figure 10: Invoice SVC033122 Description**

Item(s)	Date	Description	Quantity	Unit Price	Amount
Consult on and create a transition process from ASD to SCS 2021-2022	3/31/2022	Consult on and create a transition process from ASD to SCS 2012-2022	1	40,000	40,000

Charter School Consultant 01 only submitted one invoice for the full contract amount instead of monthly invoices including the detail of hours worked as required by the contract. He informed CLA that he was not asked to submit monthly invoices and that he was told if he had a contract, he would “at some point get paid”

- The \$40,000.00 scope of work included the cost for subcontractors, meals, and travel which conflicted with the terms of the contract.

Section 3. Travel and Reimbursable Expenses in contract 2022-0639 states: “All travel and meal expenses shall be limited to SCBE’s per diem limits. Consultant must provide supporting documentation to SCS to evidence and justify reimbursements, prior to any payment.”

Charter School Consultant 01 informed CLA that as part of his job he would attend lunches or dinners and that the travel cost included in the contract involved driving to different locations around Memphis. No supporting documentation was provided to substantiate the \$9,000.00 charged to the District in meals, travel, or mileage.

- The \$40,000.00 scope of work included \$16,000.00 for subcontractor work that could not be substantiated.

Charter School Consultant 01 stated that initially he “brought people in to organize meetings,” but that he could not recall the details of any work completed by subcontractors. The deputy superintendent indicated that she was not aware of any work completed by subcontractors on this contract.

**Contract 2024-0435, \$60,000.00**

**Scope:** A detailed scope and timeline of deliverables is attached to contract 2024-0435.

**Compensation (Contract):** “In consideration of Consultant's performance of the Services delineated above, SCBE agrees to pay up to an amount not to exceed Sixty Thousand Dollars (\$60,000.00) (the “Fee”). Consultant shall submit monthly invoices to SCBE with the following information: (i) a detailed description of the services rendered; and (ii) hours worked on each of the services rendered. Under no circumstance should Consultant invoice SCBE for a Service that is not yet completed.”

**Compensation (SOW):**

Consultant's time (\$250 x 180 hrs)	\$45,000
Incentives and Meals	\$ 7,000
Subcontractor for project assistant	\$ 5,000
Mileage and travel (.56 cents a mile)	\$ 3,000
<b>Total cost:</b>	<b>\$60,000</b>
<b>From July 2023- June 2024</b>	

The contract was signed by the current deputy superintendent on behalf of the District.

Four disbursements related to this contract in the amount of \$60,000.00 was identified.

**Table 29: Disbursements Related to Contract 2024-0435**

Invoice No.	Tran. Date	Invoice Date	Payment
000224-01	3/11/2024	2/13/2024	\$ 20,000.00
000324-02	3/25/2024	3/15/2024	15,000.00
000424-03	4/25/2024	4/15/2024	15,000.00
000524-04	6/13/2024	5/15/2024	10,000.00
Total			<u>\$ 60,000.00</u>

CLA made the following observations on contract 2024-0435 and the related disbursements:

- Contract 2024-0435 states “Consultant shall submit monthly invoices to SCBE with the following information: (i) a detailed description of the services rendered; and (ii) hours worked on each of the services rendered.” Similar to contract 2022-0639, the invoices provided lacked hours worked, or a detailed description of the work performed.

**Figure 11: Invoice Detail Related to Contract 2024-0435**

Item(s)	Date	Description	Quantity	Unit Price	Amount
Consult on and help create a transition process for the new High school to be built in Frayser on the MLK site.	5/15/2024	Consult on and help create a transition process for the new high school to be built in Frayser on the MLK site.	1	10,000	10,000

- The \$60,000.00 scope of work included the cost for subcontractors, meals, and travel which conflicted with the terms of the contract.

Section 3. Travel and Reimbursable Expenses in contract 2024-0435 states: "All travel and meal expenses shall be limited to SCBE's per diem limits. Consultant must provide supporting documentation to SCS to evidence and justify reimbursements, prior to any payment."

Charter School Consultant 01 informed CLA that as part of his job he would attend lunches or dinners and that the travel cost included in the contract involved driving to different locations around Memphis. No supporting documentation was provided to substantiate the \$10,000.00 charged to the District in meals, travel, or mileage.

- The \$60,000.00 scope of work included \$5,000.00 for subcontractor work. Charter School Consultant 01 stated that initially he "brought people in to organize meetings," but that he could not recall the details of any work completed by subcontractors. The deputy superintendent indicated that she was not aware of any work completed by subcontractors on this contract.
- Invoices 000324-02 and 000424-03 were duplicative. Both invoices billed for work dated March 15, 2024 and approved with signature by the deputy superintendent. Since the invoices lacked the required detail, CLA is unable to determine whether the intention was for the invoices to bill for separate services.

Based on the procedures performed, there is sufficient evidence to conclude that the payments related to contracts 2022-0639 and 2024-0435 totaling \$100,000.00 constituted abuse as defined by the ACFE, as payments were made and approved in a manner that misused public resources and disregarded clear contractual requirements. Specifically, advance payment for uncompleted

services, acceptance of invoices lacking required detail, inclusion of unsupported costs for meals, travel, and subcontractors, and approval of expenditures without substantiating documentation reflect conduct that departs from reasonable and prudent business practices. This conclusion is consistent with ACFE's definition of abuse, which characterizes abuse as the mismanagement or misuse of resources, including the improper use of authority or position, even when intent to commit fraud cannot be conclusively established.

**Observation #25** MSCS employees at a certain level are authorized to select vendors, execute contracts, and approve invoices, demonstrating insufficient internal controls.

In Observation #21 and Observation #24, the deputy superintendent was authorized to select a vendor, execute a contract, and approve invoices for payment. Likewise, in Observation #23, the general counsel and chief legal officer followed a similar process; however, they were able to bypass the procurement procedure entirely, which would have included additional verification steps regarding the vendor's legitimacy. In that instance, the vendor had been performing work for the District for close to a year before submitting the necessary vendor paperwork to the District.

This arrangement demonstrates insufficient internal controls due to an inappropriate concentration of duties vested in a single individual. The deputy superintendent is authorized to select vendors, execute contracts, and approve invoices, which eliminates critical checks and balances within the procurement and payment process. Effective internal controls require the segregation of key responsibilities to reduce the risk of error, misuse of authority, or inappropriate transactions. When these functions are performed by one individual, the likelihood of undetected errors or irregularities is significantly increased.

This concentration of authority reduces opportunities for independent oversight and review. Vendor selection, contract execution, and invoice approval are intended to function as discrete control points that facilitate verification throughout each stage of a transaction. CLA was advised that the MSCS legal team is tasked with approving the legal form of contracts; however, in Observation #24, the contract with Charter School Consultant 01 received approval from the general counsel, despite payment terms in the statement of work conflicting directly with those outlined in the contract. Both Observation #21 and Observation #24 cite approved invoices that do not align with contractual terms. The accounts payable team reported to CLA that once an invoice has been signed and approved, no further steps are taken to confirm its accuracy or appropriateness prior to payment processing. Similarly, in Observation #23, procurement was unable to complete vendor verification procedures due to the procurement process being circumvented. In the absence of independent review at each phase, reasonable assurance cannot be provided that transactions adhere to organizational policies, contractual obligations, or relevant regulations.

Additionally, this control weakness exposes the organization to heightened financial, operational, and reputational risk. The absence of segregated duties may create opportunities for conflicts of interest, unauthorized commitments, or improper payments to occur without timely detection. Over time, such deficiencies can

undermine the overall control environment and erode confidence in the organization’s governance and fiscal oversight practices.

Due to the observations made thus far, CLA will be expanding the contract testing population to include all contracts signed by the deputy superintendent during the scope period.

**Observation #26** CLA observed inadequate contracting and oversight that resulted in unsupported billing and the potential duplication of services already paid for.

**(1) Vendor: Council of the Great City Schools, 2023-0426, \$45,000.00**

**Scope:** “Council of the Great City Schools will provide executive coaching services, including one on-one coaching for the Deputy Superintendent, Academics. This programming is intended to support the Deputy Superintendent in leading and managing a large urban school district. The Deputy Superintendent will be provided with a Primary Coach who will lead the support and guidance. At times, the Primary Coach may involve additional coaches to provide targeted support in specific areas, as well. The Deputy Superintendent and Coach will commit to attending regular virtual coaching sessions, to be scheduled at mutually agreed upon times between the Coach and the Deputy Superintendent.”

**Compensation:** “(a) The total Consultant fees will not exceed \$45,000.00. (b) Coaching time will be billed at \$300.00 per hour, with one-hour increments. (c) For on-site visits, the following fees will be incurred – inclusive of consultant time and travel expenses: (i) one-day visit will be billed at \$5,000.00; (ii) two-day visit will be billed at \$7,000.00.”

The contract was signed by the current deputy superintendent on behalf of the District.<sup>63</sup>

Two disbursements related to this contract in the amount of \$45,000.00 were identified.

**Table 30: Disbursements Related to 2023-0426**

Invoice No.	Tran. Date	Invoice Date	Payment
4010-22-SMSCS	5/30/2023	5/24/2023	\$ 22,704.00
4010-22-SMSCS2	6/21/2023	6/15/2023	22,296.00
Total			<u>\$ 45,000.00</u>

CLA made the following observations on contract 2023-0426 and the related disbursements:

<sup>63</sup> The deputy superintendent signed additional professional services contracts with this vendor outside of the scope period: contracts 2025-0143 and 2026-0122.

- The scope of work adopted in the contract states that work was to be billed hourly at the rate of \$300.00 per hour, with one-hour increments for up to \$45,000.00; however, 4010-22-SMSCS2 for the amount of \$22,296.00 appears to bill for the remaining balance of the contract and not for additional work completed.

**Figure 12: Excerpt from Invoice 4010-22-SMSCS2**

6/15/2023	RE: MSCS #2023-0426 Virtual one-on-one executive coaching services provided by [REDACTED] for [REDACTED] and other district staff in leadership role. Balance of the contract for \$45,000	\$ 22,296.00
<b>TOTAL INVOICE AMOUNT</b>		<b>\$ 22,296.00</b>

- Invoice 4010-22-SMSCS lists only a total number of hours worked during the period of August 2022 and June 2023, and states that the services were provided to the deputy superintendent “and other District staff in leadership role.” The deputy superintendent informed CLA that the services of this particular consultant were not provided to other MSCS leadership. Because the invoice did not contain any billing detail, CLA was unable to determine what services the consultant may have provided and the invoice conflicted with the account of the deputy superintendent who was responsible for signing the invoice and authorizing payment.
- Contract 2023-0426 was drafted by Council of the Great City Schools and did not contain any of the conflict-of-interest language required by MSCS Board policies.
- This contract illustrates that an MSCS employee of a certain level has the authority to choose a vendor, sign a contract, and approve invoices without further controls to prevent deficiencies.
- The *Procurement Services Reference Manual* in place at the time states that all vendors are required to have a valid contract or purchase order prior to providing services or delivering goods to a school or office within the District. Contract 2023-0426 was not executed until November 17, 2022; however, invoice 4010-22-SMSCS indicates work began in August 2022.

From an internal control perspective, treating a contract as valid prior to execution creates significant risk. It may result in unauthorized commitments, improper payments, or obligations incurred without legal authority. This is particularly concerning when the same individual has the ability to select vendors, execute contracts, and approve invoices, as it bypasses required authorization controls and undermines governance safeguards.

- CLA identified an email indicating that Council for Great City Schools was providing coaching services to the deputy superintendent as early as December 2021, but CLA was unable to locate any contract that would have authorized such work. CLA did identify a disbursement to Council for the Great City Schools for \$52,541.00, paid for by check #697578 on September 8, 2021 and supported by an invoice indicating the payment was for membership dues for fiscal year 2023. A similar payment in the amount of \$56,117.00 paid for by check #717635 on May 13, 2022 and supported by an invoice indicating the payment was for membership dues for fiscal year 2023 was also identified.

CLA located the Council for the Great City Schools website, which provides a summary of membership benefits dated September 2022.<sup>64</sup> Included among these benefits is “access to leadership support for Superintendents and their executive teams to improve leadership and management,” along with other listed coaching and leadership support services. This evidence indicates that services were provided to the deputy superintendent in fiscal year 2022 without an additional cost or separate contract, and should have also been available to the deputy superintendent for fiscal year 2023 as a membership benefit.

- The contract information retained in Contract Advantage, the contract record keeping system for the District, is not accurate. The contract amount is listed as \$98,698.67, and the service provided is listed as “translation services agreement.”

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<sup>64</sup> <https://www.cgcs.org/>

Figure 13: Contract Summary of 2023-0426 from Contract Advantage

**Council of Great City Schools - Superintendent's Consulting Services- 2022-2023**

**Contract # 2023-0426** [View Doc] [Reminders] [Print] [Reset] [Save] [Save and Close] [Close]

Contract Level: Regular      Contract Type: Consulting      Status: Active      As of: November 17, 2022  
 Security Level: Commercial      Contract Sub Type: Professional Development      Expired: 2 Years 245 Days ago  
 Request Number: 11134      Term: Fixed Term

[Modify] [Subject] [Comments]

**SCS Entity**      **Contracting Party**

Strategic Leadership Development E1      Council of the Great City Schools www E1  
 [Select]      [Select]

**SCS Entity Contacts**      **Contracting Party Contacts**

Role	Name	Phone #	Key	Role	Name	Phone #	Key
Signatory	[Redacted]	[Redacted]	E1 <input type="checkbox"/>	Their Side Signatory	[Redacted]	[Redacted]	E1 <input type="checkbox"/>
Contracting Officer	[Redacted]	[Redacted]	E1 <input type="checkbox"/>	Their Side Responsible Person	[Redacted]	[Redacted]	E1 <input checked="" type="checkbox"/>
Responsible Person	[Redacted]	[Redacted]	E1 <input checked="" type="checkbox"/>				
Signatory	[Redacted]	[Redacted]	E1 <input type="checkbox"/>				

[Select] [Letter] [Email]      [Select] [Letter] [Email]

**Others**

**Companies**      **Contacts**

Company	www	Role	Name	Phone #
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]

[Select]      [Select] [Letter] [Email]

**Contract Details**      **Key Dates**

* \$Amount: \$ 98,698.67	Jurisdiction: [Dropdown]	Execution: [Dropdown]
Req/RFP #: 11298 / 98,698.67	Confidentiality: [Dropdown]	Effective: August 31, 2022
Divisions: [Dropdown]	NumericField01: 0	Termination: [Dropdown]
Department: [Dropdown]	NumericField02: 0	Expiration: June 30, 2023
Agency: [Dropdown]	Received: [Dropdown]	Renewal: [Dropdown]
Project: [Dropdown]	CO Approval: [Dropdown]	Review: [Dropdown]
Renewal Notice: [Dropdown]	* Service Provided: translation services agreement	Workflow Initiation: [Dropdown]
Termination Notice: [Dropdown]	Details: [Dropdown]	Workflow Completed: [Dropdown]
Funding Source: [Dropdown]		

CLA was informed that Contract Advantage is the only system used to store contracts. Per the Great Minds website, the parent company that produces the Contract Advantage software, Contract Advantage is used to store, manage, track, and control contracts from creation through expiration or renewal. Failing to store accurate information in Contract Advantage can expose the District to missed renewal deadlines, compliance violations, and financial risk because contracts, obligations, and approvals may be incomplete or incorrect. It also undermines accountability and audit readiness, making it harder to demonstrate proper stewardship of public or grant-funded resources.

Considering the District's existing membership with The Council of the Great City Schools, which already provides executive coaching and support services, the additional \$45,000.00 contract with the same organization appears redundant and lacks justification based on demonstrated need or added value. Accordingly, CLA determined that the \$45,000.00 represents waste, as it reflects an avoidable and inefficient use of District resources resulting from inadequate oversight and duplication of services.

**Observation #27** CLA observed duplicative leadership support services occurring in the same time period for the same MSCS employee.

**(1) Vendor: Forward Consulting, 2021-1042, \$30,000.00**

**Scope:** The scope from the scope of work incorporated into contract 2021-1042 is as follows:

**Figure 14: Scope of Work Incorporated into 2021-1042**

Forward Consulting Firm will provide the following services through bi-weekly in-person and/or virtual sessions and touchpoints:

- Forward proposes to train and support the Deputy Superintendent and designees (herein after the "executive leadership team") in leadership strategies that will increase their ability to influence their direct reports to work toward the accomplishment of the district's vision and operationalizing the vision into actionable and concrete steps.
- Forward proposes to train and support the executive leadership team on the tenets of The Together Leader to develop mission driven tools, habits, and systems to effectively and efficiently lead their teams
- Forward proposes to provide one-on-one coaching and mentoring to the executive leadership team and will work directly with the Deputy Superintendent in prioritizing change management and execution to determine necessary action steps.

As a result of the proposed services, the Deputy Superintendent and executive leadership team will develop the following competencies:

- Use results, processes, and relationships to create a more effective team culture
- Identify and implement strategies for building collective efficacy
- Develop structures for change management
- Create processes for using data to make decisions and monitor progress
- Develop a growth mindset orientation with current leadership theories and strategies to bolster effective effort and deliberate practice

**Compensation:** "SCS agrees to pay Consultant a flat-rate amount not to exceed Thirty thousand and 00/100 Dollars (\$30,000.00). Consultant will submit invoices to SCS only as Services are provided."

The contract was signed by the current deputy superintendent on behalf of the District.<sup>65</sup>

Three disbursements related to this contract in the amount of \$11,462.00 were identified.<sup>66</sup>

<sup>65</sup> The deputy superintendent signed additional professional services contracts with this vendor outside of the scope period: contracts 2025-0143 and 2026-0122.

<sup>66</sup> While contract 2021-1042 allowed for disbursements not to exceed \$30,000.00, only \$11,462.00 in disbursements were made before the PO was closed. No additional invoices or disbursements related to this contract were identified.

**Table 31: Disbursements Related to 2021-1042**

Invoice No.	Tran. Date	Inv. Date	Payments
225025273	10/20/2021	9/6/2021	\$ 5,198.00
225029169	11/4/2021	10/20/2021	2,314.00
225035788	12/2/2021	11/30/2021	3,950.00
Total			<u>\$ 11,462.00</u>

CLA made the following observations on contract 20201-1042 and the related disbursements:

- The PO that encumbered the \$30,000.00 contract amount was closed after only \$11,462.00 was spent.
- In **Observation #26**, the duplicative contracting of services for executive coaching and mentoring on behalf of the deputy superintendent was discussed, and an email dated December 3, 2021 indicates that The Council of the Great City Schools was providing these services in late 2021 as part of their membership benefits.

Based on this information, CLA concludes that the additional contracting for executive coaching and mentoring constituted waste, as the services were already available and being provided through the Council of the Great City Schools' membership benefits at no additional cost.

**Observation #28** CLA observed several contracts incorrectly classified as professional services in Contract Advantage.

As previously discussed in Observation #21, CLA was informed that the contract requestor is responsible for selecting the contract classification when submitting a request through Contract Request, and the contracts team is responsible for correcting the classification if necessary. CLA identified multiple contracts that are incorrectly classified in Contract Advantage as professional services. Examples include contracts 2024-0213 (software licenses), 2023-0471 (underground storage tank maintenance), 2021-0721 and 2021-0723 (indoor bleacher maintenance) and 2022-0036 (access to AP courses). Although CLA's preliminary review indicates that these contracts were likely administered and processed as non-professional services contracts, the inaccurate classification in Contract Advantage limits the District's ability to reliably report, monitor, and analyze contract activity by service type. This misclassification also reduces transparency, impairs management's ability to assess compliance with procurement requirements, and increases the risk that contracts subject to different approval thresholds, reporting requirements, or Board oversight may not be identified or reviewed appropriately. Over time, these data integrity issues

weaken contract management controls and hinder effective oversight of District spending.

#### Interim Conclusion

Based on the work performed to date, including the testing of a risk-based sample of professional services contracts with an aggregate value exceeding \$24 million, CLA did not identify evidence of fraud or intentional malfeasance. However, the preliminary results indicate significant and pervasive weaknesses in the District's contracting, oversight, and payment practices related to professional services.

Across the population tested, CLA identified recurring deficiencies in contract execution, monitoring of services, invoice review, and adherence to contractual and policy requirements. These deficiencies included, but were not limited to:

- Inadequate documentation to support services billed and paid;
- Invoices lacking required detail such as dates worked, hours or days performed, and descriptions sufficient to substantiate services rendered;
- Payments made in advance of services being completed, contrary to contract terms;
- Inconsistent or nonexistent monitoring of consultant performance and deliverables;
- Contracts executed or amended without proper procurement, budget verification, or encumbrance controls;
- Vendors performing services prior to contract execution or vendor registration; and
- Misclassification of contracts within Contract Advantage, impairing transparency and oversight.

In several instances, CLA identified conditions consistent with the ACFE guidance describing abuse where public resources were misused or managed imprudently despite the absence of evidence demonstrating fraudulent intent. These conditions included unsupported billing, unrealistic or unverifiable invoicing practices, circumvention of established procurement controls, and the approval of payments that conflicted with contractual requirements.

CLA also observed systemic internal control weaknesses, particularly an inappropriate concentration of authority whereby individual employees were able to select vendors, execute contracts, and approve invoices without independent review. This lack of segregation of duties significantly weakens the control environment and increases the risk of improper payments, conflicts of interest, and undetected

noncompliance. As a result, additional professional services contracts have been added to the testing population, and further analysis is ongoing.

Taken together, the issues identified suggest that the deficiencies observed are not isolated incidents but rather reflect broader structural and governance challenges in the District's management of professional services contracts. Absent corrective action, these weaknesses expose the District to continued financial, compliance, and reputational risk.

**Table 32: Summary of Professional Services Contracts for Which Evidence Supporting Waste or Abuse Was Identified**

Vendor	Contract #	Determination	Description	Amount Contracted	Amount Disbursed
Principal Mentor 01	2022-0634	Abuse	Inadequate contract oversight and invoicing practices, including unsupported billing, invoices lacking required detail, billing for unrealistic numbers of workdays, and approval of payments without verifiable evidence that services were performed as billed.	\$ 30,000.00	\$ 30,000.00
	2023-0310	Abuse		30,000.00	30,000.00
	2024-0362	Abuse		24,000.00	24,000.00
Security Consultant 01	2022-0308	Abuse	Contracts executed and paid outside of established procurement and accounts payable controls resulting in disbursements without required oversight and safeguards.	99,000.00	99,000.00
	2023-1008	Abuse		99,000.00	99,000.00
Charter School Consultant 01	2022-0639	Abuse	Payments made in advance of services being completed; invoices lacked required detail; approval of duplicative or unsupported invoices; unsupported charges for meals, travel, and subcontractors contrary to contractual requirements.	40,000.00	40,000.00
	2023-0435	Abuse		60,000.00	60,000.00
Council of the Great City Schools	2023-0426	Waste	Executive coaching contract appears duplicative of existing membership benefits already providing similar services at no additional cost; invoices lacked sufficient detail and did not clearly support the basis for billing.	45,000.00	45,000.00
Forward Consulting	2021-1042	Waste	Additional executive coaching services contracted while similar services were already available and being provided through existing membership benefits, indicating redundant contracting.	30,000.00	11,462.00
Total				\$ 457,000.00	\$ 438,462.00

### Recommendations

Given the preliminary nature of this section and the significance of the issues identified, CLA offers the following interim recommendations for consideration. These recommendations may be refined or expanded upon completion of the remaining audit procedures:

**Recommendation #12** Define and document roles and responsibilities across the professional services contracting functions.

The District should formally document and disseminate roles and responsibilities for Procurement, Contracts/Legal, and Accounts Payable as they relate to professional services. This documentation should specify who is responsible, accountable, consulted, and informed at each stage of the process, including exceptions and escalation paths.

The lack of clarity observed during interviews and testing resulted in gaps where:

- Procurement assumed legal or accounts payable would validate compliance;
- Accounts payable relied on invoice signatures without verifying contractual alignment; and
- Contract advisors were not positioned to enforce compliance once contracts were executed.

A clearly documented responsibility matrix would reduce ambiguity, strengthen accountability, and support consistent application of controls across departments.

**Recommendation #13** Implement mandatory cross-functional checkpoints.

The District should implement mandatory cross-functional checkpoints for professional services contracts, particularly prior to execution and prior to payment. These checkpoints should require confirmation that:

- Procurement requirements have been satisfied and budget has been verified;
- Contracts are executed and reflect approved terms;
- Vendors are properly registered and eligible for payment; and
- Invoices include sufficient detail and align with contractual deliverables.

Requiring affirmative confirmation at defined points would reduce reliance on informal practices and prevent transactions from progressing when required steps have not been completed.

**Recommendation #14** Provide joint training and reinforce shared accountability.

The District should conduct joint training sessions for procurement, contracts/legal, and accounts payable staff focused on the end-to-end professional services process. Training should emphasize how each function's responsibilities intersect and how failures at any point can result in improper payments, compliance violations, or misuse of public resources.

Reinforcing shared accountability across functions would help shift the culture from task-based processing to collective stewardship of District funds.

**Recommendation #15** Establish clear accountability for professional services contract oversight after execution.

The District should clearly define responsibility for monitoring professional services contracts from execution through completion. This includes formal assignment of a contract owner responsible for verifying service delivery, reviewing invoices for compliance with contract terms, and maintaining adequate documentation to support payments.

**Recommendation #16** Strengthen invoice review and documentation requirements.

The District should clearly define responsibility for monitoring professional services contracts from execution through completion. This includes formal assignment of a contract owner responsible for verifying service delivery, reviewing invoices for compliance with contract terms, and maintaining adequate documentation to support payments.

**Recommendation #17** Prohibit advance payment absent explicit authorization.

The District should reaffirm and enforce policies prohibiting payment for services prior to completion unless explicitly authorized by contract and supported by appropriate safeguards. Any exceptions should require documented justification and higher-level approval.

**Recommendation #18** Improve segregation of duties.

The District should evaluate and redesign its internal controls to promote appropriate segregation of duties across vendor selection, contract execution, invoice approval, and payment processing. No single individual should have authority over all phases of a professional services transaction.

**Recommendation #19** Enforce procurement and vendor registration requirements.

The District should reinforce requirements that professional services contracts adhere to established procurement processes, including requisitions, budget verification, purchase orders where applicable, and vendor registration prior to the commencement of services. Circumvention of these controls should be addressed through corrective and disciplinary mechanisms.

**Recommendation #20** Enhance contract classification and system integrity.

The District should conduct a comprehensive review of professional services contract classifications within Contract Advantage and correct inaccuracies. Controls should be implemented to increase the likelihood that the contract type is reviewed and validated at intake, as misclassification undermines reporting, compliance monitoring, and Board oversight.

**Recommendation #21** Consolidate and document the professional services contract lifecycle.

The District should develop a consolidated, end-to-end professional services contracting procedure that integrates procurement, legal, contract administration, and accounts payable requirements. A single, documented workflow would reduce reliance on informal practices and institutional knowledge and promote consistent compliance across departments.

**Recommendation #22** Improve documentation retention and responsiveness.

The District should establish clear expectations and timelines for responding to audit requests and confirm that contract-related documentation, including executed agreements, amendments, invoices, and supporting materials, is centrally retained and readily accessible. Failure to maintain or produce documentation should be addressed promptly by management.

*ii. Contracts and Solicitations – Non-Professional Services*Area of Analysis

Assess compliance, oversight and potential conflicts of interest as it pertains to non-professional services contracts and related disbursements.

### Applicable Policies/Procedures and Best Practices

CLA reviewed all available District policies and procedures, applicable federal guidance, and supplemented this review with interviews of procurement, contracts, legal, and accounts payable personnel in order to gain an understanding of the District's practices and controls related to procurement, contracts and vendor management.

Unlike professional services contracts, non-professional services contracts are subject to competitive bidding requirements when the total value of a purchase or contract exceeds \$25,000.00, regardless of funding source or whether the purchase is made by a school or a central department.<sup>67</sup> Board approval of a contract is required when the non-professional services contract is for \$100,000.00 or more.

No single policy documents the full lifecycle of a non-professional services contract, requiring the process to be reconstructed across Purchasing Authority, Contract Requirements, Procurement guidance, and Accounts Payable procedures. Based on a thorough examination of relevant policies and procedures, as well as information gathered during interviews, CLA has developed an understanding of the process at a high level as outlined below:

#### *1. Request Initiation*

The process begins when a department identifies a need for a non-professional services contract and submits a requisition via APECS. The procurement team issues a Procurement Advisory Form, (PAF), approved by the director of procurement, and sends it to the requestor. The PAF will indicate whether competitive bidding and/or Board approval is necessary before a contract request is submitted.

#### *2. Competitive Bidding*

Once a purchase reaches the formal solicitation threshold, procurement collaborates closely with the requesting department to develop a clear scope of work or specifications, while procurement facilitates the process and ensures the requirements are non-restrictive and compliant with policy and Tennessee Code Annotated.

Solicitations are publicly advertised for the required period, typically at least ten days for Invitations to Bid, and are posted on the District's procurement website, distributed to vendor lists, and published in local newspapers; for RFPs and IFBs, pre-proposal or pre-bid meetings may be held to clarify requirements. Responses are evaluated by a cross-functional committee of internal stakeholders and subject matter experts, whose members must execute confidentiality and conflict-of-interest

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<sup>67</sup> In addition to professional services contracts, contracts that are designated as sole source, single source, emergency, and those that are purchased under a cooperative purchasing agreement are not subject to competitive bidding.

certifications; committees use standardized scoring rubrics tied to the scope of work, with pricing typically weighted at a smaller percentage to emphasize overall value.

Procurement documents the solicitation, scoring, and communications in centralized electronic drives and retains hard copies in accordance with record-retention requirements. Based on the evaluation results, procurement prepares an award recommendation, generally to the lowest responsive and responsible bidder or the highest-scoring proposer, and, when required by dollar thresholds, submits the recommended award for Board approval with supporting documentation.

### *3. Contract Drafting, Review, and Execution*

After approval, the contract is routed through Legal for drafting and execution, signatures are obtained via DocuSign or wet signature as applicable, and a purchase order is issued in the financial system before work begins.

The requestor must submit the PAF and supporting documentation to Contract Request, starting the contract process with the Office of the General Counsel. CLA interviews revealed that the requestor self-classifies the contract as professional or non-professional in the Contract Request portal; this classification is not checked by procurement or legal at intake and is corrected later if a contract advisor finds it inaccurate.

The legal department/contract administration oversees contract drafting, review, and execution. Each request is assigned to a contract advisor who drafts or reviews agreements using District-approved templates, negotiates terms with vendors, and consults internal stakeholders as needed. After finalizing terms, contracts are signed via DocuSign and stored electronically in Contract Advantage, the District's official contract repository.

Finally, award information is publicly posted as required, procurement files are archived, and responsibility for ongoing contract administration and invoice approval transitions to the appropriate department and Accounts Payable, ensuring transparency, compliance, and auditability throughout the process.

### *4. Goods/Service Delivery and Oversight*

The contract monitor is accountable for monitoring vendor performance, ensuring that services are delivered as specified in the contract, and authorizing invoices to confirm that these services have been rendered. Procurement and legal are not responsible for monitoring performance after contract execution.

### *5. Invoice Review and Payment*

Accounts payable matches vendor invoices to purchase orders and contracts, verifies receipt of goods or completion of services, and checks approval signatures against dollar thresholds. Accounts payable relies on departmental certification for contracted work and does not independently verify compliance with deliverables.

In addition to the policies and procedures set by MSCS, the contracts often contained additional clauses addressing invoicing, payment, and the provision of services. While it was not a requirement for an MSCS-drafted contract to be used, many of the contracts reviewed by CLA were drafted by MSCS. Contracts drafted by MSCS generally included provisions such as prohibiting vendor payments prior to the receipt of goods or services, restricting the assignment of contractual obligations without prior written consent from MSCS, and specifying payment terms.

#### Analysis and Sample Selection

The District supplied CLA with a comprehensive list of all contracts executed during the scope period, including their associated dollar values. The District's report also identified each contract by "contract type." CLA subsequently segregated all contracts classified as non-professional services contracts to determine the overall population. Upon analyzing this population, CLA employed a risk-based methodology to select a sample of contracts for testing, prioritizing relevant allegations and specific areas of concern, including the following:

- 1) Relevant allegations identified on the scope of work;
- 2) Anonymous allegation submissions to MSCS Internal Audit via Lighthouse;
- 3) Allegations identified through interviews and research;
- 4) Contracts valued at an amount close to but below approval thresholds;

Additional contracts were randomly selected to create a sample size of at least 10% of the total non-professional services contract population.

The results of that analysis yielded 166 initial contracts to be tested in detail. CLA retrieved or requested available supporting documentation for each contract. The District granted CLA access to their contract management system, Contract Advantage; their business information and accounting system, APECS; and their internal procurement drive. To the extent documentation for a contract was limited, or CLA wanted additional context, CLA searched the email files for communication surrounding a contract/contractor. For instances where the required supporting documentation was not readily available to CLA, CLA made requests and inquiries to the District; however, the District did not provide a response to those requests at the time of drafting this report.

During the testing process, further contracts were incorporated into the testing population according to the risk-based sample selection methodology. As testing remains ongoing and new samples are continually being introduced, the definitive population size and value will be disclosed in the final report.

**Table 33: Non-Professional Services Testing Population**

Selection	Total Contracts Tested	Total Contract Value
Initial selection	166	\$ 413,993,184.25
Additional selection <sup>68</sup>	TBD	TBD
Total	166	<u>\$ 413,993,184.25</u>

Results of Analysis and Testing

Testing of non-professional services contracts has recently begun and remains in the initial phase of execution. Preliminary observations concerning at least one contract are outlined below. CLA notes that analysis of this specific contract is ongoing, and no interviews have been conducted as of the date of this interim report.<sup>69</sup>

**Observation #29** The District executed and paid a subsequent contract without clearly authorized renewal provisions and without issuing required purchase orders, creating procurement and compliance violations.

**(1) Vendor: YMCA of Memphis & the Mid-south**Contract 2023-0911, \$1,300,000.00

- The YMCA of Memphis & the Mid-South was awarded contract 2022-0830 pursuant to RFP #04042022 to provide before and after care services during Summer Learning Academy sessions, with a total contract amount not to exceed \$1,350,000.00.<sup>70</sup>
- Contract 2022-0830 was executed as the initial one-year agreement following the RFP award. The RFP documentation and materials presented to the Board for approval indicated that the award was for a one-year contract with two additional one-year renewal options.
- The renewal option language described in the RFP and Board materials was not incorporated into Contract 2022-0830 in fiscal year 2022.
- Contract 2023-0911, intended to represent the first one-year renewal option, was approved by the Board on May 30, 2023.
- Because Contract 2022-0830 did not include provisions authorizing renewal options, it is unclear whether issuance of a new RFP was required prior to the execution of Contract 2023-0911.

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<sup>68</sup> CLA anticipates testing additional contracts in line with risk-based methodology prior to the issuance of a final report.

<sup>69</sup> CLA plans to conduct additional interviews to identify additional context concerning this specific contract.

<sup>70</sup> Contract 2022-0830 was approved by Board vote at the May 31, 2022 Board Business Meeting.

- Two disbursements associated with Contract 2023-0911 were identified, totaling \$674,288.00. Both disbursements were processed without the issuance of purchase orders; instead, Payment Request Forms were submitted.

**Table 34: Disbursements related to 2023-0911**

Type	Doc Date	Acct Date	Invoice No.	Payment Amount
DirPay	8/22/2023	11/27/2023	2023-2	\$ 404,658.00
DirPay	8/22/2023	11/27/2023	2023-1	269,630.00
Total				<u>\$ 674,288.00</u>

- Documentation dated November 16, 2023, which was attached to the disbursements by accounts payable indicates that the assistant superintendent of operations advised the chief of academic operations and school support that an Out-of-Compliance letter was not required because the contract had received Board approval.<sup>71</sup>
- Board Policy 2006: *Purchasing Authority*, states that all purchases exceeding \$500.00 must be supported by an approved purchase order, unless the purchase qualifies as:<sup>72</sup>
  - an emergency purchase approved by the Director of Purchasing or the Superintendent’s designee; or
  - a financial transaction expressly exempted from the purchase order process in accordance with the policy.
- The policy references a “Purchase Order Exemption List,” which is described as being approved by the superintendent, maintained by the procurement department, and publicly available on the District’s website.<sup>73</sup>
- As of the date of this report, the hyperlink to the *Purchase Order Exemption List* contained within Board Policy 2006 is nonfunctional, and no such list was located through a search of the MSCS website.<sup>74</sup>
- CLA identified several undated versions of a Purchase Order Exemption List through a review of email files. None of the exemption lists reviewed identified approved contracts or Board-approved agreements as exemptions from the purchase order requirement.

<sup>71</sup> The out of compliance process is discussed in greater detail in section 5.D *Governance and Compliance*, beginning on page 157.

<sup>72</sup> For reference, Board Policy 2006 effective November 27, 2023, updated this amount from \$500.00 to \$3,500.00.

<sup>73</sup> The purchase order process was followed for the disbursements associated with the first contract – contract number 2022-0830.

<sup>74</sup> <http://www.scsk12.org/uf/procurement/files/2014/Financial%20Transactions%20Exempted%20From%20the%20Purchase%20Order%20Process%2001.28.pdf>

- An earlier email dated August 17, 2023, sent by the assistant superintendent of operations, was identified in which he stated, “Sending a reminder about the YMCA. There is no current PO. Trying to prevent this one from being out of compliance as well.” This communication indicates an awareness that the absence of an approved PO would constitute a compliance issue under District procurement requirements and a potential effort or desire to circumvent the out-of-compliance policy.

The conduct observed is consistent with ACFE guidance describing abuse, as it reflects the circumvention of established procurement controls and policies to facilitate contract payments without required purchase orders, despite leadership’s awareness of noncompliance. While there is no evidence of personal enrichment or intent to deceive, the actions represent an improper use of authority that exposed the District to financial and compliance risk and undermined internal controls.

#### Interim Conclusion

Testing of non-professional services contracts has recently commenced and is currently in the early stages of execution. As such, audit procedures are ongoing, and it is premature to draw or report any preliminary results or conclusions at this time. Findings will be evaluated and communicated upon completion of the planned testing procedures.

#### Recommendations

Due to the early stage of testing for non-professional services contracts, no recommendations are being issued at this time. Audit procedures are ongoing, and the development of recommendations would be premature until testing is completed and results have been fully evaluated. Any recommendations identified as a result of this work will be communicated in a subsequent phase of the audit.

### *iii. Contracts and Solicitations – Low Dollar Contracts*

#### Area of Analysis

Assess compliance, oversight and potential conflicts of interest as it pertains to low-dollar contracts and related disbursements.

Given the preliminary stage of this work, it is too early to perform substantive analysis or to report results or recommendations. These elements will be developed and communicated in a subsequent phase of the audit once the contract identification process and associated testing have been completed and sufficient audit evidence has been obtained.

#### Applicable Policies/Procedures and Best Practices

CLA reviewed all available District policies and procedures, applicable federal guidance, and supplemented this review with interviews of procurement, contracts,

legal, and accounts payable personnel in order to gain an understanding of the District's practices and controls related to procurement, contracts and vendor management.

MSCS procurement guidance distinguishes between purchases that require a requisition and PO and a limited category of low-dollar transactions that may be processed as "invoice purchasing," meaning the District allows the transaction to proceed without a requisition or PO solely because the total dollar amount falls below a defined threshold.<sup>75</sup> Prior to the November 2023 policy change, Board policy 2006: *Purchasing Authority*, incorporated into *the Procurement Services Reference Manual*, allowed individual purchases of \$500.00 or less to proceed without a PO and were therefore treated as non-PO expenditures, with invoices routed directly to accounts payable. Following the policy change, this low-dollar "invoice purchasing" threshold increased to \$3,500.00 or less, and purchases within this range likewise do not require a PO; invoices are sent directly to accounts payable for processing.

No single policy documents the full lifecycle of the low-dollar contract, requiring the process to be reconstructed across Purchasing Authority, Contract Requirements, Procurement guidance, and Accounts Payable procedures. Through review of relevant policies and procedures and through information obtained in interviews, CLA understands the process to be the following:

#### 1. *Contract Initiation and Approval*

When a contract is used on low-dollar transactions, departments must initiate a contract request and route it for review and approval in accordance with *Policy 2012* and related general counsel procedures. Contracts must be reviewed for legal sufficiency and executed by authorized signatories prior to the commencement of services. Per the *Procurement Services Reference Manual*, all contract requests are submitted to general counsel through Contract Request, and must include a Procurement Advisory Form, (PAF), indicating the action required to process a requisition. Per the manual, "The PAF is evidence to General Counsel that the requisition (budget) has been approved and the item in the contract request has been viewed/approved by Procurement."

#### 2. *Management Review and Approval*

Low-dollar transactions are initiated directly by schools or departments through purchases made with vendors without the need to create a requisition or purchase order in APECS. Invoices for these transactions are sent directly to accounts payable. This practice is authorized under *Policy 2006: Purchasing Authority*, which allows invoice-based purchasing below the established dollar thresholds.

Before payment can be processed, the invoice must be reviewed and approved by the budget center manager and the next higher level of management, certifying that

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<sup>75</sup> All purchases utilizing federal funds, regardless of cost, must be submitted via a requisition.

the expense is valid, allowable, and properly charged. This approval requirement is explicitly stated in *Policy 2006: Purchasing Authority* and reinforced in *the Accounts Payable Policies and Procedures Manual* for non-purchase-order expenditures. These approvals serve as the primary internal control in lieu of a purchase order and receiving match.

### 3. *Invoice Submission*

The *Accounts Payable Standard Operating Procedures Manual* requires a completed Payment Request Form to be submitted alongside any invoices for transactions falling below the \$500.00/\$3,500.00 threshold. Each Payment Request Form was reviewed to determine whether it contained (1) signature approvals, (2) appropriate support documentation, (3) correct budgetary coding, and (4) District authorized dollar amounts prior to being processed for payment.

### 4. *Receipt of Goods and Services*

District policy and accounts payable procedures generally prohibit payment prior to the receipt of goods or completion of services. *Policy 2006: Purchasing Authority* and the *Accounts Payable Policies and Procedures Manual* establish that vendor payments are to be made only after verification that goods have been received or services have been performed, as evidenced through receiving documentation, management approval, or other required support.

### 5. *Conflicts of Interest*

Board policy *4003: Conflict of Interest* establishes standards so that key employees and senior management conduct all professional activities with integrity and avoid actual or perceived conflicts between personal interests and the interests of the school system.

The policy prohibits employees from holding financial or material interests in entities doing business with the District, misusing confidential information, accepting inappropriate gifts or favors, or engaging in activities that could improperly influence procurement decisions, personnel actions, or student outcomes. The conflict-of-interest policy imposes requirements on vendors and contractors, including a mandate that all MSCS procurement documents contain a clause reserving the District's right to review vendor, supplier, or contractor records to determine whether a conflict of interest

In addition to the policies and procedures set by MSCS, the contracts often contained additional clauses addressing invoicing, payment, and the provision of services or goods. While it was not a requirement for an MSCS-drafted contract to be used, many of the contracts reviewed by CLA were drafted by MSCS. Contracts drafted by MSCS generally included provisions such as prohibiting vendor payments prior to the receipt of goods or services, restricting the assignment of contractual obligations without prior written consent from MSCS, and specifying payment terms.

### Analysis and Sample Selection

CLA used a risk-based approach to select this sample of contracts for testing focusing on relevant allegations and areas of concern, including the following:

- 1) Relevant allegations identified on the scope of work;
- 2) Anonymous allegation submissions to MSCS Internal Audit via Lighthouse;
- 3) Allegations identified through interviews and research;
- 4) Contracts valued at an amount close to but below approval thresholds;

Additional contracts were randomly selected to create a sample size of 10% of the total low-dollar contract population.

The results of that initial analysis yielded 36 contracts to be tested in detail, with additional samples to be selected subsequent to this draft report. CLA retrieved or requested supporting documentation for each contract. The District granted CLA access to their contract management system, Contract Advantage; their business information and accounting system, APECS; and their internal procurement drive. To the extent documentation for a contract was limited, or CLA wanted additional context, CLA searched the email files for communication surrounding a contract/contractor.

Given the preliminary stage of this work, it is too early to perform substantive analysis or to report results or recommendations. These elements will be developed and communicated in a subsequent phase of the audit once the contract identification process and associated testing have been completed and sufficient audit evidence has been obtained.

### Results of Analysis and Testing

Given the preliminary stage of this work, it is too early to perform substantive analysis or to report results or recommendations. These elements will be developed and communicated in a subsequent phase of the audit once the contract identification process and associated testing have been completed and sufficient audit evidence has been obtained.

### Interim Conclusion

Given the preliminary stage of this work, it is too early to perform substantive analysis or to report results or recommendations. These elements will be developed and communicated in a subsequent phase of the audit once the contract identification process and associated testing have been completed and sufficient audit evidence has been obtained.

### Recommendations

Given the preliminary stage of this work, it is too early to perform substantive analysis or to report results or recommendations. These elements will be developed and

communicated in a subsequent phase of the audit once the contract identification process and associated testing have been completed and sufficient audit evidence has been obtained.

*iv. Contracts and Solicitations – Special Procurement*

Area of Analysis

Assess compliance, oversight and potential conflicts of interest as it pertains to single, sole, or emergency contracts.

Applicable Policies/Procedures and Best Practices

Given the preliminary stage of this work, it is too early to perform substantive analysis or to report results or recommendations. These elements will be developed and communicated in a subsequent phase of the audit once the contract identification process and associated testing have been completed and sufficient audit evidence has been obtained.

Analysis and Sample Selection

Given the preliminary stage of this work, it is too early to perform substantive analysis or to report results or recommendations. These elements will be developed and communicated in a subsequent phase of the audit once the contract identification process and associated testing have been completed and sufficient audit evidence has been obtained.

Results of Analysis and Testing

Given the preliminary stage of this work, it is too early to perform substantive analysis or to report results or recommendations. These elements will be developed and communicated in a subsequent phase of the audit once the contract identification process and associated testing have been completed and sufficient audit evidence has been obtained.

Interim Conclusion

Given the preliminary stage of this work, it is too early to perform substantive analysis or to report results or recommendations. These elements will be developed and communicated in a subsequent phase of the audit once the contract identification process and associated testing have been completed and sufficient audit evidence has been obtained.

Recommendations

Given the preliminary stage of this work, it is too early to perform substantive analysis or to report results or recommendations. These elements will be developed and communicated in a subsequent phase of the audit once the contract identification

process and associated testing have been completed and sufficient audit evidence has been obtained.

v. *Nutrition Contracts*

Area of Analysis

Assess contracts associated with food services provided in school cafeterias, including the procurement and award processes, total expenditures, and the methods used for food storage and distribution across schools.

Applicable Policies/Procedures and Best Practices

The central nutrition center, (CNC), team follows the same processes, procedures and guidelines as outlined in 5.B.ii *Contracts and Solicitations – Non-Professional Services*.

Food is centrally stored at a District-managed warehouse facility, which includes multiple storage environments: a warehouse freezer, cooler, central kitchen, and dry storage located in Building 7. In addition to MSCS District schools, the CNC services charter schools that opt into MSCS nutrition services and follow the same process as District schools, including nutritional standards and delivery methods, with no separate storage or delivery process identified for charters.

Inventory management for the CNC is handled centrally, with a designated inventory role and inventory and compliance data tracked through nutrition systems (e.g., Edison, Hartland Food Management System), supporting distribution planning and accountability.

Analysis and Sample Selection

While the previously mentioned areas are undergoing testing, a sample has not been selected at the time of this draft report.

Results of Analysis and Testing

These elements will be developed and communicated in a subsequent phase of the audit once the contract identification process and associated testing have been completed and sufficient audit evidence has been obtained.

Interim Conclusion

These elements will be developed and communicated in a subsequent phase of the audit once the contract identification process and associated testing have been completed and sufficient audit evidence has been obtained.

Recommendations

These elements will be developed and communicated in a subsequent phase of the audit once the contract identification process and associated testing have been completed and sufficient audit evidence has been obtained.

vi. *Vendor Management*Area of Analysis

This objective focuses on reviewing MSCS vendors and supplier lists to ensure validity, compliance with strategic sourcing policies, and identification of debarred or problematic vendors, while examining relationships between vendors and Board Members or administrators. It also involves analyzing conflict-of-interest disclosures, potential improper benefits, and contract decisions that may reflect favoritism, undisclosed relationships, or bypassed governance processes.

Applicable Policies/Procedures and Best Practices

MSCS conflict-of-interest policies are designed to preserve fairness, independence, and public trust in procurement and contracting by preventing personal, financial, or relational interests from influencing vendor selection, contract awards, or payments. The policies emphasize disclosure, recusal, documentation, and transparency across all phases of the procurement and contracting lifecycle. A high-level summary of the policies addressing conflicts of interest is provided below:

(1) *Board Policy 4003: Conflicts of Interest*

- Key employees<sup>76</sup> and senior management must avoid actual or apparent conflicts when dealing with vendors/suppliers and anyone seeking to do business with the District.
- Prohibits employees from having direct/indirect financial or material interests in entities doing business with the District and prohibits sharing procurement information or contacting vendors outside the approved process
- Restricts gifts/favors from vendors (generally prohibited, with limited nominal exceptions) and states vendors attempting improper influence violate policy.
- Requires annual disclosure statements for key employees/senior management and establishes Internal Audit review/investigation and an

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<sup>76</sup> Board policy 4003 defines “Key Employees” broadly to include employees involved in approving purchases, developing specifications, managing procurements, recommending vendors, and even clerical/support staff who handle procurement-related documents (including financial secretaries).

Ethics Review Committee for appeals, with vendor sanctions (barred up to two years) for violations

(2) Procedural information obtained through interviews

- Procurement checks SAM.gov for debarment and checks contractor licenses for operations procurements, which functions as a vendor risk screening practice tied to integrity concerns.
- Bid evaluation committee members must sign a confidentiality and conflict of interest form each time they serve on a committee.
- The District administers annual conflict of interest disclosure forms to all key employees District-wide, including principals, school leadership, procurement staff, and other management roles, but not Board Members. The forms are electronically submitted to the director of internal audit.

Analysis and Sample Selection

The majority of vendor analysis is conducted within the contracts testing procedures and will be reported in conjunction with the results of the contract testing. The sample selection and the analysis of the testing will be communicated in the final report.

Results of Analysis and Testing

**Observation #30** Memphis is a small, tight-knit community where many individuals working within MSCS and the local vendor community are likely to know one another through prior employment, professional networks, civic involvement, or long-standing personal relationships.

MSCS conflict-of-interest policies focus on financial interests, decision-making authority, and the potential for improper influence, rather than on mere personal or professional acquaintance. As long as required disclosures are made and individuals with potential conflicts are appropriately recused from related decisions, pre-existing relationships alone are not prohibited. MSCS policies address this reality through controls such as conflict-of-interest certifications, cross-functional evaluation committees, and documented procurement processes, which are intended to distinguish acceptable professional familiarity from actual or perceived conflicts.

Interim Conclusion

The majority of vendor analysis is conducted within the contracts testing procedures and will be reported in conjunction with the results of the contract testing. The results of the testing will be communicated in the final report.

Recommendations

The majority of vendor analysis is conducted within the contracts testing procedures and will be reported in conjunction with the results of the contract testing. Recommendations will be communicated in the final report.

## C. Financial Transactions and Controls

This section summarizes the review of financial transactions and related controls, encompassing journal entries, ACH transactions, bank statements, payroll and employee compensation, P-cards and check requests, suspicious accounts, and budget issues.

### i. Journal Entries

#### Area of Analysis

CLA analyzed journal entry activity to identify evidence of fraud, abuse, or control weaknesses. CLA performed analytical procedures to identify unusual activity and assessed the adequacy of supporting documentation and evidence of review and approval for the entries tested.

#### Percentage Completion: 50%

Journal entry testing is approximately 50% complete. Testing was materially delayed by the District's failure to centrally maintain and retrieve supporting documentation. Although approvals were visible in APECS, underlying support was often maintained outside the system across multiple departments and was not readily accessible, requiring repeated follow-ups and reliance on summary-level information rather than source records. These conditions reflect a systemic records-management failure that impeded timely and independent verification.

#### Applicable Policies/Procedures and Best Practices

CLA reviewed available policies, procedures, and supporting documentation related to journal entry controls and supplemented this work with interviews of finance staff and departmental accountants who had limited documentation. Documented procedures include an internal control narrative governing journal entry processing within APECS, including documentation requirements, standardized formats, segregation of duties, and multi-level approvals, with automated posting to the general ledger upon approval.

Where written policies did not fully describe the practice, CLA sought to obtain an understanding through interviews with finance leadership. Management represented that fund owners initiate and review entries, with final approval by the controller and/or assistant superintendent of operations, and that entries lacking adequate support are returned for correction. Management also described ongoing monitoring activities, including ledger reviews, bank reconciliation review, heightened scrutiny of general fund activity, and manual controls such as account freezes and period locks, and indicated procedures are reviewed at least annually.

CLA also considered District Policy 3012 – *Records Management* and the *Tennessee Internal School Uniform Accounting Policy Manual, Accounting and Reporting* – Section 7, which requires maintenance of core accounting records and emphasizes that journal entries must identify the applicable fund, account, amount, and explanation.

### Analysis and Sample Selection

CLA downloaded journal entry summary and transaction-level detail directly from APECS for the fiscal years under review and reconciled the data to assess population completeness prior to testing. CLA applied a risk-based approach considering elevated-risk indicators, including activity in new, inactive, or seldom-used accounts; unusually large or stratified dollar amounts; digit-preference anomalies (Benford’s analysis); period-over-period trends; suspicious timing (e.g., weekends, holidays, late-night entries, or entries posted after the accounting date); duplicate or voided entries; and entries responsive to allegations or keyword searches, including concerns related to “dummy” accounts.

Using this approach, CLA selected a sample of 158 journal entries totaling \$43,770,207,535.57 from a population of 40,228 entries across fiscal years 2022 to 2024. Table 35 summarizes the quantity and total amount of journal entries selected by fiscal year.

**Table 35: Quantity and Total Amount of Journal Entries by Fiscal Year**

Fiscal Year	Quantity	Total Amount
2022	48	\$ 55,391,746.32
2023	56	64,766,183.22
2024	54	43,650,049,606.03
Total	158	\$ 43,770,207,535.57

Sample amounts reflected total debits or credits associated with each balanced journal entry, and testing considered each line item comprising the entry. The sample was allocated proportionally by fiscal year, stratified into seven monetary tiers, and further distributed across months, entry types, operators, entry status, and timing.

For each sampled entry, CLA tested for evidence of appropriate review and approval and evaluated whether sufficient supporting documentation was attached to substantiate the recorded activity. CLA also assessed whether documentation aligned with recorded amounts and account coding and whether approval attributes were consistent with the District’s described control framework.

### Results of Analysis and Testing

Based on testing, CLA noted issues primarily related to the sufficiency, clarity, and availability of supporting documentation; difficulty readily determining business purpose for certain entries; and reduced transparency where entries may change while accounting periods remain open. CLA also noted reliance on practices described in interviews that were not fully documented or existed outside the finance department’s direct oversight, such as accounting practices at the central nutrition center that are maintained on separate system, named Edison.<sup>77</sup>

<sup>77</sup> Edison is a nutrition software designed for managing cafeteria operations. It integrates menu planning, inventory control, nutrient analysis, and dietary guidelines.

CLA performed additional procedures to investigate potential “dummy” and temporary accounts and entries tied to individuals and vendors of specific concern. In certain instances, CLA could not fully test these areas due to missing support, limited system records, lack of corroborating emails, or insufficient information beyond management representations. These conditions indicate the District’s records were not consistently organized, retained, or readily retrievable as required under District Policy 3012 – *Records Management*.

**Observation #31** Journal entry approvals occur, but independent verification is constrained by decentralized processes and system limitations.

CLA did not identify manual journal entries posted without approval, and no entries were entirely unsupported or left unanswered; approvals were visible in APECS, indicating certain front-end controls are functioning. However, finance often could not independently verify underlying support and business purpose for entries originating outside finance because attachments in APECS were frequently limited to summary spreadsheets or brief descriptions. For example, an inventory-related journal entry posted in fiscal year 2022 recorded \$320,374.24, which did not agree to the documentation attached in APECS. The extent of the documentation attached in APECS is shown in Figure 15. Finance explained that the data had been exported from an inventory management system (SchoolDude) that was no longer accessible. Although the journal entry included a detailed description, the documentation available in APECS did not substantiate the transaction-level details. As a result, finance relied on representations from the warehouse when approving the entry rather than having direct access to supporting records to verify the details.

**Figure 15:Extent of Supporting Documentation Attached to Joral Entry**

Issue Summary By Budget Code		Shelby County Schools
Selected Date Range for Transaction Dates: 5/1/2022 - 5/31/2022		
Budget Code	Total Inventory Cost	
No Budget Code Specified	(\$10,075.28)	
01-72130-202100-49900-1000-0000	(\$372.46)	
01-726104990033410010010000	(\$345.54)	
01-726104990033410082200000	(\$9,035.25)	
01-726104990033430082200000	(\$24,403.40)	
01-726203990033430082200000	(\$30.54)	
01-726204990033400082200000	(\$387.25)	
01-726204990033430010010000	(\$13,388.61)	
01-726204990033440010010000	(\$45,650.50)	
01-726204990033450082200000	(\$51,556.43)	
01-726204990033460082200000	(\$61,748.28)	
01-726204990033470082200000	(\$36,462.40)	
01-726204990033480082200000	(\$24,643.21)	
55-72610-49900-334000-8153	(\$156.43)	
xxxxxx00000	(\$330.65)	
<b>Grand Total</b>	<b>(\$278,586.22)</b>	

Follow-ups frequently required referrals across multiple departments (e.g., payroll, HR, benefits, food and nutrition services, warehouse operations, and printing), reflecting decentralized origination and finance's limited access to source documentation outside APECS. APECS is a legacy system with limited reporting, audit trails, and cross-system validation, with support often obtained through informal channels such as email, reducing review transparency. CLA further observed that some returned entries remained live and were edited directly rather than corrected via separate entries, and that APECS does not consistently capture detailed audit trails for certain system-generated imports. Collectively, these conditions limit finance's ability to exercise effective independent oversight at approval and increase reliance on originating-department representations.

**Observation #32** Manual inventory processes in the nutrition services warehouses limit accuracy and real-time visibility.

Inventory processes rely on manual procedures (cycle counts, receiving, picking, returns, and location tracking) using a system external to APECS, requiring periodic journal entries to true up inventory between systems. Support is scanned to nutrition services shared drives that finance cannot access. Manual processes increase exposure to count inaccuracies (time delays), limited location/expiration tracking (spoiled/misplaced inventory), and clerical errors. CLA also observed the warehouse system uses the same identifying invoice number for similar products from different vendors with different case sizes/costs, for example, 4 packages of 4 oz. at \$20 versus 8 packages of 10 oz. at \$120, creating risk of shipping/receiving mismatches and additional reconciliation. The lack of timely inventory data, automated scan-based systems, and unique identifiers limits real-time inventory accuracy and the ability to isolate deficiencies.

**Observation #33** Warehouse and Fulfillment inventory controls rely heavily on manual processes and physical records.

The warehouse and fulfillment department similarly relies heavily on manual inventory processes. While some activity is tracked in APECS, underlying data still requires manual entry, and key source documents (e.g., bills of lading and order-fulfillment tracking/sign-offs) are often retained onsite as hard copies (filing cabinets/boxes) rather than digitized, increasing risk of loss/damage and requiring onsite review to follow the audit trail. These conditions increase exposure to inaccurate counts (time delays), limited location tracking (misplaced inventory), and

clerical errors, and the absence of timely data/scan-based systems limits real-time inventory accuracy.

**Observation #34** Inconsistent fueling training and the absence of standardized instructions increase the risk of erroneous fuel transactions.

CLA tested five journal entries totaling \$1,972.80 related to the Fuel, System Interface.<sup>78</sup> Based on discussions with District personnel, these entries are automatically generated by the fuel monitoring system, EJ Ward, and posted to the general ledger to record vehicle refueling activity. CLA performed additional procedures to understand the nature of these entries and the processes supporting them.

CLA observed that District employees assigned fuel cards and vehicles are expected to refuel at District fueling locations; however, training on proper fueling procedures is inconsistent and refresher training is not regularly provided. In addition, written fueling instructions are generally not available at fueling sites. These conditions increase the risk of user error and improper fuel transactions. CLA identified instances in which fuel cards timed out due to delayed fueling, after which employees continued swiping the card at other pumps, resulting in multiple zero-dollar transactions. These transactions were recorded in EJ Ward and posted to APECS, unnecessarily cluttering transaction records and complicating review. Without recurring training and standardized instructions, the District remains exposed to avoidable errors and inefficiencies in fuel transactions.

#### Interim Conclusions

Based on journal entry testing performed to date, the primary issue identified is the significant delays caused by the District's failure to organize, retain, and centrally file supporting documentation in accordance with its records-management standards. The lack of complete and accessible support impeded timely procedures, required repeated cross-departmental follow-ups, and limited the extent of meaningful additional testing. Within the scope of work performed and documentation provided, CLA did not identify evidence of fraud, waste, or abuse related to journal vouchers; however, records-management deficiencies were the principal constraint on testing. Accordingly, due to the District's poor records management, CLA determined that further journal entry testing and research would not yield meaningful progress or satisfaction of the testing requirements.

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<sup>78</sup> APECS recorded the operator for these journal entries as "Fuel, System Interface."

## Recommendations

CLA recommends the following regarding improvements to journal entries, including those initiated or recorded by departments outside of the finance department.

**Recommendation #23** The District should centralize journal entry processes across departments to improve consistency, transparency, and oversight. Standardizing preparation, review, documentation requirements, and centralized access to supporting records would strengthen finance's ability to independently validate entries at approval, reduce informal follow-ups, facilitate interdepartmental coordination, and enhance efficiency, accountability, and identification of recurring control weaknesses.

**Recommendation #24** The District should evaluate finance and enterprise resource planning solutions that more effectively integrate with systems used by other departments, including payroll and inventory. Improved integration would allow operational and financial data to flow directly into the financial system, reducing reliance on manual uploads, summary-level documentation, and decentralized recordkeeping, while enhancing reporting capabilities, audit trail visibility, and finance's ability to trace journal entry origins and subsequent corrections.

**Recommendation #25** The District should implement warehouse software solutions that integrate with its finance/ERP systems to support automated inventory adjustments and real-time valuation and counts. Implementing scanners for receiving, picking, cycle counts, and location tracking would allow inventory data to be updated as activities occur and reduce reliance on manual processes.

**Recommendation #26** The District should update and clearly post standardized operating instructions at all fuel pumps and terminals and provide hands-on training for employees who use the fuel system. Employees should be required to follow documented procedures when issues arise, such as pump malfunctions or card deactivations, and the District should maintain training records to identify individuals or departments requiring additional support or refresher instruction.

**Recommendation #27** The District should enhance documentation within the EJ Ward system, where feasible, to record key events such as pump issues and fuel card deactivations or reactivations, including relevant timestamps and points of contact.

Improved documentation would strengthen transparency and auditability of fuel transactions.

The District should evaluate opportunities for IT or operational personnel to perform limited reconciliations or exception reviews of daily fuel data files prior to import into APECS, particularly given the absence of pre-posting reconciliation controls.

*ii. ACH Transactions*

Area of Analysis

At issue is whether ACH transactions are appropriate, made to legitimate vendors following District procedures, and whether the selected contractors are utilizing legitimate banking information. CLA assessed the ACH transactions for unusual patterns, split transactions, high-risk vendors, misappropriations, personal expenses, or potential overpayments.

Percentage Completion: 90%

SSFS No. 1 permits the issuance of interim reports and interim findings or conclusions for work completed to date, provided that any scope limitations are clearly disclosed and conclusions remain subject to revision if additional information becomes available. Accordingly, should additional information or documentation be obtained after issuance of this interim report, certain observations and interim conclusions may be revised, updated, or deleted in the final report. While substantive testing has been completed for 100% of the population, portions of the associated workpapers remain under supervisory review and subject to follow up questions prior to finalization. Consequently, the percentage of completion is 90%.

Applicable Policies/Procedures and Best Practices

CLA reviewed available policies, procedures, and supporting documentation related to accounts payable (AP). Where formal documentation was limited, this review was supplemented with multiple interviews of finance department personnel. Documented procedures reviewed included the AP Standard Operating Procedures and an internal control narrative governing accounts payable processing. This narrative describes required supporting documentation, the use of standardized formats within the APECS financial system, and multi-level approval workflows that vary based on funding source and employee role.

Per CLA's review of the available documentation supplemented by multiple interviews, CLA noted requisitions are initiated in APECS by the requesting employee and routed electronically through established approval workflows. Once approved, requisitions are forwarded to the procurement department, where POs are generated. The District requires the use of POs to authorize purchases from vendors.

A Payment Request Form is to be submitted in lieu of a PO for transactions falling below the \$500.00/\$3,500.00 threshold.<sup>79</sup>

Upon receipt of goods or services, the requester enters receipt information into APECS for the associated PO. If necessary, an AP associate may enter the receipt with verification that goods have been received or services have been performed, as evidenced through receiving documentation, management approval, or other required support. This process establishes verification that goods or services were received prior to payment.

Vendor invoices are mailed or emailed directly to AP and entered into APECS by AP staff. AP staff forwards the invoices back to the requesting employee for signature verification. The system enforces three-way matching among the PO, receipt, and invoice. AP relies on departmental certification for contracted work and does not independently verify compliance with deliverables. Invoices within established tolerance limits are eligible for processing upon authorization. Invoices exceeding tolerance limits are routed back to the procurement department for review and resolution, which may result in a vendor credit or a PO amendment. If a required receipt has not been entered, the system automatically places the invoice on hold until receipt confirmation is completed. Authorized invoices and supporting documentation are scanned and electronically attached in APECS under a system assigned voucher identification number.

MSCS processes accounts payable transactions under three distinct payment categories:

- Vendor Invoices: Payments for supplies, equipment, service agreements, and other goods or services procured through an approved APECS PO.
- AP Payment Request Forms: Used for invoices of \$500.00/\$3,500.00 or less that do not have an associated APECS PO. These requests require an itemized invoice, valid budgetary account coding, and appropriate approval signatures.
- AP Reimbursement Request Forms: Used when schools or departments seek reimbursement for purchases of \$500/\$3,500 or less made with approved vendors without using the PO process. These requests require an itemized invoice, valid budgetary account coding, and appropriate approval signatures.

Vendor payments are processed via check, ACH, or virtual card (vCard).<sup>80</sup> Payments are issued every Monday, Wednesday, Friday, and the last day of each month, and

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<sup>79</sup> Policy 2006 – *Purchasing Authority* states that prior to August 29, 2023, the dollar threshold requiring use of an AP Payment Request Form was \$500.00. Effective August 29, 2023, the District increased this threshold to \$3,500.00.

<sup>80</sup> vCards, offered by Fiserv Global, are virtual prepaid cards that offer vendors an efficient, secure method for payment issuance.

are disbursed by Fiserv Global Services, a division of Regions Bank. Vendors elect ACH or vCard payments by coordinating directly with Fiserv Global Services.

#### Analysis and Sample Selection

CLA used data analytics techniques to identify patterns and anomalies within the disbursement ledger to support the selection of a sample of ACH transactions for testing. As part of this process, CLA also selected samples of check,<sup>81</sup> vCard and manual warrant payments.<sup>82</sup> The data analytics procedures included trending disbursements over time by vendor and account to identify unusual fluctuations in payment activity. CLA also analyzed transactions with amounts just below established approval thresholds and selected a sample for testing to assess whether appropriate authorization was obtained. Following the completion of these data analytics procedures, CLA applied a risk-based sampling approach that focused on relevant allegations and key areas of analysis, including the following:

- 1) Transactions with amounts just below the \$3,500.00 approval threshold, which would otherwise require a complete PO;
- 2) Transactions with round dollar amounts;
- 3) Transactions occurring in fiscal years with significant fluctuations in expenses;
- 4) Instances where the accounting date differed significantly from the document date;
- 5) Instances where the payee name in the general ledger differed from the payee name in the Sungard report;
- 6) Transactions with unusual, vague, or missing descriptions;
- 7) Payments to vendors exhibiting significant fluctuations in expense activity.

The results of the analysis identified 61 ACH transactions totaling \$2,018,104.91, 23 manual warrants totaling \$285,653.85, and 30 vCard disbursements totaling \$118,287.16 to be tested in detail. CLA performed testing by comparing the selected samples to the District accounts payable policies to determine:

- 1) If appropriate approvals were obtained;
- 2) If the required documentation was appropriate and complete;
- 3) If the expense was appropriate in performance of official District duties; and
- 4) If there was evidence of fraud or misuse of funds.

CLA examined the related supporting documentation available in APECS, such as invoice, PO, payment request, purchase requisition, and all workflow approvals.

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<sup>81</sup> Checks are tested in section 5.C.v. *P-Cards and Check Requests*.

<sup>82</sup> See section 5.C.iii. *Bank Statements* for additional detail on how these payments were identified. Manual warrants are checks printed in-house by the payroll department.

Additionally, if the purchase was part of a contract, CLA reviewed the executed contract. When supporting documentation was not readily available, CLA made requests and inquiries to the District for the needed documentation and explanation. Additionally, CLA used investigative techniques such as email review to further examine and assess the context surrounding the samples selected.

#### Results of Analysis and Testing

The results of disbursement testing identified process deficiencies including multiple instances of incomplete and/or missing supporting documentation. Based on the analysis performed, detailed transaction testing conducted, and related email review, CLA did not identify indications of malfeasance or evidence of fraud. Additionally, CLA did not find evidence of misuse of District funds, and the disbursements tested appeared to be associated with legitimate business purposes.

The results of this testing and observations are as follows:

**Observation #35** The District did not consistently comply with policy requirements related to supporting documentation for ACH disbursements, as detailed below:

- a) Five samples totaling \$7,003.69 were below the dollar threshold requiring an AP Payment Request Form; however, the required form could not be located.
  - i) Four of these samples totaling \$8,343.60 were processed using a PO, although a PO was not required for these transactions. The District controller indicated that use of a PO is considered an acceptable substitute for the payment request form. CLA notes that this practice is not consistent with the requirements outlined in District policy. CLA confirmed through interviews that the payment request form process is still in place and is the process that should be followed for low-dollar transactions.
  - ii) One sample totaling \$660.09 consisted of two payments on a lease with Ricoh USA for equipment for John P Freeman Optional School and Oakshire Elementary School.
- b) For fifteen samples totaling \$164,745.86, the attached invoice did not have a signature; however, the transactions were approved within the APECS system. These instances do not indicate waste or abuse but reflect noncompliance with internal documentation requirements, representing an internal control failure. The District controller requires all invoices to be signed and dated to support internal control objectives and to document verification that goods or services were received or completed.

**Observation #36** Two samples totaling \$212,159.00 exceeded the dollar threshold requiring a PO or a contract; however, neither was obtained prior to the purchase.<sup>83</sup> In both instances, an Out-of-Compliance letter was subsequently issued for violating Board Policy 2006-*Purchasing Authority*.

- a) One payment of \$101,871.82 was part of the Phase 7 billing (total billed was \$147,935.00) for the 3030 Jackson Avenue (Bayer Building) project. The support obtained included an invoice and a payment request form signed in January 2023 by the chief of business operations, financial advisor, and senior accountant. The Out-of-Compliance letter was dated January 24, 2023.<sup>84</sup> As a result, CLA gained comfort that the transactions represented legitimate District business; however, the transactions were not compliant with the District's internal policy requiring the use of a purchase order.
- b) The other sample totaling \$64,224.00 was for night guards for North East Preparatory School. The support obtained included invoices and two payment request forms signed in January 2024 by the chief of business operations. Two Out-of-Compliance letters were dated January 23, 2024. As a result, CLA gained comfort that the transactions represented legitimate District business; however, the transactions were not compliant with the District's internal policy requiring the use of a purchase order.

**Observation #37** The District did not consistently comply with policy requirements related to supporting documentation for manual warrant disbursements, as detailed below:

- a) Three samples totaling \$72,601.00 exceeded the dollar threshold requiring a PO; however, no POs were obtained for these transactions. All three transactions included an approved payment request form, a supporting invoice, and appropriate approvals within the APECS system. As a result, CLA gained comfort that the transactions represented legitimate District business; however, the transactions were not compliant with the District's internal policy requiring the use of a purchase order.

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<sup>83</sup> The total of \$212,159.00 is comprised of an ACH payment of \$147,935.00 disbursed on February 15, 2023 and an ACH payment of \$64,224.00 disbursed on February 29, 2024 (\$147,935.00 + \$64,224.00 = \$212,159.00).

<sup>84</sup> Out-of-Compliance letters are discussed in detail in section 5.D. iii. *Compliance letters*.

- b) For four samples totaling \$106,853.00, the attached invoice did not have a signature; however, the transactions were approved within the APECS system. These instances do not indicate waste or abuse but reflect noncompliance with internal documentation requirements, representing an internal control failure. The District controller requires all invoices to be signed and dated to support internal control objectives and to document verification that goods or services were received or completed.

**Observation #38** The District did not consistently comply with policy requirements related to supporting documentation for vCard disbursements, as detailed below:

- a) One sample totaling \$3,422.30 exceeded the dollar threshold requiring a PO; however, no PO was obtained for this transaction. The support obtained included an approved payment request form, a supporting invoice, and appropriate approvals within the APECS system. As a result, CLA gained comfort that the transaction represented legitimate District business; however, the transaction was not compliant with the District's internal policy requiring the use of a purchase order.

#### Interim Conclusions

The observations resulting from testing of District ACH, manual warrant, and vCard transactions primarily consisted of process-related deficiencies, most notably instances of incomplete or missing supporting documentation which did not prevent or impede payment. However, based on the analysis and testing performed, the expenses reviewed overall appeared to reflect legitimate District business activities. CLA did not identify evidence of fraud waste, or abuse in the disbursements tested.

**Table 36: Preliminary ACH Transaction Determinations of Noncompliance with Internal Policy**

Determination	Description	Amount Disbursed
Noncompliance with Internal Policy	Two ACH samples exceeded the dollar threshold requiring a PO or a contract; however, neither was obtained prior to the purchase.	\$ 212,159.00
Noncompliance with Internal Policy	Fifteen ACH samples were missing a signature on the attached invoice.	164,745.86
Noncompliance with Internal Policy	Four manual warrant samples were missing a signature on the attached invoice.	106,853.00
Noncompliance with Internal Policy	Three manual warrant samples exceeded the dollar threshold requiring a PO; however, no POs were obtained for these transactions.	72,601.00

Determination	Description	Amount Disbursed
Noncompliance with Internal Policy	Five ACH samples requiring an AP Payment Request Form; however, the required form could not be located.	7,003.69
Noncompliance with Internal Policy	One vCard sample exceeded the dollar threshold requiring a PO; however, no PO was obtained for this transaction.	3,422.30
Total		<u>\$ 566,784.85</u>

### Recommendations

The following recommendations are suggested to improve controls and processes for District travel reimbursements:

**Recommendation #28** The District should increase efforts to ensure all relevant support is maintained in APECS. The support should include detailed and signed invoice and receipts, description of the business purpose for each purchase, and evidence of appropriate approvals.

**Recommendation #29** Consider whether certain disciplinary steps may be necessary for employees that continue to demonstrate non-compliance with procurement policies. Additional training and periodic communication with District employees regarding requirements, timelines, and expectations could improve compliance.

**Recommendation #30** The District should clarify and update policy guidance to specify whether a physically signed invoice is required for disbursements or whether electronic receipt confirmation and approvals within the APECS system are sufficient to meet documentation and internal control requirements

### *iii. Bank Statements*

#### Area of Analysis

The State requested CLA to analyze bank statement activity to determine the flow of cash and how it reconciles with the general ledger.

#### Percentage Completion: 90%

SSFS No. 1 permits the issuance of interim reports and interim findings or conclusions for work completed to date, provided that any scope limitations are clearly disclosed and conclusions remain subject to revision if additional information becomes available. Accordingly, should additional information or documentation be obtained after issuance of this interim report, certain observations and interim conclusions may be revised, updated, or deleted in the final report. While substantive analysis has

been completed, portions of the associated workpapers remain under supervisory review and subject to follow up questions prior to finalization.

#### Applicable Policies/Procedures and Best Practices

CLA reviewed available policies, procedures, and supporting documentation related to bank accounts. Where formal documentation was limited, this review was supplemented with multiple interviews of finance department personnel. The District bank accounts policy (2017 – *District Bank Accounts*) establishes requirements for the authorization, use, and oversight of all bank accounts maintained by or on behalf of the District. The policy requires that all District funds be deposited into authorized bank accounts used solely for legitimate District business purposes and expressly approved by the superintendent or designee. District bank accounts must be established with authorized depository institutions, reconciled monthly, and subject to audit. The policy restricts the opening of departmental or office-level accounts and prohibits unauthorized or non-District uses of District funds or tax identification numbers.

The District has the following bank accounts:

- Account xxx1371 is a depository account used to make transfers to other accounts and receive and track all electronic deposits, payments, and refunds.
- Account xxx9881 is the payroll clearing account used to track all payroll related expenditures and transfers to fund the District payroll obligations.
- Account xxx0553 is the accounts payable general fund clearing account used to track all vendor payments, including payroll liability payments, and transfers to fund the District obligations and pay outstanding bills.

Daily bank activity is reviewed by the cashier and the senior accountant. The daily review of cash transactions ensures that all transactions are accurately recorded in the GL and properly coded to the appropriate accounts. This control supports timely detection of errors or irregularities and promotes accurate cash reporting. On a monthly basis, the senior accountant is responsible for reconciling the cash general ledger accounts to the Region's monthly bank statements. Any reconciling items or variances identified during the reconciliation process are investigated and resolved as necessary to ensure completeness and accuracy of recorded cash balances. The bank reconciliation is performed monthly upon receipt of the bank statement and is required to be completed no later than the third business day of the subsequent month, providing timely assurance over cash balances and supporting effective financial oversight.

#### Analysis and Sample Selection

Following the conversion of District bank statements into data tables, CLA reconciled disbursements clearing the bank accounts to the District's general ledger to assess the completeness of disbursements recorded in the financial system. CLA noted that

check numbers are assigned to all disbursements, regardless of whether they were issued via check, ACH, or vCard. This practice reflects the District's use of Fiserv Global Services, a division of Regions Bank, as the ultimate payment processor. Vendors elect the payment type by coordinating directly with Fiserv Global Services, not with the District. SunGard, a division of Fiserv, serves as the District's third-party payment processor and works in coordination with Regions Bank to process and manage accounts payable disbursements.

CLA also learned that the District's ACH batching process prevents direct reconciliation of bank statement activity to the general ledger. As a result, Sungard reports serve as the crosswalk between general ledger disbursements and bank statement activity for check, ACH, and vCard payments. CLA obtained the Sungard reports and used our forensic analysis tool to match general ledger check numbers to the corresponding check number field in the Sungard reports. The matched data were extracted into a database. CLA determined that all Sungard transactions had a corresponding match in the general ledger. This database was used to select samples for testing in report sections *ii ACH Transactions* and *v P-Cards and Checks Requests*.

CLA identified 9,142 general ledger line items for which Sungard reports did not contain corresponding details. District finance personnel explained that Sungard reports include only checks processed through the AP department. Accordingly, transactions not reflected in the Sungard reports represent manual warrants or payroll checks, which are printed in-house by payroll or within the accounting and reporting department. CLA selected a sample of manual warrants for testing as part of section *ii ACH Transactions*.

In addition, CLA performed a series of analyses on bank statement activity to understand the nature of transactions occurring within the District's bank accounts. This included a review for unusual activity, such as transfers to other financial institutions and branch or ATM cash withdrawals.

#### Results of Analysis and Testing

Based on the analyses performed of transactions in the bank statements, CLA did not find any evidence of malfeasance or evidence of fraud. Further, CLA did not identify any occurrences of ATM withdrawals of cash, or transfers to other banking institutions. CLA verified that all transfers take place only between District bank accounts or the Shelby County Trustee Office concentration account.

To reconcile the bank statements to the general ledger and Sungard reports, CLA first compared total disbursements recorded in the general ledger to the total check payments clearing the bank accounts. The resulting difference was expected to represent ACH activity. CLA then compared this difference to the total ACH disbursements reflected on the bank statements. Certain reconciling items remained after this comparison and are attributable to two factors: bank statement

adjustments and transactions associated with the Regions Bank ACH autopay purchasing card program.

#### Interim Conclusions

CLA did not identify any evidence of malfeasance or evidence of fraud in the transactions occurring through the bank statements. Additionally, this analysis and reconciling of bank statements and disbursements was used to assist in the analysis, testing, sample selection, and email review discussed in other sections.

#### Recommendations

No specific recommendations are given regarding the bank statements.

#### *iv. Payroll and Employee Compensation*

##### Area of Analysis

CLA analyzed payroll, compensation, and personnel records to identify evidence of potential fraud, abuse, or control weaknesses. CLA structured its work around three areas: (1) potential abuse of compensation and time-related payments (e.g., duplicate payments, inflated salaries or benefits, overtime, and bonuses); (2) employee qualifications and compliance with hiring and licensing requirements; and (3) verification of Forms I-9 to assess compliance with federal employment eligibility requirements and to identify indicators of ghost employees.

##### Percentage Completion: 50%

Payroll and employee compensation testing is approximately 50% complete. The prolonged duration is primarily due to the District's failure to maintain complete, organized, and centrally retrievable personnel and payroll records in accordance with District-approved standards. CLA encountered incomplete or outdated assignment sheets, fragmented HR files, inconsistent system use, and delays in receiving documentation, limiting the ability to confirm job titles, pay rates, and step or row placement for the fiscal years reviewed.<sup>85</sup> Although APECS and iCIMS have functionality to retain personnel and payroll records, those capabilities were not consistently used, requiring alternative procedures, repeated follow-ups, and, in some cases, reasonable inferences, and materially extending testing due to records-management limitations rather than transaction complexity.

##### Applicable Policies/Procedures and Best Practices

CLA reviewed available policies, procedures, and supporting documentation related to payroll processing, employee compensation, employee qualifications, and employment eligibility verification, including internal control narratives for payroll

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<sup>85</sup> An assignment sheet is an HR document used by MSCS to authorize and communicate an employee's position, pay code, salary basis, rate, and effective date for entry and maintenance in APECS.

operations, personnel administration, and onboarding, and supplemented this with interviews of payroll, compensation, budget, HR staffing, compliance, and IT personnel where documentation was limited. Key processes such as employee compensation and payroll processing controls, employee qualifications requirements, and employee eligibility verifications (I-9 forms) are discussed below.

- *Employee Compensation and Payroll Processing Controls*

Payroll is processed biweekly with controls including layered time approvals, location-assigned payroll associate review, exception/error reporting, “payments pending” review for new hires/terminations/changes, and checklists for regular, off-cycle, and stipend payrolls; pay is primarily by direct deposit with limited manual checks. Historically, payroll performed downstream reasonableness review of amounts loaded into APECS; currently, compensation and budget approve amounts before processing, and payroll focuses on processing, trial runs, and error resolution. IT imports compensation data into APECS (salary schedules, step/column matrices, step advancements, and certain supplemental/retro adjustments) using custom queries and batch utilities applying District-specific rules (e.g., minimum service thresholds), with limited post-import audits.

- *Employee Qualifications and Compliance with Hiring and Licensing Requirements*

Management represented that HR oversees onboarding and qualification review (education, experience, licensure, certification, endorsements) prior to hire/promotion, with staffing advisors coordinating with compliance for instructional and administrative licensure requirements. Compliance monitors licensure using APECS reports, State systems such as TN Compass, iCIMS records, and manual tracking tools. CLA also considered the *Tennessee Internal School Uniform Accounting Policy Manual*, Administration of Internal School Funds, Section 4, addressing internal control objectives for authorized pay, proper approval/recording, and retention of supporting personnel documentation. The District maintains in iCIMS listings of minimum job qualifications including education, experience, and licensure requirements by position, which are used to evaluate candidate eligibility and support compensation and placement decisions. Based on these representations, CLA expected that evidence supporting employee qualifications was maintained in the employee’s personnel file.

- *Employment Eligibility Verification (Forms I-9 and E-Verify)*

CLA reviewed United States Citizenship and Immigration Services (USCIS) guidance (including Handbook for Employers, Form M-274 and Form I-9 instructions): Forms I-9 must be completed at hire (Section 1 by the first day; Section 2 within three business days) and retained three years after hire or one year after employment ends, whichever is later. Interviews indicated Forms I-9 were historically maintained in physical form, previously stored in

the District’s central office in or near the HR vault in Room 158, and later moved to HR offices on the second floor to align with USCIS guidance to keep Forms I-9 separate from personnel files. Management represented that E-Verify is used after Form I-9 completion; USCIS guidance clarifies E-Verify does not replace Form I-9 completion, retention, or production requirements and requires recording the E-Verify case verification number on the Form I-9 or retaining the case documentation with it. CLA also understands HR has experienced significant staffing turnover; while management described efforts to formalize onboarding, these efforts are separate from Form I-9 completion, E-Verify case management, and Form I-9 retention requirements.

### Analysis and Sample Selection

CLA selected a sample of employees for compensation, qualifications, and Forms I-9 testing to maximize overlap across testing areas. Sample sizes are summarized in Table 37 and discussed in detail below.

**Table 37: Payroll Sample Sizes**

Sample Type	Quantity
Compensation	196
Manual Checks Issued	29
Post-Termination Payments	30
Qualifications	130
Forms I-9	250
Duplicate Direct Deposit Accounts	226

### *Compensation Analysis and Sample Selection*

CLA initially selected a sample of 196 employees who received total compensation of \$45,595,023.95 during the scope period to provide coverage across employee types, compensation categories, and risk indicators identified through analytics and interviews.

Prior to testing, the District was provided with the listing of employee files selected - for testing. The District physically provided files, many of which were voluminous, for each employee. CLA notes that many employees’ “HR files” included dozens or over a hundred of pages of relevant and irrelevant information that cluttered the employee file and made testing incredibly inefficient and time consuming. Due to the disorganized condition of HR files and the District’s and CLA’s inability to consistently locate and substantiate compensation data, the effective testable sample was reduced from 196 to 80 employees, representing \$16,642,531.45 in compensation. This reduction reflects the broad issue of locating relevant employee records within the HR files and record-availability. The disorganization limitations resulted in a change in sample size rather than a change in scope or risk-based approach. Sample selection was informed by payroll analytics, allegations and whistleblower complaints gathered through review of emails and the District’s whistleblower hotline, interviews, and document review.

- CLA prioritized employees associated with elevated-risk indicators, including secondary compensation (stipends, vehicle allowances, bonuses, or supplemental pay); payments from the iZONE cost center without a corresponding stipend; manual payroll checks; payments issued after an employee's APECS termination date; excessive overtime; compensation elevated relative to similarly titled employees; hires or promotions during the scope period; employees whose records could not be consistently traced between APECS and iCIMS; and Board Members receiving compensation exceeding \$25,000 annually.
- CLA selected 40 manual payroll checks totaling \$614,980.63, representing 94% of manual check value during the period, based on review of the APECS Check Register.
- CLA also selected 30 employees who received \$1,458,376.85 in payroll disbursements after recorded termination dates, identified by comparing payroll register data to termination dates in APECS, due to the heightened risk of overpayments.
- CLA also performed analytics over direct deposit data to identify duplicate bank routing and account numbers. Using a risk-based approach, CLA excluded likely related employees and focused on remaining outliers, which were selected for further review using APECS, iCIMS, and available Forms I-9.<sup>86</sup>

#### *Qualifications Analysis and Sample Selection*

CLA initially selected a risk-based sample of 130 employees receiving \$26,153,491.24 in compensation, targeting individuals associated with allegations, analytic risk indicators, and hires or promotions into positions requiring licensure. However, due to the disorganization of the HR files, the effective testable sample was reduced to 80 employees, representing \$19,889,116.44, reflecting record-availability and disorganization constraints rather than a change in approach.<sup>87</sup> Additionally,

CLA reviewed allegations and whistleblower complaints related to qualifications, licensure, nepotism, hiring practices, and potential payroll abuse. Where allegations lacked sufficient detail, CLA performed additional procedures to reasonably identify

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<sup>86</sup> The District provided a report containing direct deposit information for 17,089 unique active employees, including names, employee IDs, and associated bank routing and account numbers. The report reflected only the most recent direct deposit information on file and excluded historical data and terminated employees. As a result, the analysis was limited to identifying potential duplicate direct deposit accounts among active employees.

<sup>87</sup> CLA's employee qualification testing was limited to the specific positions for which employees held, were hired or promoted and that were selected for detailed qualifications testing. As a result, compensation associated with secondary positions or supplemental earnings not tied to the tested position was excluded from the qualifications analysis.

affected employees and supplemented selections with newly hired or promoted employees in licensed or credentialed roles.

#### *Forms I-9 Analysis and Sample Selection*

CLA initially planned dual-purpose Forms I-9 testing using the 250-employee compensation and qualifications population. During fieldwork, CLA learned Forms I-9 were only available on site for employees hired or rehired during or after fiscal year 2016. Accordingly,

- CLA revised the Forms I-9 population to 250 employees, consisting of 125 previously selected employees meeting the hire-date criteria and 125 randomly selected employees hired or rehired during that period.

#### *Compensation Testing Performed*

For each sampled employee, CLA compared gross pay reflected in APECS payroll registers for calendar years 2022 to 2024 to approved compensation to assess consistency with authorization. Additionally,

- CLA evaluated employment status at the time of payment and reviewed documentation supporting hires, pay changes, stipends, bonuses, allowances, and time reporting. Compensation was traced to available support, including contracts, assignment sheets, salary schedules, authorization forms, stipend and bonus records, and related payroll documentation.
- For employees identified through duplicate direct deposit analytics, CLA assessed whether records represented distinct individuals by reviewing APECS, iCIMS, and, where necessary, Forms I-9.
- For manual payroll checks, CLA evaluated whether issuance was documented and approved, whether amounts and timing were reasonable, and whether identity verification and log documentation were present.
- For post-termination payments, CLA reviewed APECS event history and supporting documentation to determine whether payments reflected valid compensation events (e.g., final pay or vacation payouts).

#### *Qualifications Testing Performed*

For each sampled employee, CLA reviewed personnel files to determine whether documentation supporting qualifications, licensure, experience, and employment eligibility was present and appropriately approved. CLA compared documented qualifications to job descriptions in iCIMS and verified degrees where required. Additionally,

- For licensed positions (including teachers, principals, and administrators), CLA verified licensure status using TNCompass and reviewed fingerprinting, background checks, and evidence of HR approval. For rehired employees, CLA

assessed whether files contained complete candidate information and approver-dated signatures to support rehire decisions.

#### *Forms I-9 Testing Performed*

CLA tested Form I-9 compliance by inspecting archived HR records and evaluating availability, completeness, and retention. For inactive employees with missing Forms I-9, CLA calculated retention requirements using the three-years-from-hire or one-year-from-termination rule to distinguish potential noncompliance from permissible destruction under USCIS guidelines. Additionally, Where Forms I-9 could not be located, CLA allowed additional time for retrieval and evaluated compliance based on available information.

#### Results of Analysis and Testing

Based on payroll compensation, employee qualifications, and Forms I-9 testing performed to date, CLA identified the following observations primarily related to the availability, sufficiency, organization, and clarity of supporting documentation maintained within employee files, APECS, and iCIMS.

*The following are observations related to testing of Forms I-9:*

**Observation #39** 100 out of 250 employees sampled failed the Forms I-9 retention and completeness USCIS requirements.

Of 126 active employees 56 of the active employee files failed the Forms I-9 retention and completeness required by USCIS requirements. Based on observations and photographs taken by CLA (see Figure 16) missing Forms I-9 appear largely attributable to significant disorganization in file retention practices. Further, the room used to store I-9 files lacks a door and is secured only by a curtain. Although the room is located within the HR office with access limited to HR personnel, this condition represents a critical deficiency in the District's safeguarding of employees' personally identifiable information.

**Figure 16: Forms I-9 Storage at Central Office**

**Observation #40** HR's inconsistent use of iCIMS for Form I-9 retention increases compliance risk.

CLA observed that while the District's applicant tracking system, iCIMS, includes functionality to centrally upload, retain, and manage Forms I-9, this capability has not been consistently utilized. Instead, Forms I-9 have historically been maintained across multiple physical locations and storage methods, resulting in decentralized recordkeeping and reduced visibility. The underutilization of iCIMS for centralized Form I-9 retention, combined with inconsistent retention practices, increases the risk that required documentation is unavailable, prematurely destroyed, or not readily accessible for inspection.

The following are observations related to testing of compensation:

**Observation #41** Hourly and contract pay rates are not consistently supported by documentation.

At least nine of the samples tested and reviewed, as of the time of this interim report, did not reconcile to support and some files had only contracts (no assignment sheet) where contract amounts did not agree to APECS. Additionally, at least three assignment-sheet rates were increased without explanation. Figure 17 provides an example where the employee’s base rate was \$108,245.32 in iCIMS, while a handwritten amount of \$116,529.25 was entered into APECS and became the employee’s actual base salary without recording an explanation for the change.

**Figure 17: Handwritten Base Salary without Explanation**

Hire Information		
*Position Type: Primary	*Salary Basis: annual	*Base Rate: 108,245.32
*Effective Date: 7/1/2022	Interim End:	116,529.25
*Row/Step: 1		

**Observation #42** Stipend and bonus payments lack complete and consistent documentation.

For at least 12 of the stipend and bonuses tested, issues included missing detail/signatures/names, incorrect totals, partial support, and documentation that showed eligibility but not the stipend amount (or a different amount than paid). For example, CLA reviewed a College, Career and Technical Education (CCTE) Specialized Occupational Stipend Agreement for an employee that received \$3,725.00 in fiscal year 2022. However, the agreement described the compensation as “Up to \$25,000” and did not include a rubric or criteria explaining how the stipend amount was determined. Figure 18 illustrates the vague compensation language included in the agreement.

**Figure 18: CCTE Stipend Agreement**

	
<b>College, Career and Technical Education Specialized Occupational Stipend Agreement</b>	
Supplement Title: Teaching as a Profession Instructor	Job Code:
Department/School: CCTE	Owner: CCTE
Pay Frequency: Each Semester	Stipend Amount: Up to \$25,000 per year
<b>PURPOSE:</b> Explain the purpose for the supplement. The purpose of this stipend is to expand the applicant pool of teachers in specialized career areas.	

**Observation #43** Payroll step and row increases are programmed with limited independent review.

Step/row increases are largely programmed and uploaded into APECS by a small number of individuals using a custom SQL-based import utility (e.g., eligibility includes completing at least 50% of the prior fiscal year); payroll reviews output, and HR is not currently involved in review/approval/audit, with minimal independent secondary review. The interviews indicated the individuals involved in the SQL import utility have the ability to make compensation changes with little to no oversight.

**Observation #44** CLA identified evidence indicating that post-termination payments totaling \$21,343.36 are consistent with the ACFE guidance describing waste due to a terminated employee's lack of notice to the District of overpayment and the District's lack of recovery of the overpayments.

CLA observed that at least two employees were paid their base salary after the employee separated from the District. It was communicated to CLA that this may happen when the different locations do not timely communicate to the central office. Payroll relies on HR termination data in APECS; if dates/comments are deleted/modified, payroll cannot make the stop-pay decision. CLA was informed that the District did not try to recover the overpayments.

For example, CLA identified an instance where an employee appeared to receive \$21,343.36 in compensation during the four months following separation, based on dates reflected in APECS. Payroll indicated it was notified on December 15, 2021, by the school's financial secretary that the employee's last day worked had been August 23, 2021. HR separately indicated it was notified on December 14, 2021, that the employee had left in August, at which point the resignation was processed and backdated to July 25, 2021, the actual resignation date. HR further noted a discrepancy between the school's last reported workday for the employee and the resignation date recorded in the APECS. This sequence of events illustrates how differences in notification timing, reliance on system-recorded termination dates, and subsequent modification of termination information can result in payments continuing until central office records are updated, limiting payroll's ability to independently determine when pay should be stopped. There is no indication the District attempted to recover the overpayments or requested the former employee to return the overpayments. Figure 19 Shows a summary of these payments.

**Figure 19: Employee Received Payments After Termination Date**

EMPLOYEEID	FIRST_NAME LAST_NAME	CHECK_DATE	EMP_TERMINATION_DATE	JOB_TITLE	JOB_TITLE DESCRIPTION	Sum of CURRENT GROSS
		8/6/2021	7/25/2021	10119	Classroom Teacher ESL	2,371.48
		8/20/2021	7/25/2021	10119	Classroom Teacher ESL	2,371.48
		9/3/2021	7/25/2021	10119	Classroom Teacher ESL	2,371.49
		9/17/2021	7/25/2021	10119	Classroom Teacher ESL	2,371.48
		10/1/2021	7/25/2021	10119	Classroom Teacher ESL	2,371.49
		10/15/2021	7/25/2021	10119	Classroom Teacher ESL	2,371.48
		10/29/2021	7/25/2021	10119	Classroom Teacher ESL	2,371.49
		11/12/2021	7/25/2021	10119	Classroom Teacher ESL	2,371.48
		11/26/2021	7/25/2021	10119	Classroom Teacher ESL	2,371.49
<b>Total</b>						<b>21,343.36</b>

**Observation #45** CLA determined that the vacation and final pay calculations were not fully supported or reconciled for at least one employee and therefore classify these payments as waste.

Vacation/final pay support was inconsistent as APECS Job and Payment “Units/Paid” did not match attendance hours. For example, a duplicate vacation payout of \$11,816.61 was identified for one employee for the same date.

**Observation #46** CLA determined that at least ten manual payroll checks totaling \$13,765.80 were issued without clear or documented justification. These payments do not raise to the level of waste or abuse, however, they were issued in violation of the District’s policies and procedures.

APECS job and payment detail showed some checks as “Demand Check” (off-cycle) and others tied to regular cycles (“12MON – 12 Month,” “10MON – 10 Month,” “STPND – Stipend”), but no documentation substantiated why manual checks were used instead of direct deposit. Figure 20 shows that the only indication in APECS that the disbursement was a manual payroll check is its classification as a “DCI2 - Demand Check” rather than part of the regular payroll cycle. Other than inquiry with payroll personnel, no documentation was available to explain why the manual check was issued.

**Figure 20: Example of Demand Check in APECS**

Payment Details	
Contract Amount:	60,627.93
Paid-To-Date:	4,663.68
No. of Payments:	26
Payments Made:	2
Payment Start:	
Payment End:	
Pay Cycle:	DCI2 - Demand Check
Override:	<input type="checkbox"/>
Pension Type:	TNCR1 - TN Certified Retirement, OASDI, Medicare
Timesheet:	
Adjustment:	0.00

**Observation #47** Salary payments are not consistently supported or aligned with authorized salary schedules.

For at least nine salary roles, CLA could not locate an assignment sheet, contract, or other supporting documentation in iCIMS or the employee’s HR file even though APECS reflected a salary schedule and column for the position. Assignment sheets were not consistently stored in iCIMS, and key hire data was often

incomplete (effective date, base rate, step/row, salary column, calendar type, highest degree, hours/day). Figure 21 shows an example of this. When assignment sheets are not in the employee file or iCIMS, this made it difficult for CLA to properly calculate the correct payrate for the employee.

**Figure 21: Incomplete Assignment Sheet**

Hire Information		
*Position Type: Primary	*Salary Basis: annual	*Base Rate: 62,047.04
*Effective Date: 8/2/2021	Interim End:	
*Row/Step: 10		
Job and Payment Basis:		Condition:
Salary Column:		*Highest Degree: BS
Calendar Type:		Hours Worked Per day 7.5
Pension Type:		Account Number: - - - - -
*HR Rep: ████████████████████		*Date Completed: 7/24/2021
		Date Submitted to Enterprise:
Enterprise Rep:		Date Received by Enterprise:
APECS Load By:		APECS Load Date:

**Observation #48** CLA made compensation determinations based on inference rather than period-specific support.

When the fiscal-year documentation under testing was missing, CLA relied on the most recent assignment sheet/stipend tracking to infer pay reasonableness (e.g., step progression/stipend experience assumptions). For example, one classroom teacher tested by CLA had an assignment sheet dated October 2017 and showing placement at Salary Row 2. In the absence of more current documentation, CLA calculated the number of years since the last assignment sheet (four fiscal years) to infer that the employee's Salary Row in FY 2022 would be Row 6. While this inference matched with recorded compensation in some cases, in other instances discrepancies could not be explained due to the lack of contemporaneous supporting documentation.

**Observation #49** Prior service and payment history for rehired employees was not verifiable.

Rehire files existed in some cases, but prior work experience and payment history could not be verified, for at least two employees limiting support for compensation placement.

**Observation #50** Manual check activity was missing the manual check list and supporting documentation.

The manual check log which is where employees receiving a manual check sign in acknowledgement of receipt was unavailable as it was reported missing and possibly discarded during front desk turnover. This left no centralized record of issuance/approval/justification that CLA could review. Additionally, documentation explaining why manual checks were issued instead of standard payroll was also not identified. Without the ability to view this log, CLA is not able to confirm the employees' attestation of receipt of manual check.

**Observation #51** Non-routine termination payments lack centralized and complete documentation.

Non-routine termination payments (e.g., severance/special accruals) require clear contract-based support; when incomplete/not centrally retained, compliance determinations may rely on management explanations/system notes.

**Observation #52** Shared direct-deposit accounts were identified, but no clear indicators of fraud were found.

CLA analyzed direct-deposit information for 17,089 active employees as of February 11, 2026, as part of a routine payroll-integrity control to assess the risk of potential fraud, such as ghost employees, or improper payments through shared direct-deposit bank accounts. The analysis excluded terminated employees because banking data was not available in APECS. CLA identified 226 instances of identical bank routing and account numbers, most involving employees with the same or similar last names, suggesting legitimate shared accounts. For cases involving different last names, CLA reviewed available Form I-9 documentation; however, the information was often outdated or inconsistent with system records, therefore, results were inconclusive due to data limitations.

**Observation #53** APECS lacks sufficient audit trails for payroll batch and import activity.

Payroll batch imports (stipends/bonuses/supplemental pay) can be uploaded to the backend of APECS via CSV by limited users, but APECS lacks sufficient backend audit trails (origin/preparation/review/authorization), with no systematic monitoring/logging and limited traceability after import, raising risk of unauthorized/inappropriate transactions.

**Observation #54** APECS does not retain terminated-employee data needed for historical monitoring of duplicate direct-deposit bank accounts.

APECS direct-deposit reporting excludes terminated employees, preventing District-wide historical analysis of shared bank routing and account numbers, and lacks automated or systematic monitoring to identify duplicate direct-deposit bank accounts, creating opportunity for duplicate payments without timely detection.

The following are observations related to testing qualifications:

**Observation #55** Employee file checklist use and retention were inconsistent.

Checklist versions changed without documented effective dates; fields were inconsistently completed; identity documents (driver's licenses/Social Security cards) were often not in files (may be with Forms I-9); and signature workflow (HR Advisors prepare; HR Specialists/Associates review) was inconsistently evidenced with missing/incomplete signatures. District management explained that the HR office has gone through several changes in the last few years and at one point approximately 50% of the staff was lost, during another period the District had a consulting firm provide outsourced HR duties. The explanation provided accounts for the inconsistencies observed.

Figure 22 illustrates how some employee file checklists were completed with some fields highlighted and unchecked.

Figure 22: Employee File Checklist Example

**EMPLOYEE FILE CHECKLIST**

Name: [REDACTED]  
 Location: [REDACTED]  
 Position: [REDACTED]

New Hire  Rehire  Retiree  Reclassification  Internal

All Employees will provide required documentation for Parts A. In addition, based on your position provide documentation for:  
 Certificated: Part B All Substitutes: Part C All Employees: Part D

**Part A: To be completed by all employees**

Employment Records:  
 Application (completed)  
 Resume (if applicable)  
 Driver's License  
 Social Security Card  
 Conflict of Interest  
 Policy Review Acknowledgement  
 Official Transcript(s)  
 High School (Showing Graduation Date)  
 College/University (Degree Conferred)  
 ParaPro Test Scores (if required/applicable)  
 Certificate of Health (taken within last ninety days)  
 TB Skin Test Results  
 I-9 Form (Items for verification)  
 Authorization of Payroll Deduction  
 TCRS (if applicable)  
 Assignment Sheet (Required)  
 Voluntary Self Identification Form  
 Teacher Contract  
 Offer Letter  
 Salary Offer Worksheet

**Part B: Certificated/Licensed Employees**  
 Licensure Certification (if applicable)  
 Verification of Employment Experience

**Part C: Substitute Employees**  
 Substitute Registration Form  
 Reclassification:  Reg to Sub   
 Sub to Sub   
 Certified  
 Loaded in SFE

**Part D: Background Status**  
 Date Fingerprinted: 11/17/2022  
 Fingerprint Results:  Indication  No Indication  
 DCS Background Check: 11/17/2022  
 3 Registries  
 Pre-Screening Questions

\*\*\*\*\* HUMAN RESOURCES USE ONLY\*\*\*\*\*  
 Date Submitted to Enterprise: 11/15/2022  
 Talent Administration Representative [REDACTED] 11/15/2022 Date  
 Business Partner/Specialist Signature [REDACTED] 11/15/2022 Date  
 12/2020 - ABC

**Observation #56** Documentation did not consistently demonstrate compliance with minimum job qualifications.

Based on personnel records, job descriptions, and iCIMS, at least four employees from the sample tested appeared not to meet minimum job qualifications, with missing support for education/experience/credentials, limiting ability to demonstrate compliance with hiring standards. For example, one employee hired as an instructional facilitator, a position that required a minimum of five years of teaching experience, appeared to not meet this requirement. The employee graduated from university in FY 2019, was hired by the District in FY2020 as a teacher in training, and hired as an instructional facilitator in FY2023. This job history would indicate the employee only had approximately three years of teaching experience.

**Observation #57** State licensure documentation was missing, expired, or incomplete for certain positions.

CLA identified at least two instances where required licensure evidence was missing/expired/incomplete or lacked required endorsements; documentation was not always in personnel files or iCIMS, limiting demonstrability of compliance. For example, one employee hired as a deputy superintendent, a position that required possession or eligibility for a superintendent license, appeared to not have a license in Tennessee. The personnel file and TN Compass were missing evidence of the employee having an active superintendent license or demonstrating eligibility to qualify for the license. Further, there was no documentation in the personnel file that the employee had a Board-approved exception to the job qualifications.

#### Interim Conclusions

CLA's observations and recommendations in this section are preliminary. Completion of additional procedures was materially affected by the District's failure to maintain complete, organized, and centrally retrievable personnel and payroll records in accordance with District-approved standards. As a result, testing required alternative procedures, repeated follow-ups, and reliance on limited or indirect documentation, which prolonged the work and constrained the scope of testing performed. Based on the substantially smaller testable sample and the consistency of issues identified, CLA concludes that additional testing would not provide meaningful incremental insight, as the procedures completed were sufficient to identify and understand the issues in this area. CLA identified evidence consistent with the ACFE guidance describing waste totaling \$21,343.36 and payments made in violation of stated policies and procedures totaling \$11,816.61.

#### Recommendations

CLA recommends the following regarding Forms I-9:

**Recommendation #31** Standardize procedures for calculating and applying Form I-9 retention requirements for inactive employees, including the "three years from hire or one year from termination, whichever is later" rule.

**Recommendation #32** Strengthen review procedures to ensure Forms I-9 are complete and supported by required Section 2 documentation (List A or List B + List C).

**Recommendation #33** Provide targeted training and written guidance on Form I-9 requirements, retention rules, and E-Verify processes, particularly given HR staffing turnover.

**Recommendation #34** Where feasible, use existing systems to securely store digitized Forms I-9 while maintaining originals separately from personnel files and protecting them from unauthorized access.

CLA recommends the following regarding compensation:

**Recommendation #35** Standardize and enforce a “complete compensation support package” for all pay-rate actions (new hire, change, stipend/bonus, step/grade movement), including a finalized assignment sheet or contract (as applicable), effective date, rate/amount, position identifier, and documented approvals with version control.

**Recommendation #36** Implement exception reporting for hourly pay to flag when reported hours × authorized rate does not agree to gross pay or when gross pay reflects an unapproved rate, with documented resolution retained.

**Recommendation #37** Strengthen stipend and bonus documentation by requiring a uniform detail schedule (employee name/ID, periods covered, approved amounts, footed totals, and authorization) retained centrally and linked to the APECS transaction.

**Recommendation #38** Centralize retention and linkage of compensation documentation to APECS through a controlled repository or attachment standard to support year-specific auditability.

**Recommendation #39** Perform periodic audits of APECS pay configuration (schedule/column/row, pay codes, maximums) and implement automated controls to flag rates exceeding authorized matrices.

**Recommendation #40** Establish a rehire compensation validation checklist requiring documented verification of prior service/work history retained in the employee file.

**Recommendation #41** Formalize review and approval of payroll step and row increases loaded into APECS, including documented secondary review by Human Resources or other independent personnel, with clearly defined roles to strengthen segregation of duties.

**Recommendation #42** Enhance auditability of payroll batch uploads and backend imports in APECS by retaining audit trails for source, preparation, review, approval, and execution, and performing periodic monitoring to trace transactions to originating files.

**Recommendation #43** Reestablish and maintain a centralized manual check log documenting payee, amount, pay period, payment type, reason, approval evidence, and processing date.

**Recommendation #44** Require documented justification and approval for issuing manual checks, particularly for payments normally processed via direct deposit.

**Recommendation #45** Strengthen controls over termination-related payouts by standardizing calculation support and reconciling APECS Job and Payment detail to Attendance (or other source-of-record) hours, with defined rounding conventions.

**Recommendation #46** Formalize a stop-pay workflow assigning responsibility for timely termination entry in APECS, removal from pay-eligible status, and review of post-termination exceptions before payroll finalization.

**Recommendation #47** Require complete approval packages for severance and other non-routine termination payments, including governing agreements, calculations, authorization, and linkage to APECS records.

**Recommendation #48** Implement a consistent separation-notification protocol requiring locations to notify HR promptly and HR to confirm termination entry in APECS, supplemented by periodic roster/budget reviews.

**Recommendation #49** Implement automated exception reporting to identify duplicate bank routing and account numbers in APECS, with periodic review and documented conclusions.

**Recommendation #50** Establish documentation requirements to support shared direct deposit accounts (e.g., familial/domestic relationship), retained consistently in personnel files or iCIMS.

**Recommendation #51** Evaluate options to retain and report historical direct deposit data, including terminated employees, to enhance detection of duplicate accounts and potential overpayments.

CLA recommends the following regarding employee qualifications; however, because CLA has not yet provided a list of questions or additional document requests related to the qualifications observations, these recommendations are preliminary and general in nature:

**Recommendation #52** Enhance verification and documentation of employee qualifications aligned to minimum job requirements, with

consistent retention in personnel files and iCIMS and periodic reviews to remediate gaps.

**Recommendation #53** Implement controls to ensure employees in licensed positions maintain active, appropriate licensure with required endorsements, including centralized tracking and consistent documentation retention.

v. *P-Cards and Checks Requests*

Area of Analysis

At issue whether the District followed policies and procedures regarding documentation requirements and approval limits on monthly P-Card statements. CLA assessed P-card payments and check requests for unusual patterns, split transactions, high-risk vendors, misappropriations, personal expenses, or potential overpayments.

Percentage Completion: 90%

SSFS No. 1 permits the issuance of interim reports and interim findings or conclusions for work completed to date, provided that any scope limitations are clearly disclosed and conclusions remain subject to revision if additional information becomes available. Accordingly, should additional information or documentation be obtained after issuance of this interim report, certain observations and interim conclusions may be revised, updated, or deleted in the final report. While substantive testing has been completed for 100% of the population, portions of the associated workpapers remain under supervisory review and subject to follow up questions prior to finalization.

Applicable Policies/Procedures and Best Practices

CLA reviewed available policies, procedures, and supporting documentation related to accounts payable. Where formal documentation was limited, this review was supplemented with multiple interviews of finance department personnel. Documented procedures reviewed included the *AP Standard Operating Procedures* and an internal control narrative governing accounts payable processing. This narrative describes required supporting documentation, the use of standardized formats within the APECS financial system, and multi-level approval workflows that vary based on funding source and employee role. See section *ii. ACH Transactions* for details of the AP process.

Finance department personnel explained to CLA that District employees are not issued P-cards. The only P-cards in use are a ghost travel card and a fingerprinting card. There is no physical card associated with the ghost travel card; rather, it is used to process payments for hotels and airline reservations related to employee travel. The District's travel reimbursement process is described in detail in section *vii. Travel*

*Reimbursements.*<sup>88</sup> The fingerprinting card is used exclusively for new employee fingerprinting as part of the background check process. The chief of business operations is the only individual authorized to use this card.

#### Analysis and Sample Selection

CLA performed review and analysis of the fingerprinting card and determined that it was used appropriately and solely for fingerprinting-related expenses. Transactions associated with the travel card were tested as part of the procedures described in section *vii. Travel Reimbursements.*

CLA used data analytics techniques to identify patterns and anomalies within the disbursement ledger to support the selection of a sample of check transactions for testing. The data analytics procedures included trending disbursements over time by vendor and account to identify unusual fluctuations in payment activity. CLA also analyzed transactions with amounts just below established approval thresholds and selected a sample for testing to assess whether appropriate authorization was obtained. Following the completion of these data analytics procedures, CLA applied a risk-based sampling approach that focused on relevant allegations and key areas of analysis, including the following:

- 1) Transactions with amounts just below the \$3,500.00 approval threshold, which would otherwise require a complete PO
- 2) Transactions with round dollar amounts
- 3) Transactions occurring in fiscal years with significant fluctuations in expenses
- 4) Instances where the accounting date differed significantly from the document date
- 5) Instances where the payee name in the general ledger differed from the payee name in the Sungard report
- 6) Transactions with unusual, vague, or missing descriptions
- 7) Payments to vendors exhibiting significant fluctuations in expense activity

The results of the analysis identified 57 check disbursements totaling \$3,044,119.12 to be tested in detail. CLA performed testing by comparing the selected samples to the District accounts payable policies to determine the following:

- 1) If appropriate approvals were obtained;
- 2) If the required documentation was appropriate and complete;

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<sup>88</sup> A travel requisition and PO are required before travel reservations can be applied to the card. Employees do not have access to the travel card. Once required documentation is submitted and travel is approved through the established process, the District charges the travel card directly.

- 3) If the expense was appropriate in performance of official District duties;
- 4) If there was evidence of fraud or misuse of funds.

CLA examined the related supporting documentation available in APECS, such as invoice, PO, payment request, purchase requisition, and all workflow approvals. Additionally, if the purchase was part of a contract, CLA reviewed the executed contract. When supporting documentation was not readily available, CLA made requests and inquiries to the District for the needed documentation and explanation. Additionally, CLA used investigative techniques such as email review and to further examine and assess the context surrounding the samples selected.

#### Results of Analysis and Testing

CLA determined that there is no evidence of fraud, waste, or abuse in relation to the use of District P-cards. The results of check disbursement testing identified process deficiencies including multiple instances of incomplete or missing supporting documentation. Based on the analysis performed and detailed transaction testing conducted, CLA did not identify evidence of fraud, waste, or abuse in check disbursements. Additionally, CLA did not find evidence of misuse of District funds, and the disbursements tested appeared to be associated with legitimate business purposes.

The results of this testing and observations are as follows:

**Observation #58** The District did not consistently comply with policy requirements related to supporting documentation for check disbursements, as detailed below:

- a) Two samples totaling \$1,692.80 were below the dollar threshold requiring an AP Payment Request Form; however, the required form could not be located. Both of these samples were processed using a PO, although a PO was not required for the transaction. The District controller indicated that use of a PO is considered an acceptable substitute for the payment request form. CLA notes that this practice is not consistent with the requirements outlined in District policy. CLA confirmed through interviews that the Payment Request Form process is still in place and is the process that should be followed for low-dollar transactions.
- b) For twenty samples totaling \$1,076,727.11, the attached invoice did not have a signature; however, the transactions were approved within the APECS system. These instances do not indicate waste or abuse but reflect noncompliance with internal documentation requirements, representing an internal control failure. The District controller requires all invoices to be signed and dated to support internal control

objectives and to document verification that goods or services were received or completed.

### Interim Conclusions

The observations resulting from testing of check transactions primarily consisted of process-related deficiencies, most notably instances of incomplete or missing supporting documentation. However, based on the analysis and testing performed, the expenses reviewed overall appeared to reflect legitimate District business activities. CLA did not identify evidence of fraud, waste or abuse in the disbursements tested.

**Table 38: Preliminary Check Request Determinations of Noncompliance with Internal Policy**

Determination	Description	Amount Disbursed
Noncompliance with Internal Policy	Twenty check requests were missing a signature on the attached invoice.	\$ 1,076,727.11
Noncompliance with Internal Policy	Two check requests were below the dollar threshold requiring an AP Payment Request Form; however, the required form could not be located.	1,692.80
Total		<u>\$ 1,078,419.91</u>

### Recommendations

The following recommendations are suggested to improve controls and processes for District travel reimbursements:

**Recommendation #54** The District should increase efforts to ensure all relevant support is maintained in APECS. The support should include detailed and signed invoice and receipts, description of the business purpose for each purchase, and evidence of appropriate approvals.

**Recommendation #55** Consider whether certain disciplinary steps may be necessary for employees that continue to demonstrate non-compliance with procurement policies. Additional training and periodic communication with District employees regarding requirements, timelines, and expectations could improve compliance.

The District should clarify and update policy guidance to specify whether a physically signed invoice is required for disbursements or whether electronic receipt confirmation and approvals within the APECS system are sufficient to meet documentation and internal control requirements.

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vi. *Suspicious Accounts*

Area of Analysis

CLA analyzed potentially suspicious accounts to identify off-the-books, dummy, or temporary accounts that could indicate fraud, abuse, or control weaknesses.

Percentage Completion: 90%

Review of potentially suspicious accounts is approximately 90% complete and will remain open through completion of the forensic audit.

Applicable Policies/Procedures and Best Practices

CLA determined the District does not maintain a formal chart of accounts policy. Account structure and usage are guided by system controls, operational practices, and external guidance, including the *Tennessee Internal School Uniform Accounting Policy Manual*, Chart of Accounts – Section 9, which allows local discretion in account numbering provided titles and descriptions are applied consistently.

Finance leadership represented that account oversight is centralized within the finance department and includes approval of account creation, ledger reviews, account freezes, month-end and year-end reviews, and restriction or closure of inactive accounts.

Analysis and Sample Selection

CLA evaluated accounts with account descriptions that appeared unusual or lacking an apparent business purpose and assessed whether any were associated with current or former employees, Board Members, or administrators. Procedures were informed in part by allegations from the District’s whistleblower hotline regarding a previously identified dummy account that could not be substantiated and was later reported to no longer exist. CLA conducted this review through a chart of accounts analysis, including journal entry analytics, transaction testing, and account-level reviews.

CLA did not select a separate sample for suspicious accounts. Instead, CLA reviewed the chart of accounts and related APECS activity for fiscal year 2022 to fiscal year 2024, evaluating account descriptions, usage, transaction volume, dollar magnitude, timing of creation/inactivation, and responsiveness to allegations. CLA analyzed new and inactive account codes across functions, objects, departments, locations, and projects and assessed whether any accounts appeared associated with employees, Board Members, or administrators outside standard payroll or administrative activity.

Results of Analysis and Testing

CLA did not identify evidence of off-the-books, dummy, or temporary accounts. CLA identified 152 new and 374 inactive account codes, primarily added during fiscal year

2023 and fiscal year 2024, consistent with routine maintenance rather than improper activity. Certain inactive codes established prior to July 1, 2021, remained in the system but reflected legacy structures. Placeholder and control accounts (e.g., Zero Department, Zero Project, Control Account, No Object Code Required) served routine system purposes, and employee-, Board-, and administrator-related accounts reviewed were standard payroll, benefits, or administrative accounts.

Although no suspicious accounts were identified, testing was prolonged due to legacy account codes, inactive locations remaining available for use, and supporting documentation maintained outside the system of record.

**Observation #59** The District lacks a formal policy governing the chart of accounts.

The District does not have a formal policy in its official policy manual that addresses the structure, maintenance, and oversight of the chart of accounts. While the *Tennessee Internal School Uniform Accounting Policy Manual* (Chart of Accounts – Section 9) permits districts discretion in account configuration provided titles and descriptions are applied consistently, the absence of a District-specific policy results in reliance on management practices rather than documented requirements. Through interviews, finance leadership described centralized oversight of account creation and maintenance, supported by manual controls such as ledger reviews, account freezes, and periodic review during month-end and year-end close. Although these practices provide some level of control, the lack of formally documented policies increases reliance on institutional knowledge and informal processes.

**Observation #60** The continued availability of inactive location codes in APECS contributed to miscoding and required manual reclassification.

CLA identified transactions coded to inactive school locations requiring reclassification, as discussed in 5.A. These conditions did not indicate off-the-books activity but contributed to miscoding and manual corrections.

#### Interim Conclusions

CLA has not identified evidence of off-the-books, dummy, or temporary accounts. These conclusions are preliminary and will not be final until issuance of the final forensic audit report.

#### Recommendations

While no corrective actions specific to off-the-books accounts are recommended, CLA suggests the following to strengthen account-level controls:

**Recommendation #56** Document formal policies for creation, modification, inactivation, and monitoring of Chart of Accounts elements.

**Recommendation #57** Formalize periodic reviews to identify and inactivate unused location, project, and object codes.

**Recommendation #58** Restrict use of inactive or legacy account codes in APECS, where feasible.

**Recommendation #59** Periodically review placeholder and control accounts to confirm appropriate use.

**Recommendation #60** Document existing oversight practices (ledger reviews, account freezes, account maintenance), including frequency and responsible parties.

vii. *Travel Reimbursements*

Area of Analysis

At issue is whether travel claims and reimbursements to current and former District Board Members and administrators were for legitimate business purposes and in compliance with travel expense policies and procedures.

Percentage Completion: 90%

SSFS No. 1 permits the issuance of interim reports and interim findings or conclusions for work completed to date, provided that any scope limitations are clearly disclosed and conclusions remain subject to revision if additional information becomes available. Accordingly, should additional information or documentation be obtained after issuance of this interim report, certain observations and interim conclusions may be revised, updated, or deleted in the final report. While substantive testing has been completed for 100% of the population, portions of the associated workpapers remain under supervisory review and subject to follow up questions prior to finalization.

Applicable Policies/Procedures and Best Practices

CLA reviewed available policies, procedures, and supporting documentation related to travel reimbursements. Where formal documentation was limited, this review was supplemented with multiple interviews of finance department personnel.

CLA noted the District processes employee travel and travel reimbursements through APECS to ensure proper authorization, budgetary control, and compliance with District travel policies (2020- *Travel Expense Policy*). Employees must obtain pre-approval for all travel by submitting a travel requisition in APECS. This requisition should be submitted at least 30 days before the trip, or 60 days in advance if the travel is federally funded. The requisition is routed through required approval levels,

including authorized departmental officials. Travel arrangements may not be made until the requisition is fully approved and a travel-specific PO is issued by finance.

Upon completion of travel, the employee is required to submit a travel expense report in APECS to request reimbursement. The expense report must include detailed, itemized supporting documentation for allowable expenses such as lodging, registration fees, transportation, and other reimbursable costs, in accordance with District travel policies. Expense reports are required to be submitted to the finance department within five to seven days following the conclusion of travel. Once approved, expense reports requesting reimbursement are forwarded to the AP department for processing. AP personnel review the documentation and approvals prior to issuing reimbursement to the employee.

During interviews with finance department personnel, CLA learned that travel funded with federal sources is required to submit a travel justification form at least 45 days prior to travel. In early fiscal year 2026, the District expanded this requirement to apply to all travel, strengthening pre-authorization and compliance controls.

During testing, CLA observed that some employees submitted paper copies of the travel expense reports that are typically completed in APECS. Finance personnel confirmed that submission within the APECS system is the required method for processing travel reimbursements. Paper forms are used by some employees due to familiarity with legacy processes; however, all expenses must ultimately be entered into APECS. Teachers and principals often complete paper forms and rely on school financial secretaries to enter the information into APECS.

CLA also learned that Board Members are exempt from the travel justification form requirement and do not follow the standard travel requisition process. Instead, Board Members receive travel advances, which represents an exception to standard District travel controls.

#### Analysis and Sample Selection

To select a sample, CLA isolated all transactions recorded in the general ledger under object codes 52400 and 35500, which are designated for travel. CLA determined that these object codes include more than employee travel reimbursements. Specifically, they also capture payments made directly to vendors for items such as facility rentals for trainings and meals associated with employee in-service days. Because the general ledger does not distinguish reimbursements from other travel-related expenditures, CLA isolated payments made to individuals and reviewed the transaction description fields for location-related information to determine whether the payment represented a travel reimbursement. CLA then applied a risk-based sampling approach that focused on relevant allegations and key areas of analysis, including the following:

- 1) Payments made to current and former Board Members;
- 2) Payments to individuals exceeding \$1,000.00;

- 3) Payments occurring in fiscal years with significant fluctuations in travel expenses.

The results of the analysis identified 52 travel reimbursements totaling \$65,305.90 to be tested in detail. CLA performed testing by comparing the selected samples to the District travel policy to determine the following:

- 1) If appropriate approvals were obtained prior to travel;
- 2) If the required documentation was appropriate and complete;
- 3) If the travel was appropriate in performance of official District duties, such as athletic group travel, student recruiting, conferences, trainings, etc.;
- 4) If there was evidence of duplicate payments for reimbursements;
- 5) If there was evidence of fraud or misuse of funds (e.g., personal travel expenses).

CLA examined the related supporting documentation available in APECS, such as receipts, travel authorization form, travel justification form, travel expense report, budget authorization, and all workflow approvals. When supporting documentation was not readily available, CLA made requests and inquiries to the District for the needed documentation and explanation. Additionally, CLA used investigative techniques such as email review and to further examine and assess the context surrounding the samples selected.

#### Results of Analysis and Testing

The results of testing travel reimbursements identified several process-related deficiencies, including instances of incomplete or missing supporting documentation, as well as timing issues. These timing issues included situations in where employees either failed to submit pre-approval forms with enough advance notice before their trips or did not provide their expense reports promptly after returning from travel. Based on the analysis performed and detailed testing conducted, CLA did not identify any evidence of fraud, waste, or abuse.

The results of this testing and observations are as follows:

**Observation #61** CLA noted 26 reimbursements totaling \$27,121.63 where employees did not submit the required travel pre-approval forms with sufficient advance notice prior to travel.<sup>89</sup> Based on discussions with finance personnel, travel expenses will be paid as long as the travel is legitimate and approved at the departmental level, whether or not the pre-approval is submitted within the required timeframe. While this observation does not appear to be attributable to deficiencies in District controls or

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<sup>89</sup> This requisition should be submitted at least 30 days before the trip, or 60 days in advance if the travel is federally funded.

oversight, it increases administrative burden and may reduce the efficiency of the travel reimbursement process.

**Observation #62** CLA noted 26 reimbursements totaling \$31,525.52 where employees did not complete their expense report within five to seven days following the conclusion of travel. Based on discussions with finance personnel, travel expenses will be paid as long as the travel is legitimate and approved at the departmental level, whether or not the expenses are submitted within the required timeframe. While this observation does not appear to be attributable to deficiencies in District controls or oversight, it increases administrative burden and may reduce the efficiency of the travel reimbursement process.

**Observation #63** The District did not consistently comply with policy requirements related to supporting documentation for travel reimbursements, as detailed below:

- a) Seven federally funded samples totaling \$9,440.81 did not have the required Travel Justification Form attached to the support in APECS.<sup>90</sup>
- b) For one sample totaling \$2,131.05, the travel requisition was submitted after the date of travel.

**Observation #64** CLA noted one reimbursement where valet parking amounting to \$99.85 was incorrectly marked as tolls on the expense report.

**Observation #65** CLA noted one reimbursement where no receipts were provided for taxi, luggage fees, and airport parking totaling \$213.23.

**Observation #66** CLA noted one reimbursement for purchase of a preferred seat for \$20.16, violating the District travel policy.

#### Interim Conclusions

The observations resulting from testing of travel reimbursements primarily consisted of process-related deficiencies, including missing supporting documentation and timing issues due to limited staff. Although procedural deficiencies were identified, CLA did not find evidence that current or former District Board Members or administrators misused District funds. All travel costs tested in this sample appeared to be for appropriate District business purposes. CLA did not identify evidence of duplicate reimbursement payments, evidence of fraud, or misuse of District funds.

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<sup>90</sup> Refer to section 5.A. *Federal and State Funding Review* for additional discussion relating to federally funded programs.

**Table 39: Preliminary Travel Reimbursement Determinations of Noncompliance with Internal Policy**

Determination	Description	Amount Disbursed
Noncompliance with Internal Policy	26 reimbursements where the employee did not complete their expense report within five to seven days following the conclusion of travel.	\$ 31,525.52
Noncompliance with Internal Policy	26 reimbursements where employees did not submit the required travel pre-approval forms with sufficient advance notice prior to travel.	27,121.63
Noncompliance with Internal Policy	Seven federally funded reimbursements did not have the required Travel Justification Form attached to the support in APECS.	9,440.81
Noncompliance with Internal Policy	For one reimbursement, the travel requisition was submitted after the date of travel.	2,131.05
Noncompliance with Internal Policy	On one reimbursement, no receipts were provided for taxi, luggage fees, and airport parking.	213.23
Noncompliance with Internal Policy	On one reimbursement the valet parking was incorrectly marked as tolls on the expense report.	99.85
Noncompliance with Internal Policy	One reimbursement included the purchase of a preferred seat.	20.16
Total		<u>\$ 70,552.25</u>

**Recommendations**

The following recommendations are suggested to improve controls and processes for District travel reimbursements:

**Recommendation #61** Ensure all appropriate approvals are obtained timely and documented prior to completing the procurement process. If approval was not obtained or travel occurred prior to approvals, document the reason. Consider whether certain disciplinary steps may be necessary for employees that continue to demonstrate non-compliance. Additional training and periodic communication to District employees regarding pre-approval requirements, timelines, and expectations could improve compliance and help ensure that travel requests are reviewed and approved in a timely manner.

**Recommendation #62** The District should consider increasing the number of staff authorized to review and approve travel reimbursements. At the time of testing, only one staff member is responsible for processing travel reimbursements for the entire District, including teachers, staff, administrators, management, and Board Members. While this observation does not indicate a control failure, delayed processing may increase administrative backlog. Consideration of additional staffing resources or process automation may help improve the timeliness of reimbursement processing and reduce delays during periods of high transaction volume.

**Recommendation #63** The District should increase efforts to ensure all relevant support is maintained in APECS. The support should include the travel justification form, travel requisition, detailed invoice and receipts, description of the purpose of travel, and evidence of appropriate advance approvals.

**Recommendation #64** Review and update the District's travel policies to formally reflect current practices, including the requirement that all travel be supported by an approved travel justification form and the documented exemption of Board Members from standard travel requirements

*viii. Budget Analysis*

Area of Analysis

At the State's request, the scope of this review included an assessment of budgeting controls, governance, and expenditure practices to identify potential fraud, abuse, or control weaknesses. It additionally included an evaluation of how MSCS develops, approves, monitors, and executes budgets, including budget development, revisions, transfers, and how budgetary decisions are reflected in financial records. The scope also included analysis of budget transfers and approvals, review of Board meeting minutes, and evaluation of whether budgetary decisions were supported by complete and accurate financial information, informed in part by allegations regarding inadequate budget oversight.

The scope further included an examination of Board Member discretionary expenditures and facility maintenance budgets, including costs associated with unoccupied facilities, to assess alignment with approved budgets and intended purposes. This work included evaluating expenditures for programs, activities, and facilities; identifying costs related to unoccupied or underutilized properties; and assessing whether spending appeared unauthorized, excessive, or inconsistent with operational needs.

Percentage Completion: 45%

Budget-related testing is approximately 45% complete. Delays were driven primarily by fragmented record management practices rather than discrete budgeting errors. Budget revisions, transfers, and discretionary expenditures were frequently supported by documentation maintained outside APECS (e.g., spreadsheets, emails, shared drives), requiring extensive follow-up and materially extending testing timelines. While facility maintenance testing has been completed, budget revisions/transfers and Board Member discretionary budget testing remain ongoing pending receipt of additional documentation and clarification of workflows. Additional information obtained during interviews regarding automated uploads, aggregated amendments, and approval distinctions has required refinement of sample selection and further documentation. Across areas tested, CLA observed reliance on decentralized processes, off-system documentation, and manual

interventions, which constrained traceability and extended testing. Accordingly, results in this section are preliminary and address only those areas where work has been substantially completed.

#### Applicable Policies/Procedures and Best Practices

CLA reviewed available budgeting policies and supplemented this review with interviews of budget and fiscal planning, facilities, and executive office personnel. The District's *Board Policy Manual*, including Policy 2001 – *Annual Operating Budget*, establishes requirements for budget adoption, amendments, transfers, and monitoring, including Board approval thresholds and compliance with state law.

Based on interviews, APECS serves as the system of record for budgeting, accounting, and expenditures, while Allovue Allocate is used primarily for school-level budget development and monitoring. Adopted budgets are approved by the Board and uploaded into APECS, with budget-to-actual monitoring performed through system reports and management review. Allovue Allocate functions as a planning tool and does not process transactions or reflect real-time accounting activity. CLA also considered guidance from the Tennessee *Internal School Uniform Accounting Policy Manual*, which emphasizes formally adopted budgets, documentation retention, and ongoing monitoring.

#### Analysis and Sample Selection

##### *Budget Revisions & Transfers*

CLA analyzed budget revisions and transfers recorded in APECS for fiscal year 2022 to fiscal year 2024 and selected samples of 50 revisions and 50 transfers, totaling \$1,195,410,945.04 and \$1,209,527,436.12, respectively.<sup>91</sup> Selection emphasized elevated-risk indicators, including large dollar amounts, high-volume amendment periods, federal and restricted funds (including ESSER), cross-function transfers, limited documentation, unclear approvals, and corrective-type adjustments. Table 40 summarizes the sample selection by fiscal year.

**Table 40: Budget Revision and Transfer Sample by Fiscal Year**

Type	2022	2023	2024	Total
Budget Revision	\$1,134,564,177.36	\$ 6,206,036.24	\$ 54,640,731.44	\$1,195,410,945.04
Budget Transfer	515,922,192.72	458,010,943.95	235,594,299.45	1,209,527,436.12
Total	\$1,650,486,370.08	\$464,216,980.19	\$290,235,030.89	\$2,404,938,381.16

<sup>91</sup> CLA summarized budget revision and budget transfer activity using absolute values because APECS records debits as positive amounts and credits as negative amounts. Using absolute values prevents credits from offsetting debits and understating the total volume of transactions tested.

### *Board Member Discretionary Budgets*

CLA analyzed discretionary allocations for fiscal year 2022 to fiscal year 2024 and selected 103 transactions totaling \$493,876.69.<sup>92</sup> Selection prioritized transactions with elevated risk indicators, including missing approvals, incomplete documentation, reclassifications, credit card payments, proximity to procurement thresholds, and timing inconsistencies.

### *Unoccupied Facilities Costs*

CLA identified wholly vacant facilities using publicly available Underutilized and Vacant Facilities Reports for fiscal year 2022 to fiscal year 2024 and selected 51 transactions totaling \$789,730.83 for testing.<sup>93</sup> Transactions primarily related to utilities, maintenance, and construction-related costs. Table 41 summarizes the sample by vendor.

**Table 41: Unoccupied Facilities Sample by Vendor**

Vendor	Sample Quantity	Amount
Memphis Light Gas and Water Division	37	\$ 288,438.03
Barnes & Brower Inc	12	494,131.80
Hotel & Restaurant Supply	1	6,561.00
Siemens Industry Inc	1	600.00
Total	51	\$ 789,730.83

### Results of Analysis and Testing

Testing of unoccupied facility costs is complete and indicated most expenditures related to utilities or construction activity. Many utility payments were processed via ACH, limiting system-based approval documentation; in such cases, email approvals were relied upon. Some transactions lacked complete approval evidence or clear facility references. Below are CLA's interim observations relating to budgeting issues.

**Observation #67** The budget processes are decentralized and require reliance on retrospective review and management explanations, limiting transaction-level visibility and consistent oversight.

<sup>92</sup> Based on discussions with finance department staff, the Board Members are assigned a unique project code every fiscal year, with the first two digits indicating the fiscal year in which the funds were authorized (i.e., 2100 denotes fiscal year 2021).

<sup>93</sup> CLA confirmed wholly vacant facilities during the scope period through discussions with the facilities services officer. Reports were received from the District's facilities services officers as well as the Tennessee state website: [https://www.tn.gov/content/dam/tn/education/nonpublic/chtr\\_sch/SCS%20Underutilized%20and%20Vacant%20Facilities%20Report.pdf](https://www.tn.gov/content/dam/tn/education/nonpublic/chtr_sch/SCS%20Underutilized%20and%20Vacant%20Facilities%20Report.pdf).

**Observation #68** Budget revisions and transfers lack system-based traceability to supporting documentation and approvals.

Many revisions/transfers lack visible support in APECS and rely on off-system documentation. Additionally, aggregated uploads limit transaction-level traceability.

In response to CLA's request for budget traceability support, the District provided a brief listing of expense functions and high-level function names. CLA expected the schedules to include sufficient detail to trace transaction-level budget revisions and transfers to the supporting materials included in Board meeting agenda attachments. Instead, the information provided did not enable transaction-level tracing and required additional follow-up requests for clarification. Figure 23 illustrates the mapping information received, which lacked the detail necessary to support efficient traceability of budget revisions and transfers.

**Figure 23: Function Mapping Response**

Expense Functions	High Level Function Name
71100	Instruction
71150	Instruction
71200	Instruction
71300	Instruction
71400	Instruction
72110	Student Support
72120	Student Support
72130	Student Support
72210	Instructional Support
72215	Instructional Support
72220	Instructional Support
72230	Instructional Support
72250	Instructional Support
72260	Instructional Support
72310	General administration
72320	General administration
72410	Office of principal
72510	Business Administration
72520	Business Administration
72610	Plant services
72620	Plant services
72710	Student transportation
72810	Other Support Services
73100	Food service
73300	Community service
73400	Community service
76100	Capital outlay
82130	Debt service
82230	Debt service
91300	Capital outlay
99100	Charter schools
01-99100-59000-325010-1000-0000	OPEB
01-72520-20600-325010-0154-0000	Retiree Benefits
01-72520-20700-325010-0154-0000	Retiree Benefits

**Observation #69** Board approval requirements for budget changes are not readily evident within APECS.

Interviews and testing indicated that Board-approval requirements for budget transfers and revisions are driven primarily by whether a change crosses functional categories, impacts salary and benefit accounts, or results in an increase or decrease to the adopted budget. However, CLA observed that this distinction is not readily discernible from APECS transaction data alone, particularly for aggregated revisions and entries made by superusers, which do not require additional system approval.<sup>94</sup> In addition, Board-approved revisions are often authorized at the functional level and may encompass numerous underlying account-level changes that are not individually presented to the Board. As a result, APECS approval histories do not consistently reflect whether Board approval was required or obtained for a given transaction, nor do they fully document the review process or rationale underlying management's determination.

**Observation #70** Board Member discretionary budgets are managed through informal processes and decentralized documentation.

Discretionary budgets rely on spreadsheets and emails, lack formal policies or rubrics, and have decentralized documentation; however, testing remains ongoing.

**Observation #71** Unoccupied facility costs were of low dollar value, but approval documentation was inconsistent.

Costs were limited and generally reasonable, such as monthly utility payments for unoccupied facilities that averaged \$2,423.85 for the sample CLA tested; however, approval documentation varied, particularly for ACH utility payments.

**Observation #72** Miscoding of an expense to an inactive location code required manual reclassification.

CLA identified a \$6,561.00 expense paid to Hotel & Restaurant Supply for a three-door reach-in freezer that was incorrectly coded to Manor Lake Elementary School, a wholly vacant facility as evidenced in the 2022 Underutilized and Vacant Facilities Report. However, the supporting documentation reviewed by CLA confirmed that the freezer was intended for Melrose High

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<sup>94</sup> For purposes of this report, a "superuser" refers to an APECS user with elevated permissions who can initiate and post transactions without generating additional system-level approval indicators.

School (location code 2493) but was mistakenly charged to Manor Lake Elementary School (location code 2483) and later corrected through a reclassifying journal entry. While not indicative of fraud, waste, or abuse, this example illustrates how expenses can be miscoded to inactive locations due to the continued availability of legacy location codes, requiring manual correction to ensure accurate reporting.<sup>95</sup>

### Interim Conclusions

CLA has not identified pervasive budgeting errors; however, fragmented and decentralized records-management practices materially impeded timely audit execution and limited evaluation of certain scope items. Budget testing remains open pending additional documentation and clarification of workflows, and conclusions provided in this interim report are preliminary.

### Recommendations

**Recommendation #65** Continue centralizing budgeting and financial oversight; strengthen written procedures, documentation standards, and system-based controls.

**Recommendation #66** Standardize centralized retention and cross-referencing of budget revision/transfer support within APECS.

**Recommendation #67** Formalize and clearly document approval requirements for revisions/transfers, including Board-approval determinations, within APECS.

**Recommendation #68** Formalize Board Member discretionary budget policies, approval criteria, documentation, and centralized tracking.

**Recommendation #69** Strengthen documentation standards for unoccupied facility expenditures, including consistent facility identification and centralized approval evidence.

**Recommendation #70** Restrict use of inactive or legacy account codes in APECS, where feasible.

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<sup>95</sup> Refer to section 5.A. *Federal and State Funding Review* beginning on page 29, for additional observations relating to deficiencies in properly recording the location codes in the general ledger.

## D. Governance and Compliance

The scope of work for this Governance and Compliance section includes an evaluation of compliance with governance policies, with particular emphasis on transparency and ethical considerations, across four areas: (i) assessment of compliance as it relates to the Board's adherence to ethics policies and disclosure requirements; (ii) assessment of procurement-related correspondence for evidence of conflicts of interest or improper influence; (iii) assessment of compliance letters and actions related to unapproved purchase orders and any associated disciplinary actions; and (iv) assessment of whether evidence exists of potential violations of the Tennessee Open Meetings Act. Each of these areas is addressed within this Governance and Compliance section of the report.

### *i. Compliance*

#### Area of Analysis

The area of assessment for this subsection is the Board's adherence to ethics policies and disclosure requirements.

#### Percentage Completion: 70%

This section has been 70% completed through the work performed, and the interim results of this examination are presented in this subsection of the report.

#### Applicable Policies/Procedures and Best Practices

The following ethics and related policies were identified as applicable to the Board's compliance assessment. The most relevant provisions of each policy are summarized below.

- 0018 - *Board-Staff Communications*:
  - All official communications to the Board from principals, supervisors, teachers, or other District staff members shall be submitted through superintendent or designee.
  - All official communications, request for information, suggestions, and concerns will be communicated to District staff through the superintendent or executive staff...the Board is responsible for refraining from directing District staff concerning administrative matters or day-to-day activities.
- 0020 – *Ethics*:
  - Article IV - My relations with other Board Members: (1) I recognize that authority rests only with the Board in official meetings and that the individual has no legal status outside of such meetings. (2) I will refuse to make promises as to how I will vote on a matter which should properly come before the Board as whole.

- Article VI - My relations to myself: Section 2 - I will avoid being placed in a position of conflict of interest, and will refrain from using my Board position for personal or partisan gain.
- 0021 – *Code of Ethics*:
  - Section 2 - Disclosure of personal interest in voting matters: An official or employee with the responsibility to vote on a measure shall disclose during the meeting at which the vote takes place, before the vote and to be included in the minutes, any personal interest that affects or that would lead a reasonable person to infer that it affects the official's or employee's vote on the measure. In addition, the official or employee may, to the extent allowed by law, recuse himself or herself from voting on the measure.
  - Section 3 - Disclosure of personal interest in voting matters: an official or employee with the responsibility to vote on a measure shall disclose during the meeting at which the vote takes place, before the vote and to be included in the minutes, any personal interest that affects or that would lead a reasonable person to infer that it affects the official's or employee's vote on the measure. In addition, the official or employee may, to the extent allowed by law, recuse himself or herself from voting on the measure.
- 0022 *Board Members' Code of Conduct*:
  - The Board commits itself and its members to ethical, business like and lawful conduct, including proper use of authority.
  - Board Members will represent the interest of the citizens of the entire school district.
  - Board Members may not attempt to exercise individual authority over the organization.

#### Analysis and Sample Selection

To conduct this assessment, CLA performed ongoing research and email reviews to identify potential indications of ethics policy violations. CLA also conducted interviews with selected Board Members to assess their understanding of applicable ethics policies. In addition, CLA reviewed all Board Members' Statements of Disclosure of Interests (ss-8005) filings with the Tennessee Ethics Commission to determine whether all required disclosures were submitted for all applicable years.<sup>96</sup> CLA then compiled the names of entities and organizations disclosed by Board Members and searched the District's general ledger to identify any related payments.

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<sup>96</sup> The Tennessee Ethics Commission's online Statement of Disclosure of Interests public search portal, which allows users to review filed conflict-of-interest disclosures for state and local officials and candidates is accessible at the following: <https://conflict.app.tn.gov/conflict/search.htm>.

For any such payments identified, CLA evaluated whether a contract existed and whether the applicable Board Member voted on the contract or appropriately recused themselves. CLA additionally requested that any Conflict-of-Interest Disclosure Statements completed by Board Members during the forensic audit scope period be provided to CLA. The District informed CLA that there were no disclosures on file for the period requested.

CLA considers this portion of the scope of work to continue through the completion of the engagement as through the results of the forensic audit in other sections of the scope of work may inform the analysis and examination pertaining to this section.

#### Results of Analysis and Testing

Through the review of the compiled names of entities and organizations disclosed by Board Members and searched for in the District's general ledger, as of the date of this interim report, there were no indications that a Board Member may have influenced or voted on approving a contract to a District vendor that was also affiliated with the Board Member.

CLA noted the following observations as of the date of this interim report.

**Observation #73** All Board Members filed their Statements of Disclosure of Interests (SS-8005) for the years applicable to them, and these completed forms were publicly available with one exception. Based on their position, a Board Member was required to file Statements of Disclosure of Interests for all calendar years within the forensic audit period (2021, 2022, 2023, and 2024). However, Statements of Disclosure of Interests (SS-8005) for 2023 and 2024 were not located on the Tennessee Ethics Commission's online portal. CLA inquired with the current Board Manager, who was able to locate the 2023 and 2024 forms, which had been completed on paper. Nonetheless, although these forms were completed, they were not publicly available on the Tennessee Ethics Commission's online portal. The current Board Manager explained that the Board had a Senior Advisor during fiscal year 2024–25 who is no longer with the District as of September 2025. In responding to CLA's request, the 2023 and 2024 forms were located and are planned to be submitted to the Tennessee State Department.<sup>97</sup> The Board Manager further stated that this disclosure requirement compliance failure had been communicated to that Board Member.<sup>98</sup>

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<sup>97</sup> As of the date of this interim report, these forms are not yet available on the Tennessee Ethics Commission's online portal.

<sup>98</sup> For current context: The 2025 Statement of Disclosure of Interests (SS-8005) was not available on the Tennessee Ethics Commission's online portal. This was consistent with findings for the 2023 and 2024

**Observation #74** Another Board Member engaged in conduct that constituted an alleged violation of District Policy 0022, *Board Members Code of Conduct*. Specifically, the Board Member appeared to attempt to exercise individual authority over the organization by attending a parent-teacher meeting and engaging in conduct that intimidated and harassed the assistant principal and principal of a school. This conduct further appears to have violated District Policy 0018, *Board–Staff Communications*. As a result of this conduct, the Board Member was formally reprimanded through an official letter issued on November 21, 2023.

#### Interim Conclusions

Based on the results of work through the date of this interim report, it appears that the Board generally demonstrated adherence to key governance and ethics requirements during the forensic audit period; however, isolated compliance and conduct deficiencies were identified. Specifically, lapses in the timely public filing of required Statements of Disclosure of Interests and an instance of Board Member conduct inconsistent with established Board policies indicate weaknesses in oversight, compliance monitoring, and role clarity. While management and the Board took corrective actions upon identification of these issues, including locating missing disclosures and issuing a formal reprimand, these observations underscore the need for strengthened controls, clearer accountability, and ongoing training to ensure consistent compliance with ethical and governance standards.

#### Recommendations

CLA recommends the following regarding compliance with Board ethics and disclosure requirements.

**Recommendation #71** The Board should implement and enforce a formal process to ensure that all Statements of Disclosure of Interests (SS-8005) are timely filed, submitted, and publicly posted in accordance with Tennessee Ethics Commission requirements. This process should include documented responsibility, verification of public availability on the Ethics Commission’s portal, and periodic compliance reviews. Additionally, Board members should receive annual reminders and written confirmation of filing requirements to prevent future compliance failures.

**Recommendation #72** The District appropriately addressed a Board policy violation by issuing a formal reprimand to Board Member Keith Williams on November 21, 2023. To further mitigate the risk

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forms, all of which were planned to be submitted to the Tennessee State Department. The 2026 form was filed and is publicly.

of recurrence, the Board should reinforce training and guidance regarding Board Member roles, authority limitations, and required communications protocols with District staff. The Board should also consider periodic refresher training on the Board Members Code of Conduct and Board–Staff Communications policies to ensure continued compliance and understanding.

ii. *Procurement Correspondence*

Area of Analysis

The area of analysis calls for a review of communications between procurement staff and District current and former Board Members and administrators for evidence of conflict of interest or improper influence.

Percentage Completion: 50%

This section has been completed 50% through the work performed, and the interim results of this examination are presented below.

Applicable Policies/Procedures and Best Practices

The following applicable policies were identified and considered concerning communications between Board Members and staff relating to procurement correspondence with the intention of applying improper influence. The most relevant provisions of each policy are summarized below.

- Refer to Board policy 0018 - *Board-Staff Communications* listed previously.
- 4003 – *Conflicts of Interest*
  - No vendor/supplier/contractor shall attempt to influence school board members, senior management personnel, or key employees in any way that is outside of the approved procedures used for procuring goods or services.

Analysis and Sample Selection

To address the scope of this section CLA conducted public research, reviewed the contents of the District’s whistleblower hotline, reviewed email communications by applying targeted keyword searches, and conducted interviews. Additionally, as the other areas of analysis within the forensic audit are undertaken, CLA evaluates the possibility of potential evidence of conflict of interest. Therefore, this process is ongoing and will continue through the rest of the engagement.

### Results of Analysis and Testing

As of the date of this interim report, CLA has not yet completed the investigation necessary to develop observations relevant to this section. As a result, preliminary observations are not presented at this time.

### Interim Conclusions

As of the date of this interim report, CLA has not yet completed the investigative procedures necessary to develop observations relevant to this section; therefore, no preliminary observations are presented. Additionally, as other areas of analysis within the forensic audit continue to be performed, CLA will assess whether information identified may indicate potential conflicts of interest. Accordingly, this area of analysis remains open and will continue to be evaluated through the remainder of the engagement.

#### *iii. Compliance letters*

### Area of Analysis

The area of analysis for this subsection includes an examination of correspondence and actions related to unapproved purchase orders, including a review of compliance letters issued in response to such activity and an assessment of any resulting disciplinary actions taken. This analysis focuses on evaluating whether established policies and procedures were followed, how instances of noncompliance were addressed, and whether corrective or disciplinary measures, if any, were documented and applied consistently.

### Percentage Completion: 70%

This section has been 70% completed through the work performed, and the interim results of this examination are presented in this subsection of the report. Additional employee files were selected for testing; however, the remaining testing has not yet been completed.

### Applicable Policies/Procedures and Best Practices

The District implemented a policy change during the scope of work for this forensic audit, which covers fiscal years 2022 through 2024. Accordingly, both policies are presented below, and the applicable policy is referenced based on the period under review.

- From the beginning of the forensic audit period, which begins July 1, 2021 through approximately November 27, 2023, the applicable policy was Policy 2006 – Purchasing Authority. Procedures for this policy were reflected in the District’s Procurement Services Reference Manual, initially revised in February 2020 and subsequently revised on September 1, 2021. Specifically, Policy 2006 stated that “all purchase orders over \$500.00 shall be by purchase

order, and no purchase over this amount shall be made nor payment approved unless covered by an approved purchase order, except for (i) emergency purchases as defined in this policy and approved by the superintendent (or designee), or (ii) financial transactions exempted from the purchase order process in accordance with this policy.” The District’s Procurement Services Reference Manual, under the heading “Steps in the Procurement Process” and the subheading “Purchasing Dollar Thresholds,” further explained that a requisition is required for each purchase over \$500.00. If Accounts Payable received an invoice for a purchase exceeding \$500.00 without an approved purchase order, the employee would receive an Out-of-Compliance letter that would be placed in the employee’s HR file. Furthermore, upon receipt of one or more Out-of-Compliance letters, the employee could be subject to disciplinary action by Human Resources

- Policy 2006 – Purchasing Authority was updated effective August 29, 2023, and the Procurement Services Reference Manual was subsequently revised effective December 1, 2023. These changes increased the purchase order requirement threshold from \$500.00 to \$3,500.00. The policy specifically states that “all purchases over three-thousand five-hundred dollars (\$3,500.00) shall be by purchase order, and no purchase over this amount shall be made nor payment approved unless covered by an approved purchase order, except for (i) emergency purchases as defined in this policy and approved by the superintendent (or designee), or (ii) financial transactions exempted from the purchase order process in accordance with this policy.” Additionally, the Procurement Services Reference Manual, revised December 1, 2023, states that “all purchases over \$3,500 must be made by a valid MSCS purchase order. A requisition is required for each purchase over \$3,500. If Accounts Payable received an invoice for a purchase over \$3,500 and the employee did not receive an approved purchase order, the department’s chief will receive an Out-of-Compliance letter, and corrective actions must be taken before the District can process payment.” Notably, the prior requirement for an Out-of-Compliance letter to be issued to the employee, placed in the employee’s HR file, and subject the employee to disciplinary action by Human Resources was removed. Accordingly, the applicable period for CLA to examine letters and actions related to unapproved purchase orders and any resulting disciplinary actions is limited to July 1, 2021, through November 30, 2023.

#### Analysis and Sample Selection

On November 24, 2025, CLA requested a listing of Out-of-Compliance letters for fiscal years 2022 to 2024. By December 10, 2025, CLA was told that a listing did not exist as it was never prepared. As no listing existed, CLA requested that all compliance letters issued for this period be provided. By December 19, 2025, CLA was provided with access to a ShareFile that housed the Out-of-Compliance letters for fiscal year 2024. CLA immediately communicated that fiscal years 2022 and 2023 were outstanding. On January 22, 2026, the files for fiscal years 2022 and 2023 were shared. For the

2022 and 2023 fiscal years a single folder was provided which included 109 Microsoft Word documents with the letters completed; however, none of these letters were signed. From time of request to time of delivery it was approximately two months, which contributed to CLA's inability to complete the work for this section.

The file for fiscal year 2024 contained 34 PDF, 13 of which were W9s and other miscellaneous documents. The remaining 21 PDF documents were primarily unsigned Out-of-Compliance letters. CLA inquired regarding this and was told that signed Out-of-Compliance letters were at the time not maintained in a specific repository as they were scanned into APECS for processing of payment after they were received back signed. There was only one fully signed letter, which had been issued on December 12, 2024, for \$68,486.04, and it was issued to the Safety and Security Department.

Due to these circumstances, and the fact that CLA could not rely only on the primarily unsigned Out-of-Compliance letters provided, CLA additionally relied on the out-of-compliance letters identified through the results of email review to supplement this examination. In total, for the forensic audit period, 129 Out-of-Compliance letters were located as shown in Table 42.

**Table 42: Out-Of-Compliance Letters**

Fiscal Year	Number of OOC Letters Found	PO Required for Amounts Over	OCC Letter Placement in HR File Applicable
FY2022	18	\$500.00	YES
FY2023	83	\$500.00	YES
FY2024	28	\$500.00 & \$3,500.00	Only through 8/29/2023
Total	129		

By the time CLA visited the District from January 12, 2026, to January 16, 2026, the additional files for fiscal years 2022 and 2023 had not been provided and CLA had until that point selected a sample based on preliminary email review results. The sample selected included 14 employee files to examine for the presence of an Out-of-Compliance letter in their HR file. After receiving the Out-of-Compliance letters for fiscal years 2022 and 2023 and additional sample of 12 employee files were selected for fiscal year 2022, however, these files have not yet been tested.

#### Results of Analysis and Testing

The pattern observed with respect to Out-of-Compliance (OOC) letters indicates that, in fiscal year 2022, the number of such letters was relatively low, with 18 letters identified through a review of files provided and review of email correspondence conducted by CLA. In fiscal year 2023, however, a significant increase in Out-of-Compliance letters was observed. This increase appears to have coincided with the District's decision to revise Policy 2006 on August 29, 2023, which raised the threshold for issuing an Out-of-Compliance letter from \$500.00 to \$3,500.00. Additionally, the *Procurement Services Reference Manual*, revised effective December 1, 2023, removed the requirement that Out-of-Compliance letters be placed in an employee's Human Resources (HR) file and that employees be subject to

disciplinary action by Human Resources. Following these policy changes, the number of Out-of-Compliance letters issued in fiscal year 2024 decreased.

As part of the procedures performed, CLA examined a sample of 12 employee HR files from fiscal years 2022 and 2023 to determine whether Out-of-Compliance letters were placed in the employees' HR files and whether there was any evidence of disciplinary action related to failure or repeated failure to comply with District Policy 2006 and associated procedures requiring purchase orders for purchases of \$500.00 or more. None of the 12 employee files selected for testing contained an Out-of-Compliance letter and there was no evidence that any disciplinary action was even initiated in response to the employee failure to adhere to District procurement policies and procedures. CLA inquired as to why the required process for placing Out-of-Compliance letters in employee HR files did not appear to have been followed. The response provided to CLA was that individuals previously responsible for this process are no longer employed by the District, and current personnel did not have knowledge of why the required process was not followed.

CLA further inquired as to why the Out-of-Compliance letters identified for fiscal years 2022 and 2023 consisted only of Microsoft Word documents and did not include copies of signed letters returned by the employees to whom the letters were issued. The response received was that the letters were signed and returned; however, the signed copies may have been saved in individual employees' OneDrive accounts rather than in a centralized shared file repository. It was further noted that the employee responsible for managing Out-of-Compliance letters during fiscal years 2022 and 2023 is no longer employed by MSCS. It was communicated to CLA that the signed Out-of-Compliance letters would have been uploaded to APECS as supporting documentation for proof of payment. CLA did not access APECS to confirm this statement as the primary scope of this section was to assess actions related to unapproved purchase orders and any resulting disciplinary action.

CLA identified only one instance indicating potential disciplinary action related to noncompliance with Policy 2006. This instance involved the issuance on December 8, 2022, of an Out-of-Compliance letter to two employees holding the titles Director II, Facilities Management and Director, Facilities Maintenance, who jointly received the letter in connection with a transaction totaling \$528,765. Although a purchase order was created (PO No. 2229094), the transaction did not include an executed contract. The chief business officer signed the Out-of-Compliance letter and included a notation stating, "Parties responsible are both on medical and administrative leave." As of the date of this interim report, CLA has not yet conducted an on-site review of the HR files for these two employees and these two employee files are part of the 12 employee files selected but not yet tested.<sup>99</sup>

**Observation #75** CLA identified a breakdown in the District's enforcement and documentation of disciplinary procedures related to

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<sup>99</sup> The fiscal year 2023 Out-of-Compliance letters were provided after CLA's January on-site visit, and related HR files were not requested during the subsequent visit in February, which focused on other scope areas.

noncompliance with Policy 2006. Although Out-of-Compliance letters were required to be placed in employee HR files and could result in disciplinary action, none of the 12 employee HR files tested for fiscal years 2022 and 2023 contained such letters, nor was there evidence that disciplinary action was initiated for failure or repeated failure to comply with procurement policies. Management was unable to explain why the required process was not followed, citing the departure of personnel previously responsible for administering the process and the absence of institutional knowledge to account for the lapse.

**Observation #76** CLA identified only one instance of potential disciplinary action related to noncompliance with Policy 2006. This instance involved an Out-of-Compliance letter issued to two senior facilities employees in connection with a \$528,765 transaction for which a purchase order was created (PO No. 2229094) but no executed contract was identified. Although the Out-of-Compliance letter was signed by the chief business officer, no evidence of follow-up disciplinary action was identified, and review of the employees' HR files has not yet been completed as of the date of this interim report.

#### Interim Conclusions

CLA concluded that the District's Out-of-Compliance letter process was inconsistently applied and inadequately documented during fiscal years 2022 and 2023, resulting in limited evidence of enforcement or disciplinary follow-through for procurement noncompliance under Policy 2006. Although an increase in Out-of-Compliance letters was observed in fiscal year 2023, required documentation was not consistently retained in employee HR files, management was unable to explain the breakdown in process due to staff turnover, and signed letters were not centrally maintained. Subsequent policy revisions in late 2023 raised the compliance threshold and removed disciplinary requirements, coinciding with a decline in Out-of-Compliance letters in fiscal year 2024. Overall, the District lacked a consistently enforced and documented control framework to support accountability for procurement noncompliance during the period reviewed.

#### Recommendations

CLA advises the following regarding procurement compliance in accordance with District Policy 2006.

**Recommendation #73** Formalize and document enforcement responsibilities for procurement noncompliance by clearly defining and documenting responsibility for issuing, tracking, and enforcing Out-of-Compliance letters, including ownership of follow-up actions, to ensure consistent application of Policy 2006 requirements regardless of personnel changes.

**Recommendation #74** CLA recommends that the District establish a centralized repository for Out-of-Compliance letters and related documentation, including signed acknowledgments, to ensure records are retained, accessible, and auditable. This process should include documented standards for where and how compliance records are stored.

**Recommendation #75** CLA recommends that the District implement periodic monitoring or supervisory review to confirm that Out-of-Compliance letters are issued, retained, and resolved in accordance with applicable policy, and that exceptions or repeat noncompliance are identified and addressed in a timely manner.

*iv. Open Meetings*

Area of Analysis

The area of analysis for this subsection focuses on the review of Board Member correspondence to determine potential violations of the Tennessee Open Meetings Act.

Percentage Completion: 30%

This section has been approximately 30% complete through the work performed as of the date of this interim report.

Applicable Policies/Procedures and Best Practices

This section summarizes the key requirements of the Tennessee Open Meetings Act (the "Act"), which governs how public bodies conduct meetings and make decisions. The Act is intended to ensure transparency in governmental decision-making by requiring that public business be conducted openly and that the public be afforded meaningful access to meetings where policy is discussed or decided.

- Purpose of the Open Meeting Act: The Tennessee Open Meetings Act, codified at Tennessee Code Annotated § 8-44-101, declares that the formation of public policy and the conduct of public business must be carried out openly and not in secret. The Act reflects the General Assembly's intent that governmental deliberations and decision-making processes be accessible to the public.
- What constitutes a "meeting": Under the Act, a "meeting" generally includes any convening of a governing body at which a quorum is present for the purpose of making a decision or deliberating toward a decision on public business.
- Core requirement of the Act: The Open Meetings Act requires governing bodies to conduct meetings openly, provide adequate public notice, allow

public participation on matters involving official action, maintain and make available meeting minutes, conduct all votes publicly, and post meeting agendas in advance as required by law.

#### Analysis and Sample Selection

To address the scope of this section, CLA conducted public-source research, reviewed information submitted through the District's whistleblower hotline, and interviewed certain Board Members to assess their knowledge of and involvement in matters related to the Tennessee Open Meetings Act. Additionally, CLA is in the process of analyzing email communications using targeted keyword searches to identify potential indicators of violations to the Tennessee Open Meetings Act.

#### Results of Analysis and Testing

As of the date of this interim report, CLA has not yet completed the investigative procedures necessary to develop observations relevant to this section; therefore, no preliminary observations are presented at this time. Accordingly, this area of analysis remains open and will continue to be evaluated through the remainder of the engagement.

## E. Fiscal Agent Oversight

### *i. SchoolSeed Fund Usage*

#### Area of Analysis

This section addresses the scope of work and the results of the work performed pursuant to the role and accountability of SchoolSeed as a fiscal agent to MSCS by identifying all funds it managed by SchoolSeed and assessing whether expenditures, fees, and financial practices were appropriate, transparent, and beneficial to MSCS.

The basis for investigating the relationship between MSCS and SchoolSeed stems from SchoolSeed's role as a fiscal intermediary for certain donor-funded activities benefiting MSCS students, which creates inherent fiduciary, transparency, and governance risks. The objective of the forensic audit is to understand what funds were managed, how expenditures and fees were handled, and whether relationships with District leadership introduced conflicts of interest or improper influence. This includes an evaluation of compliance with applicable agreements and ethical standards, with particular attention to potential conflicts of interest involving current or former MSCS Board Members or administrators and any political contributions that could pose governance or reputational risks, to determine whether SchoolSeed fulfilled its fiduciary obligations and whether adequate oversight of public and grant funds existed.

#### Percentage Completion: 10%

As of the date of this interim report, CLA has completed approximately 10% of the work which includes conducting research, email review, interviews, and a review of documentation produced by SchoolSeed relating to a 2023 and 2024 Leadership Symposium including accounting ledgers, payment and receipt information, and other documentation relating to sponsorship and exhibitor registration.

Although CLA requested a list of contracts related to MSCS and any supporting documentation for such contracts, audited financial statements, and a full QuickBooks backup for fiscal year 2021-2022 to current, SchoolSeed reported that no such contracts existed and provided documentation for the Leadership Symposium projects only, without producing full QuickBooks records or additional supporting documentation, which materially limited the scope of work CLA could perform and restricted analysis to that isolated activity rather than SchoolSeed's broader fiscal agent activities related to MSCS.

Additionally, CLA is aware of allegations that companies seeking MSCS contracts made payments to SchoolSeed, after which SchoolSeed allegedly entered into bogus agreements with District officials to facilitate kickbacks. However, CLA's ability to investigate these allegations was limited because SchoolSeed did not comply with our requests for the complete general ledger and bank statements, preventing a full assessment of financial activity beyond the symposium-specific records provided.

### Applicable Policies/Procedures and Best Practices

The policies, procedures, and best practices relevant to SchoolSeed's services as a strategic partner and fiscal agent to MSCS are determined by the form and substance of the contractual relationships established with the District, including professional services contracts, MOUs, and fiscal agent agreements.

- Board policy 2013: *Professional Services Contracts*: This policy establishes how MSCS secures and oversees professional services to safeguard District resources and promote prudent, ethical use aligned with District goals. It applies to professional service contracts of \$5,000.00 or more that are not otherwise covered by established purchasing procedures and defines professional services broadly to include consulting, legal, financial, technical, educational, and similar specialized services. Contracts are not competitively bid but are instead awarded based on competence, integrity, and cost, as permitted by state law. The Superintendent has authority to approve contracts up to \$99,999.00, while contracts exceeding that amount require Board approval and a detailed justification addressing need, cost, outcomes, and sustainability.

However, if no contract exists between the SchoolSeed and the District or if SchoolSeed is operating solely under donor agreements and does not provide professional services to the District pursuant to a District-executed contract, then this policy would not be applicable, because the scope is limited to District contracts for professional services. Without complete information from SchoolSeed regarding all donor agreements and other funds used for the benefit of MSCS, CLA was unable to determine when or whether the District's professional services policy would apply.

### Analysis and Sample Selection

CLA conducted an interview with Vincent McCaskill, President and CEO of SchoolSeed, on September 15, 2025, to obtain an understanding of SchoolSeed's role, activities, and accountability as a fiscal agent in connection with MSCS. During the interview, Mr. McCaskill discussed SchoolSeed's mission, its history of supporting MSCS through donor-funded and grant-funded initiatives, the types of funds managed, processes for approving and documenting projects, fiscal accountability practices, relationships with MSCS leadership, conflict-of-interest and whistleblower protocols, and the circumstances surrounding a \$45,000.00 payment associated with the leadership symposium. In this interview, Mr. McCaskill stated that SchoolSeed does not maintain standing contracts with MSCS but rather engages in MSCS-related work on a limited and project-specific basis, reports primarily to donors rather than the District, and maintains financial records at the individual project level.

As a result of the interview, CLA obtained context regarding SchoolSeed's practices and agreed-upon documentation for the Leadership Symposium projects for 2023 and 2024, while also identifying limitations related to the absence of formal contracts and comprehensive financial records for broader MSCS-related activities. Our analysis was limited by the scope of information provided, as we did not receive complete general ledger data and relied only on records and documentation specifically produced for the

2023 and 2024 MSCS Leadership Symposiums, which constrained our ability to assess transactions or balances outside those events.

According to an email sent to MSCS school leaders, the MSCS Leadership Symposium is a premier professional learning and networking event designed for emerging and experienced school leaders to learn from expert keynote speakers and leaders in education, network with other school leaders across the Mid-South, and spark ideas to transform K-12 learning environments.

### Results of Analysis and Testing

#### *Contracts with MSCS*

CLA interviewed Vincent McCaskill, President and CEO of SchoolSeed, on September 15, 2025, to obtain an understanding of SchoolSeed's role, activities, and accountability as a fiscal agent in connection with Memphis-Shelby County Schools. Following this interview, on September 19, 2025, CLA sent a document request to Mr. McCaskill requesting the following:

- List of contracts related to District and any documentation regarding context/supporting documentation
- Audited financial statements for fiscal year 2021-2022 to current
- QuickBooks back up for 2021-2022 to current (Mr. McCaskill indicated in our interview that SchoolSeed would need to discuss this request with counsel)

Mr. McCaskill responded on September 22, 2025, acknowledging the request, expressing concerns and seeking clarification on whether similar requests were being made of other District partners, the rationale for requesting this information from SchoolSeed, and whether any allegations exist that the SchoolSeed Board should be aware of, in order to maintain transparency and inform its Board appropriately.

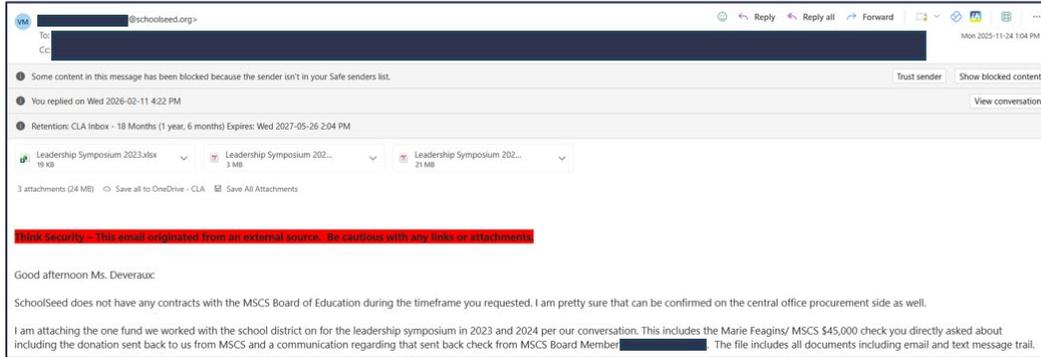
CLA responded on October 21, 2025, that the information requests were part of a broader, consistent due-diligence effort involving multiple MSCS strategic partners, with requests tailored to each entity's role and relevance to the forensic and compliance objectives. Additionally, SchoolSeed's inclusion reflects its fiduciary relevance, not necessarily any specific concern, and replied that no specific allegations involving SchoolSeed had been identified at that time, while reaffirming CLA's commitment to collaboration.

On November 24, 2025, Mr. McCaskill responded "SchoolSeed does not have any contracts with the MSCS Board of Education during the timeframe you requested" and provided the documentation related to the 2023 and 2024 Leadership Symposiums discussed above only. See Figure 24 below.<sup>100</sup>

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<sup>100</sup> Vincent McCaskill, email message to CLA, November 24, 2025.

**Figure 24: Email from Mr. McCaskill re SchoolSeed Agreements**



However, CLA reviewed Contract Advantage and identified multiple MSCS agreements with SchoolSeed or SchoolSeed Foundation, including professional services, non-professional services, purchases, and MOU/fiscal agent agreements and multiple vendor payments to SchoolSeed related to the contracts and agreements. Table 43 includes a listing of contracts and agreements with SchoolSeed CLA identified in Contract Advantage.

**Table 43: MSCS Contracts and Agreements with SchoolSeed**

Contract Name	Contract #	Contract Type	Execution	Expiration	Amount	Status
SchoolSeed Foundation (Reimagining 901)	2021-0995	Purchase		30-Jun-21	\$50,320.83	Expired
SchoolSeed Foundation - Support & Services to support Finance Department	2021-0807	Professional Services		30-Jun-21	2,000.00	Expired
Shelby County Schools and School Seed Program Implementation 2021	2021-0718	Non-Professional Services		30-Jun-21	40,000.00	Expired
School Seed- (Bereavement, Counseling and Funeral Services for SCS Students)	2021-0376	Non-Professional Services		30-Jun-21	5,000.00	Expired
SchoolSeed (Statement of Work NO. 4)	2021-0502	Non-Professional Services		7-Dec-21	9,500.00	Expired
SchoolSeed Foundation (Financial project management/ White Station HS Courtyard)	2021-0611	Professional Services		22-Jan-22	78,250.00	Expired
SchoolSeed Foundation - Support & Services to support TCC projects and programs	2021-0626	Non-Professional Services		22-Feb-22	5,000.00	Expired
SchoolSeed (Funeral Services Facilitator)	2022-0633	Non-Professional Services		28-Feb-22	3,400.00	Expired
School Seed Foundation And Shelby County Schools 2021	2022-0152	Professional Services		31-May-22	\$ 29,000.00	Expired
SchoolSeed Foundation - Professional Services Agreement - State of the District 2022	2022-0604	Professional Services		30-Jun-22	95,000.00	Expired

Contract Name	Contract #	Contract Type	Execution	Expiration	Amount	Status
School Seed Foundtion (SCS Coordination of 901 Reimaging and PD Logistics)	2022-0292	Professional Services		30-Jun-22	49,200.00	Expired
SchoolSeed Foundation (Student Services for Bereavement)	2022-0112	Non-Professional Services		30-Jun-22	5,000.00	Expired
SchoolSeed (FedEx Sponsorship Agreement for New East T-STEAM Academy)	2018-0346	Sponsorship	8-Dec-17	31-Jul-22	250,000.00	Expired
SchoolSeed (Fiscal Agent for White Station Project)	2022-0844	Fundraising Contract		30-Jun-23	22,000.00	Active
School Seed Foundation (Fiscal Agent Agreement)	2021-0388	Memorandum of Understanding			99,000.00	Active
The R. Brad Martin Family Foundation (Ridgeway HS Donation)	2020-0401	Memorandum of Understanding			100,000.00	In DocuSign
SchoolSeed (Master Social Media Advertising Services)	2016-0447	Advertising	20-Jul-16		25,000.00	Active

The District's contracts records in Contract Advantage and disbursement records in APECS contradict Mr. McCaskill's assertion that SchoolSeed did not have any agreements or contracts with MSCS during the period under review, as the District's systems reflect multiple executed contracts, memoranda of understanding, professional and non-professional services agreements, and a fiscal agent agreement involving SchoolSeed or SchoolSeed Foundation, along with associated purchase orders and payments across fiscal years 2021 - 2023. These records include contracts explicitly labeled as "Fiscal Agent Agreement," "Fundraising Contract," "Professional Services," and "State of the District" support, demonstrating that formal contractual relationships and District payments to SchoolSeed existed during the timeframe, notwithstanding statements made by Mr. McCaskill.

CLA sent a follow-up email to Mr. McCaskill on February 11, 2026, and provided the above list of contracts, requesting the following documents:

- A copy of the executed contract or agreement<sup>101</sup>
- QuickBooks ledger detail data reflecting activity related to the contract
- All supporting documentation (including invoices, payment support, amendments, correspondence, or other relevant records)

Mr. McCaskill responded expressing concern that SchoolSeed has been uniquely targeted and reiterated that no allegations were disclosed to its Board, and emphasized SchoolSeed's expectation that the review remain objective, within scope, and not connected to matters involving the former superintendent, while affirming a continued

<sup>101</sup> CLA located certain SchoolSeed contracts in Contract Advantage; however, CLA also requested all contracts and supporting documentation from SchoolSeed.

commitment to transparency and protecting the organization's reputation. CLA has not received any additional information for this request as of the issuance of this interim report.

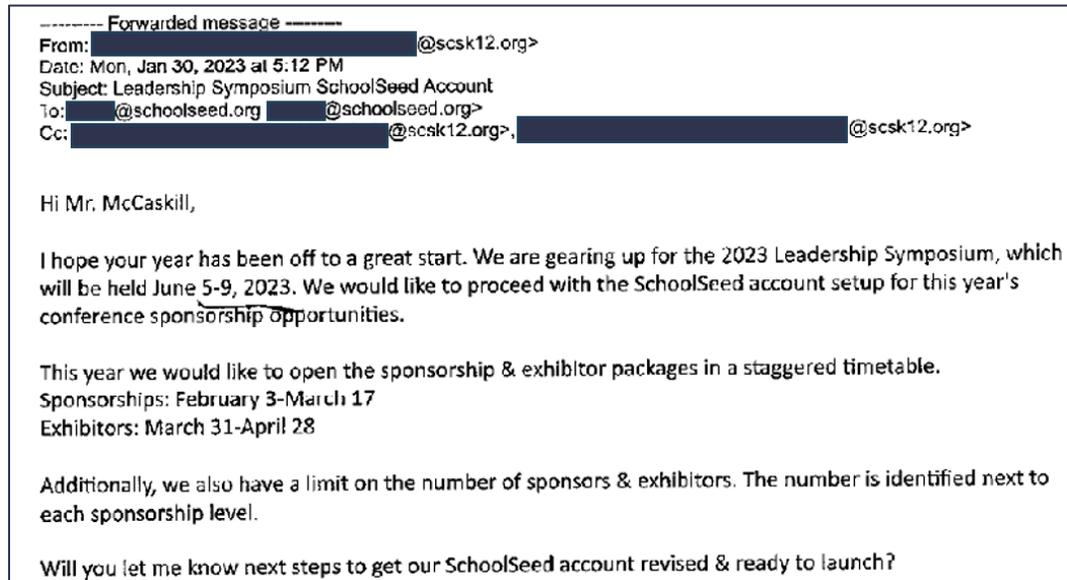
### *2023 Leadership Symposium*

On January 30, 2023, a Leadership Development Project & Logistics Advisor in MSCS's Teaching & Learning Academy Mr. McCaskill, requesting setup of the SchoolSeed account for the 2023 Leadership Symposium and outlining sponsorship timelines and requirements. See Figure 25 below. The email was sent directly to Mr. McCaskill's SchoolSeed email and copied other MSCS Teaching & Learning Academy staff. In this initial outreach, MSCS explained that:

- The symposium required external sponsorship and exhibitor revenue collection;
- Funds would be processed through SchoolSeed rather than directly by MSCS; and
- The account needed to support conference-specific sponsorship opportunities.

This request came from MSCS's Teaching & Learning Academy leadership staff and was addressed directly to SchoolSeed's executive leadership.

**Figure 25: Email to SchoolSeed re 2023 Leadership Symposium**



Following MSCS's request for the 2023 symposium, MSCS staff and SchoolSeed leadership engaged in ongoing email communication to configure and operate the symposium account, including creating or updating the online sponsorship and exhibitor registration form, establishing staggered registration timelines, setting participation caps, correcting sponsorship descriptions and dollar ranges, and

incorporating MSCS-provided narrative content. SchoolSeed confirmed when requested updates were made and when the registration portal was active. After MSCS publicly launched the sponsorship materials, MSCS requested access to the SchoolSeed account to monitor registrations and confirm the system was functioning properly, which SchoolSeed acknowledged.

SchoolSeed processed all symposium-related funds as fiscal agent, while MSCS directed sponsors and exhibitors to the platform, coordinated payment logistics, and worked with SchoolSeed on checks, credit-card payments, reimbursements, W-9 form requests, and payment confirmations. As the event approached, MSCS sought ongoing financial oversight by requesting weekly balance updates to ensure funds were accurately allocated and spent, and SchoolSeed agreed to provide that reporting, reflecting an active and continuing oversight relationship rather than a one-time transaction.

#### *Symposium Expenses*

CLA reviewed the general ledger and supporting documentation provided by SchoolSeed. The review process involved examining general ledger postings and tracing each transaction, where available, to supporting documentation such as invoices, receipts, sponsorship confirmations, Formsite<sup>102</sup> records, and related email correspondence. Transactions lacking direct third-party support were identified and evaluated separately, with revenues and expenses categorized as fully supported, partially supported, or unsupported.

CLA noted that four expense transactions and one revenue transaction were adequately supported with appropriate documentation, including venue rentals, travel insurance, ticketing, and certain sponsor payments. Table 44 details supported expenses and Table 45 shows the supported revenue transactions and the supporting documentation that was provided by SchoolSeed.

**Table 44: Supported Expenses**

Expense	Amount	PDF Support
White Door Events	\$ 6,201.72	Rental contract + receipt
Travel	35.00	Letter from Allianz Global Assistance MSCS for travel insurance
Ticketmaster	275.06	Ticket receipt
Lana J. Live	386.25	Invoice + "paid" email
Total	<u>\$ 6,898.03</u>	

**Table 45: Supported Revenue**

Revenue	Amount	PDF Support
Engage Learning LLC	\$ 5,000.00	Formsite Confirmation Form
Total	<u>\$ 5,000.00</u>	

<sup>102</sup> Formsite is a cloud-based online form and survey platform used to create, publish, and manage electronic forms for data collection. It is commonly used by organizations for registrations, applications, requests, surveys and other structured data-gathering.

### Symposium Revenues

Eighteen revenue transactions were supported only by internal spreadsheets which consist primarily of sponsorships, exhibitor fees, and donations where the sole evidence provided was an internally maintained Microsoft Excel document sponsor listing or worksheet, rather than third-party documentation. This spreadsheet typically lists the sponsor or contributor name, an expected contribution amount, and, in some cases, a Formsite reference number, but did not include proof that funds were actually remitted or received. However, the amounts on the spreadsheet match the amounts recorded in the general ledger. Appropriate independent support would include third-party evidence such as executed sponsorship or exhibitor agreements, Formsite or payment platform confirmation emails showing the amount authorized and paid, bank deposit records, or remittance advice issued by the sponsor. CLA's work is ongoing, and additional information will be requested to address gaps identified in the documentation reviewed to date. Table 46 details the transactions supported only by the internally prepared spreadsheet.

**Table 46: Partially Supported Revenue<sup>103</sup>**

Name	Amount	PDF Support
PSC, Inc	\$ 10,000.00	Excel Sponsor Listing
Grand Canyon University	300.00	Excel Sponsor Listing
American Fidelity Assurance Compnay	55.00	Excel Sponsor Listing
Taneka Johnson	55.00	Excel Sponsor Listing
HeartBeat- CPR	155.00	Excel Sponsor Listing
ACOT Associates Group , LLC	55.00	Excel Sponsor Listing
A Little bite of Everything Appareal	55.00	Excel Sponsor Listing
WAKIL Solutions, LLC	110.00	Excel Sponsor Listing
Cole's Screen Printing	330.00	Excel Sponsor Listing
Champion Awards Inc.	2,000.00	Excel Sponsor Listing
Burton Farris Consulting	55.00	Excel Sponsor Listing
Harris Family Agency "The Family Resource Place"	55.00	Excel Sponsor Listing
C.M.Farris Fine Art	55.00	Excel Sponsor Listing
My Girl Nonprofit Organization	55.00	Excel Sponsor Listing
Houghton Mifflin Harcourt (HMH)	2,000.00	Excel Sponsor Listing
Cole's Screen Painting	2,000.00	Excel Sponsor Listing
Imagine Learning LLC	5,000.00	Excel Sponsor Listing
CIGNA	10,000.00	Excel Sponsor Listing
Total	<u>\$ 32,335.00</u>	

CLA's review identified four revenue transactions with variances where amounts recorded in the general ledger did not agree with the amounts reflected in supporting documentation, most commonly the internal sponsor listings maintained in an Excel document. These variances included instances in which the general ledger reflected lower payments than the sponsorship amounts listed in the spreadsheet, resulting in unexplained differences between recorded and supported revenue.

<sup>103</sup> For all tables in this section of the report, any misspellings or typographical errors are taken directly from documentation provided by SchoolSeed and have not been corrected or modified by CLA.

**Table 47: Revenue Variances**

Name	Amount per GL	Amount per PDF Support	Variance
Brain POP	\$ 2,000.00	\$ 5,000.00	\$ (3,000.00)
Amplify	2,000.00	5,000.00	(3,000.00)
Achievement Network (Anet)	2,000.00	4,000.00	(2,000.00)
Carnegie Learning	700.00	1,500.00	(800.00)
Totals	\$ 6,700.00	\$ 15,500.00	\$ (8,800.00)

**Insufficient Documentation**

Additionally, 35 expense transactions and 15 revenue transactions lacked sufficient supporting documentation, indicating documentation gaps and reconciliation issues that affect the overall reliability and transparency of SchoolSeed's financial records. In many instances the general ledger either contained no information or did not contain sufficient information to determine the nature of the expenses. Table 48 details the expenses in the general ledger for which no supporting documentation was provided, and Table 49 contains the detail of the revenues recorded in the general ledger for which no supporting documentation was provided.

**Table 48: Unsupported Expenses**

No.	Name	Amount	Memo/Description
1		(505.95)	
2	Newborn, Charles	(186.56)	reimbursement
3	Bright Minds Speakers LLC	(5,000.00)	invoice # 04122023-1 Memphis Shelby County Schools
4		(500.00)	10% admin fee mid south leadership
5	Bright Minds Speakers LLC	(5,000.00)	invoice # 05012023
6	Bright Minds Speakers LLC	(5,000.00)	invoice # 05012023-1
7	Crown Trophy	(65.00)	27544
8	Crown Trophy	(180.00)	27578
9	Pinnacle Bank	(263.37)	
10	Pinnacle Bank	(386.25)	
11	Pinnacle Bank	(1,510.40)	
12	Pinnacle Bank	(247.64)	
13	Pinnacle Bank	(817.60)	
14	Pinnacle Bank	(4,326.00)	
15	Prestige AV & Creative Services	(2,286.00)	Job # 222795
16	Cedric Smith	(500.00)	MSCS Mid South Leadership DJ
17	Gerald Richardson	(3,500.00)	MSCS Mid South leadership
18	Gerald Richardson	(500.00)	MSCS Mid South leadership
19		(50.00)	kroger
20		(3,401.04)	kroger
21		(1,200.00)	
22		(539.75)	
23		(1,885.36)	best buys total of most
24		(6,413.73)	hotel
25		(652.04)	
26		(780.00)	
27		(5,000.00)	selfie
28		(25.00)	Create10 me
29		(569.90)	
30		(766.06)	

No.	Name	Amount	Memo/Description
31		(257.50)	Memphis Sports
32		(1,381.38)	Sheraton
33		(318.30)	Sheraton
34		(250.00)	burton sq
35	Cole's Screen Printing	(5,519.80)	invoices13390, 13060, 12791
Total		<u>\$ (59,784.63)</u>	

**Table 49: Unsupported Revenue<sup>104</sup>**

No.	Name	Amount	Memo/Description
1	Valecia Marshall	\$ 5,000.00	Mid South
2	Process to Progress LLC	2,000.00	Mid south leader symposium
3	Laura Szczepanski	2,000.00	Mid South leadership symposium
4	Javier Encinas	2,000.00	Mid South leadership symposium
5	Develop CTR	2,000.00	Mid South leadership symposium
6	Sandra Cagel	5,000.00	Mid south symposium
7	Judith Oran	5,000.00	Mid South leadership
8	Kalya Muniz	2,000.00	Mid South leadership
9	GCE Market Online	2,000.00	Mid south leadership
10	FlexPoint Education Cloud	2,000.00	Mid South leadership
11	Vicky Joe	2,000.00	Mid South Leadership
12		55.00	
13	Stephon Smallwood	55.00	Mid south leadership
14	Credit from Office Depot	539.76	Office Depot
15	Credit Best Buy	165.72	Best Buy
Total		<u>\$ 31,815.48</u>	

***Incomplete General Ledger Information***

CLA also noted that certain expenses were identified within the supporting documentation that did not appear in the general ledger provided for review. The presence of these expenses in invoices, receipts, or other supporting records, without corresponding entries in the general ledger, indicates that the general ledger may not be complete. This condition suggests that either all symposium-related expenses were not recorded in the general ledger or that some sponsor payments and related activity reflected in the supporting documentation were not fully or accurately posted. As a result, the completeness of the general ledger cannot be fully relied upon, increasing the risk that reported financial activity does not fully reflect all symposium transactions. Table 50 is a list of the transactions for which support was provided, but were not recorded in the general ledger.

**Table 50: Transactions not in GL**

Date	Reference Number	Amount	Name	Business Name	Document Description
5/2/2023	7506656	\$ 100.00	Praticia Spears	Freed-Hardeman University	Formsite
5/7/2024		43.81		Walmart	Receipt
5/19/2023	7560055	55.00	Krupa Jiminez	T-Mobile	Excel Sponsor Worksheet

<sup>104</sup> For all tables in this section of the report, any misspellings or typographical errors are taken directly from documentation provided by SchoolSeed and have not been corrected or modified by CLA.

Date	Reference Number	Amount	Name	Business Name	Document Description
5/19/2023	7559964	5,000.00	Joel Mayes	Mayes Educational Services	Excel Sponsor Worksheet
5/19/2023	7559444	2,000.00	Chrystie Edwards	TNTP	Excel Sponsor Worksheet
5/15/2023	7544565	55.00	Lameka Ivy	Ivy Mediation and Consultingm LLC	Excel Sponsor Worksheet
5/15/2023	7544512	55.00	Andrew Ramsey	Elite Detergent Distributions, LLC	Excel Sponsor Worksheet
5/15/2023	7544501	55.00	Melissa Smith	enmotion Promotion	Excel Sponsor Worksheet
5/10/2023	7530460	2,000.00	Erica Hodges Fox	McGraw Hill	Excel Sponsor Worksheet
5/9/2023	7526719	350.00	Michael Benghe	Carnegie Learning	Excel Sponsor Worksheet
5/5/2023	7513934	5,000.00	Louis Massato	FlexPoint Education Cloud	Excel Sponsor Worksheet
4/20/2023	7473390	5,000.00	Kade Dickerson	Grand Canyon University	Excel Sponsor Worksheet
4/19/2023	7469178	5,000.00	Megan Easterling	TNV	Excel Sponsor Worksheet
4/5/2023	7427591	5,000.00	Erika Henderson	Collaborative Classroom	Excel Sponsor Worksheet
4/5/2023	7426590	5,000.00	Lisa Womack	STEMscopes	Excel Sponsor Worksheet
4/5/2023	7426013	5,000.00	Drew Bedurah	Nearpod	Excel Sponsor Worksheet
4/4/2023	7421145	5,000.00	James Bacchus	Process to Progress LLC (P2P)	Excel Sponsor Worksheet
3/20/2023	7376887	15,000.00	Mary Olds	YMCA of Memphis & the Mid-South	Excel Sponsor Worksheet
Total		<u>\$ 59,713.81</u>			

### *Registration Deadlines*

CLA located the 2023 Leadership Symposium sponsor packet, which established registration deadlines for sponsors and exhibitors, and tested whether the transaction dates recorded in the general ledger complied with those deadlines. Transaction dates for sponsor and exhibitor revenues were compared to the applicable deadlines outlined in the packet to determine timely registration. Figure 26 below shows the registration deadlines based on sponsorship level.

Figure 26: 2023 Leadership Symposium Sponsorship Packet

**MSCS Leadership Symposium Sponsorship Packet**

Memphis-Shelby County Schools (MSCS) is hosting its annual **Leadership Symposium June 5-9, 2023.** Leaders will participate in creative and innovative learning sessions, keynotes, distinguished lectures, and networking sessions that will establish systems and lead to success in the K-12 learning environment.

Find out how you can become an event sponsor or exhibitor below.

**Sponsorship Levels**

- Premier Sponsor | \$35,000
- Trailblazer Sponsor | \$15,000
- Influencer Sponsor | \$10,000
- Partner Sponsor | \$5,000
- Exhibitor | \$2,000
- Contributor | \$750 - \$1,999
- Donor | \$100 - \$749

To become an event sponsor or exhibitor, visit <http://www.scsk12.org/LS/> to submit monetary donation. Checks can be made payable to *SchoolSeed Foundation*. Denote in memo of check: *2023 MSCS Leadership Symposium*. Submit high resolution logo for printed materials to [symposium@scsk12.org](mailto:symposium@scsk12.org).

Sponsorship Registration Deadline: **March 17**  
 Exhibitor Registration Period: **March 31- April 28**  
 High Resolution Logo Submission Deadline:  
 Sponsors: **March 17, 2023** | Exhibitors: **April 28, 2023**

For inquiries, feel free to reach out via email to [symposium@scsk12.org](mailto:symposium@scsk12.org).  
 MSCS Leadership Symposium Website: [www.scsk12.org/ls](http://www.scsk12.org/ls) | MSCS Leadership Symposium Twitter: [www.twitter.com/MSCSLeads](https://twitter.com/MSCSLeads)  
 LinkedIn: [Memphis-Shelby County Schools Professional Learning & Support](https://www.linkedin.com/company/memphis-shelby-county-schools-professional-learning-support)

SchoolSeed Foundation is a 501(c)(3) organization and donations are tax-deductible.

Based on the results of this testing, CLA identified instances where certain sponsor transactions appeared, based on the dates reflected in the general ledger detail provided, to fall outside the established sponsor registration deadline. These instances may reflect delays in recording transactions in the general ledger rather than actual noncompliance with the deadline. While such instances do not necessarily indicate that sponsor registration deadlines were missed, they highlight the importance of timely and accurate recording in the general ledger.

Table 51: Sponsorship Level Deadlines

Description	Met	Not Met
Sponsor Deadline	1	5
Exhibitor Deadline	8	7

*SchoolSeed Administrative Fee*

In addition, CLA noted that SchoolSeed consistently assessed an administrative fee on sponsorship and donation revenue associated with the 2023 Leadership Symposium. Based on the general ledger activity, these administrative fees ranged from 10% to 15% of the related sponsorship amounts and were recorded as separate deductions from gross revenue. The application of these fees was observed across a wide range of sponsor and contributor transactions, indicating a standard practice; however, the rate applied was not always consistent, with some transactions reflecting a higher percentage than others. Table 52 below shows the administrative

fees per the general ledger and the revenue to which the administrative fee was applied.<sup>105</sup>

**Table 52: Administrative Fees<sup>106</sup>**

Name	Memo/Description	Amount	Notes
Valecia Marshall (Credit Card Payment)	Mid South	\$ 5,000.00	
	10% admin fee Mid South	(500.00)	
Engagel Learning LLC	Mid south leadership symposium	5,000.00	
	10% admin fee	(500.00)	
Process to Progress LLC (Credit Card Payment)	Mid south leader symposium	2,000.00	
	10% admin fee Mid south leader symposium	(200.00)	
Laura Szczepanski (Credit Card Payment)	Mid South leadership symposium	2,000.00	
Javier Encinas (Credit Card Payment)	Mid South leadership symposium	2,000.00	
Develop CTR (Credit Card Payment)	Mid South leadership symposium	2,000.00	
	10% admin fee Mid south leadership symposium	(600.00)	
Sandra Cagel (Credit Card Payment)	Mid south symposium	5,000.00	
	10% admin fee mid south symposium	(500.00)	
Brain POP (Credit Card Payment)	Mid South leadership SYM	2,000.00	
	10% admin fee Mid South Leadership	(200.00)	
Amplify (Credit Card Payment)	Mid south leadership	2,000.00	
PSC, Inc (Credit Card Payment)	Mid south leadership	10,000.00	
	10% admin fee Mid south leadership	(200.00)	
	10% admin fee Mid south leadership	(1,000.00)	
Kalya Muniz (Credit Card Payment)	Mid South leadership	2,000.00	
	10% admin fee Mid south leadership	(200.00)	
GCE Market Online (Credit Card Payment)	Mid south leadership	2,000.00	
	10% admin fee	(200.00)	
Memphis Light Gas & Water (Check)	2023 Mid south Leadership	2,000.00	
	10% admin fee Mid south leadership	(200.00)	
FlexPoint Education Cloud (Credit Card Payment)	Mid South leadership	2,000.00	

<sup>105</sup> The notes column identifies instances where a 15% administrative fee was applied as opposed to 10%, or where no administrative fees were applied.

<sup>106</sup> For all tables in this section of the report, any misspellings or typographical errors are taken directly from documentation provided by SchoolSeed and have not been corrected or modified by CLA.

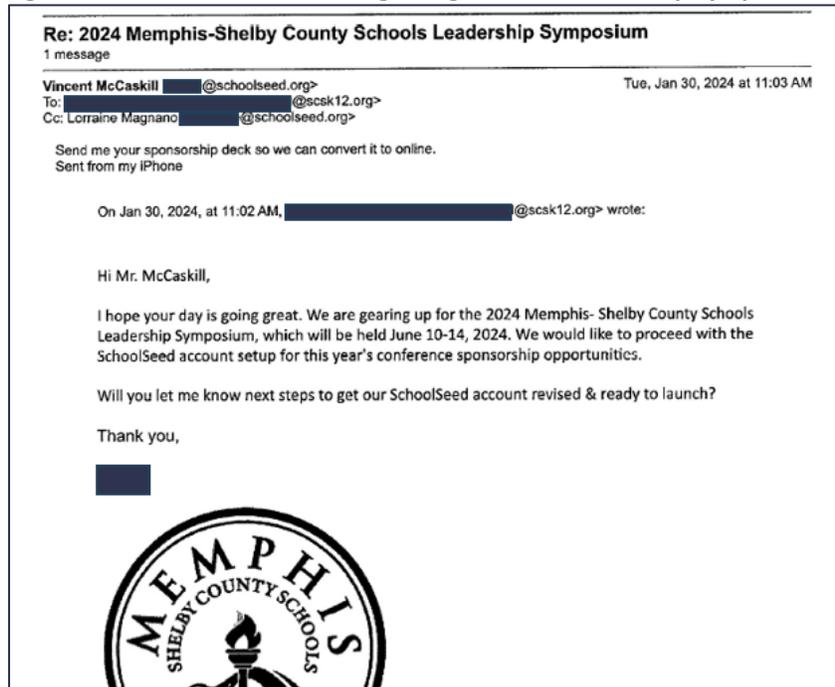
Name	Memo/Description	Amount	Notes
	10% admin fee Midsouth leadership	(200.00)	
Grand Canyon University (credit Card Payment)	Mid South Leadership	300.00	
Vicky Joe (redit Card Payment)	Mid South Leadership	2,000.00	
	10% admin fee Midsouth leadership	(230.00)	
American Fidelity Assurance Compnay (Credit Card Payment)	Mid south	55.00	
	10% admin fee	(5.50)	
Taneka Johnson (Credit Card Payment)	Mid south leadership	55.00	
	10% admin fee Mid South leadership	(5.50)	
HeartBeat- CPR (Credit Card Payment)	Mid south leadership	155.00	
ACOT Associates Group , LLC (Credit Card Payment)	Mid south leadership	55.00	
	10% admin fee Mid South leadership	(21.00)	
A Little bite of Everything Appareal (Credit Card Payment)	Mid South leadership	55.00	
WAKIL Solutions, LLC (Credit Card Payment)	Mid South leadership	110.00	
Cole's Screen Printing (Credit Card Payment)	Mid South leadership	330.00	
	15% admin fee Mid South Leadership	(74.25)	15% fee
	10% admin fee Mid south leadership	(200.00)	No revenue identified for this administrative fee
Burton Farris Consulting (Credit Card Payment)	Mid south leadership	55.00	
Harris Family Agency "The Family Resource Place" (Credit Card)	Mid south leadership	55.00	
C.M.Farris Fine Art (Credit Card Payment)	Mid south leadership	55.00	
My Girl Nonprofit Organization (Credit Card Payment)	Mid south leadership	55.00	
	10% admin fee Mid south leadership	(22.00)	
Stephon Smallwood (Credit Card Payment)	Mid south leardership	55.00	
	10% admin fee	(5.50)	
Houghton Mifflin Harcourt (HMH) (Credit Card Payment)	Mid south leadership	2,000.00	
	10% mid south ledership	(200.00)	
Cole's Screen Painting (credit Card Payment)	Mid south leadership	2,000.00	
	10% admin fee Mid south leadership	(200.00)	
Achievement Network (Anet) (Credit Card Payment)	Mid south leadership	2,000.00	

Name	Memo/Description	Amount	Notes
	10% admin fee Mid-south leadership	(200.00)	
Imagine Learning LLC (Check)	Mid south leadership	5,000.00	
	10% admin fee Mid south	(500.00)	
CIGNA (Check)	Mid south leadership	10,000.00	
	10% admin fee Mid South Leadership	(1,000.00)	
Carnegie Learning (Check)	for mid-south leadership	700.00	
	10% admin fee	(70.00)	
Total Sponsor Payments		\$ 70,090.00	
Total Admin Fee		\$ (7,233.75)	10.3%

*2024 Leadership Symposium*

In a January 30, 2024 email, the Director of Leadership Development at MSCS, explicitly stated MSCS was “gearing up for the 2024 Memphis-Shelby County Schools Leadership Symposium” and requested to “proceed with the SchoolSeed account setup for this year’s conference sponsorship opportunities.” Specifically, the email shows MSCS Leadership Development officials directing that SchoolSeed be used for sponsorship processing and financial setup for the 2024 symposium. See Figure 27 below.

**Figure 27: Email to SchoolSeed Regarding the 2024 Leadership Symposium**



Based on the documentation examined by CLA, MSCS served as the program owner and content authority for the symposium. Its responsibilities include designing and leading the symposium as a professional development event for MSCS leaders, determining sponsorship structures and pricing, which were then implemented through SchoolSeed, providing operational direction regarding who should have

access to financial and registration data, and approving use of symposium funds. Emails from MSCS staff including leadership development personnel show that MSCS retained decision-making authority over the symposium and its funds, even though the funds were held externally.

The documentation reviewed demonstrates that, as with the 2023 Leadership Symposium, SchoolSeed acted as the fiscal agent and administrative intermediary. Its documented roles included:

- Receiving sponsorship payments and donations made payable to SchoolSeed Foundation for the symposium;
- Maintaining the symposium account where funds were deposited and tracked;
- Processing payments for symposium-related expenses (e.g., Cvent, printing, decor, vendors);
- Charging and retaining an administrative fee (generally 15%), consistently reflected throughout the ledger; and
- Providing financial access and reporting to MSCS-designated staff upon request.

Invoices, checks, merchant receipts, and internal accounting tables all list SchoolSeed Foundation as payee or merchant of record, confirming its fiscal-agent function.

CLA's work was based on documentation provided by SchoolSeed related to the 2024 Leadership Symposium. This documentation included the symposium general ledger, detailed transaction listings, and a compiled PDF document containing supporting materials such as vendor invoices, check copies, merchant receipts, sponsorship confirmations, and relevant email correspondence. CLA also reviewed internal Excel sponsor listings generated through Formsite, which tracked sponsor names, contribution amounts, reference numbers, and status information, as well as emails relating to refunds, redeposits, and the transfer of funds between the 2023 and 2024 symposium accounts.

As part of its analysis, CLA performed a transaction-level review of revenues and expenses recorded in the symposium general ledger. Individual GL postings were examined and, where possible, traced directly to third-party supporting documentation such as invoices, receipts, check images, merchant confirmations, and corroborating emails or text messages. Transactions that lacked direct third-party documentation were not assumed to be supported; instead, they were identified and evaluated separately. CLA classified transactions into supported, partially supported, or unsupported categories, applying this framework independently to both revenues and expenses.

*Symposium Expenses*

CLA noted that three expense transactions and four revenue transactions were adequately supported with appropriate documentation, including invoices, check copies, emails, and certain sponsor payments. Table 53 details supported expenses and shows the supported revenue transactions and the supporting documentation that was provided by SchoolSeed.

**Table 53: Supported Expenses**

Expense	Amount	PDF Support
Cvent, Inc.	\$ 26,040.00	Invoice and email
Cvent, Inc.	3,000.00	Invoice and email
Memphis-Shelby County Schools	45,635.33	Check copy and email
Total	<u>\$ 29,040.00</u>	

**Table 54: Supported Revenues**

Revenue	Amount	PDF Support
Brian Cole	\$ 2,000.00	Merchant email receipt
YMCA of Memphis & the Mid South	10,000.00	Check copy
Cambium Learning Inc.	5,000.00	Check copy
Memphis County Shelby Schools	45,635.33	Check copy, email and text
Total	<u>\$ 62,635.33</u>	

*Symposium Revenues*

Ten revenue transactions were supported only by internal spreadsheets which consist primarily of sponsorships, exhibitor fees, and donations where the sole evidence provided was an internally maintained Excel sponsor listing or worksheet, rather than third-party documentation. This spreadsheet typically lists the sponsor or contributor name, an expected contribution amount, and, in some cases, a Formsite reference number, but did not include proof that funds were remitted or received. However, the amounts on the spreadsheet tie to the amounts recorded in the general ledger. Appropriate independent support would include third-party evidence such as executed sponsorship or exhibitor agreements, Formsite or payment platform confirmation emails showing the amount authorized and paid, bank deposit records, or remittance advice issued by the sponsor. Table 55 details the transactions supported only by the internally prepared spreadsheet.

**Table 55: Partially Supported Revenue**

Revenue	Amount	PDF Support
Zoe Beckham	\$ 2,000.00	Excel Sponsor Listing
Sarah Stuart	5,000.00	Excel Sponsor Listing
Sean Amicucci	1,000.00	Excel Sponsor Listing
American Book Company	10,000.00	Excel Sponsor Listing
Shauna Carlson	2,000.00	Excel Sponsor Listing
Personal Computer Systems, Inc.	10,000.00	Excel Sponsor Listing
Image Learning LLC	5,000.00	Excel Sponsor Listing
Grand Canyon University	2,000.00	Excel Sponsor Listing

Revenue	Amount	PDF Support
Darius James	2,000.00	Excel Sponsor Listing
Freed-Hardeman University	750.00	Excel Sponsor Listing
Total	<u>\$ 39,750.00</u>	

*Variances*

CLA also performed a reconciliation and variance analysis, comparing amounts recorded in the general ledger to amounts reflected in the supporting documentation provided. CLA noted a transaction labeled as a transfer of funds from the 2023 account to the 2024 account. While an email requested a transfer of \$59,103.72, the general ledger reflected a transfer of \$31,903.72, resulting in an identified variance of approximately \$27,200.00.

The detail of the variance identified between the amount transferred per the general ledger to the balance per the email provided is shown in Figure 28 after Table 56 below.

**Table 56: Variance in 2023 Balance Transfer**

Payee per GL	Amount per GL	Amount per email	Variance
Transfer funds to the 2024 account per the client	\$ 31,903.72	\$ 59,103.70	\$ (27,199.98)

**Figure 28: Email re 2023 Account Balance**

**From:** Lorraine Magnano [redacted]@schoolseed.org  
**Sent:** Monday, April 15, 2024 9:45 AM  
**To:** [redacted]@scsk12.org  
**Cc:** [redacted]@scsk12.org; [redacted]@scsk12.org; [redacted]@scsk12.org  
**Subject:** EXTERNAL - Re: 2023 Symposium Balance

\*\*\*\*\*This is an EXTERNAL email. Please exercise caution. DO NOT open attachments or click links from unknown senders or unexpected emails.\*\*\*\*\*

Hello,

The current balance is \$59,103.72 in the 2023 account

Would you liek for me to move it into the 2024 account?

*Thank you,*  
 Lorraine Magnano  
 Executive Assistant to Vince McCaskill/President-CEO  
 [redacted]

hours: 9a-4p  
 www.schoolseed.org  
 God has plans for me to prosper and have hope for the future. – Jeremiah 29:11

*Insufficient Documentation*

Additionally, ten expense transactions and six revenue transactions lacked sufficient support altogether, indicating documentation gaps and reconciliation issues that affect the overall reliability and transparency of SchoolSeed's financial records. In many instances the general ledger either contained no information or did not contain sufficient information to determine the nature of the expenses.

Table 57 details the expenses in the general ledger for which no support was provided, and Table 58 contains the detail of the revenues recorded in the general ledger for which no support was provided.

**Table 57: Unsupported Expenses**

No.	Name	Amount	Memo/Description
1	Target	\$ 1,025.00	
2	Target	600.00	
3	Kroger	1,575.00	
4	Kroger	1,575.00	
5	Coles Screen Printing	3,354.88	Banners and Stand qt 14592
6	Crafty Little Extras	1,800.00	Balloon Decor
7	Ritzee Florist & Interior Designs	375.00	invoice 1289
8	Massage By Design, Inc.	4,887.50	
9	Reclass	1,086.01	per Rachel Anderson on a call
10	Pivot School Improvement Leaders	2,000.00	refund
Total		<u>\$ 18,278.39</u>	

**Table 58: Unsupported Revenues**

No.	Name	Amount	Memo/Description
1	Ann Larson	\$ 2,000.00	id south leadership
2	Alexis Priore	2,000.00	
3		750.00	
4		2,000.00	
5		75.00	Kroger Credit on GC
6	Champion Awards	2,000.00	donation
Total		<u>\$ 8,825.00</u>	

*Registration Deadlines*

CLA located the 2024 Leadership Symposium sponsor packet, which established registration deadlines for sponsors and exhibitors, and tested whether the transaction dates recorded in the general ledger complied with those deadlines. Transaction dates for sponsor and exhibitor revenues were compared to the applicable deadlines outlined in the packet to determine timely registration. Figure 29 below shows the registration deadlines based on sponsorship level.

Figure 29: 2024 Leadership Symposium Sponsorship Package

**Memphis-Shelby County Schools**  
**Leadership Symposium Sponsorship Packages**  
 Building Tomorrow, Together: Leadership in Action

Memphis-Shelby County Schools (MSCS) is hosting its annual **LEADERSHIP SYMPOSIUM June 10-14, 2024**. Leaders will participate in creative and innovative learning sessions, keynotes, lectures, and networking sessions that will establish systems and lead to success in the K-12 learning environment.

**Find out how you can become an event sponsor or exhibitor below.**

**SPONSORSHIP LEVELS**

- Premier Sponsor | \$35,000
- Trailblazer Sponsor | \$15,000
- Influencer Sponsor | \$10,000
- Partner Sponsor | \$5,000
- Exhibitor | \$ 2,000
- Contributor | \$750 - \$1,999
- Donor | \$100 - \$749

To become an event sponsor or exhibitor, visit <http://www.scsk12.org/ls> to submit a monetary donation.

Checks can be made payable to *SchoolSeed Foundation*. Denote in memo of check: *2024 MSCS Leadership Symposium*.

Submit high resolution logo for printed materials to [symposium@scska2.org](mailto:symposium@scska2.org).

Sponsorship Registration Deadline: *March 18, 2024*  
 Exhibitor Registration Period: *April 1-29, 2024*  
 High Resolution Logo Submission Deadline:  
 Sponsors: *March 18, 2024* | Exhibitors: *April 29, 2024*

**SchoolSeed** SchoolSeed Foundation is a 501(c)(3) organization and donations are tax-deductible

Based on the results of this testing, CLA identified instances where certain sponsor transactions appeared, based on the dates reflected in the general ledger detail provided, to fall outside the established sponsor registration deadline. These instances may reflect delays in recording transactions in the general ledger rather than actual noncompliance with the deadline. Table 59 below shows the status of sponsor registration deadlines.

Table 59: Sponsorship Level Deadlines

Description	Met	Not Met
Sponsor Deadline	1	5
Exhibitor Deadline	4	5

*Administrative Fees*

Administrative fees were assessed by SchoolSeed on sponsorship revenue associated with the 2024 Leadership Symposium and were generally calculated at a rate of 15% of the underlying sponsorship amounts. CLA reviewed these fees by comparing the amounts recorded in the general ledger to the related sponsorship revenue and recalculating the expected fee based on the stated percentage. In most instances, the administrative fees recorded aligned with the 15% rate and were consistently applied

across sponsorship transactions. However, CLA noted certain reclassification entries and adjustments in which the effective administrative fee rate differed from 15%, including instances where fees were split or partially reclassified. These differences were documented in the administrative fee analysis and reflected in Table 60 below.<sup>107</sup>

**Table 60: Administration Fees**

Date	Ref No.	Memo	Increase	Decrease	Calc %	Notes
03/18/2024	YMCA of Memphis & the Mid South		\$ 10,000.00			
03/18/2024	03.18.24 admin fees	15% admin fee		1,500.00	15%	
03/21/2024	03.21.24 CC merchant		2,000.00			
03/21/2024	03.21.24 CC merchant		5,000.00			
03/21/2024	03.21.24 CC merchant	15% admin fee 2024 Midsouth Leadership		1,050.00	15%	
03/22/2024	03.22.24 cc merchant	mid south leadership	2,000.00			
03/22/2024	03.22.24 cc merchant	mid south leadership 15% admin fee		300.00	15%	
03/26/2024	03.26.24 cc merchant		1,000.00			
03/26/2024	03.26.24 cc merchant	15% admin fee		150.00	15%	
04/01/2024		donation	10,000.00			
04/01/2024	04.01.24 reclass \$	15% admin fee Mid South leadership		1,500.00	15%	
04/08/2024	04.08.24 cc merchant	2024 mid south leadership	2,000.00			
04/08/2024	04.08.24 cc merchant	15% admin fee mid south leadership		300.00	15%	
04/23/2024	04.23.24 cc merchant		2,000.00			
04/23/2024	04.23.24 cc merchant			300.00	15%	
04/25/2024	04.25.24 cc merchant		750.00			
04/25/2024	04.25.24 cc merchant			112.50	15%	
04/29/2024	04.29.24 cc merchant		2,000.00			
04/29/2024	04.29.24 cc merchant	15% admin fee		300.00	15%	
05/08/2024	Personal Computer Systems, Inc.	donation	10,000.00			No Admin Fee
05/13/2024	Image Learning LLC	donation	5,000.00			
05/13/2024	5.13.24 admin fees	15% admin fee		750.00	15%	

<sup>107</sup> The Notes column identifies transactions for which no administrative fee was applied with the note "No Admin Fee."

Date	Ref No.	Memo	Increase	Decrease	Calc %	Notes
05/15/2024	5.15.24cc merchant		2,000.00			
05/15/2024	5.15.24cc merchant	15% admin fee		300.00	15%	
06/04/2024	6.4.24 cc mercahnt		2,000.00			
06/04/2024	6.4.24 cc mercahnt	15% admin fee		300.00	15%	
07/12/2024		donation	2,000.00			No Admin Fee
07/14/2024	7.14.24 cc merchant	donation	2,000.00			
07/14/2024		donation	750.00			
07/14/2024		Donatioin	5,000.00			
07/16/2024	7.16.24 reclass \$\$	15\$ admin fee		112.50		
07/16/2024	7.16.24 reclass \$\$	15% admin fee		750.00	11%	
Total			\$ 65,500.00	\$ 7,725.00		

### Observations

**Observation #77** CLA's review identified significant governance, documentation, and oversight challenges related to SchoolSeed's role as a fiscal agent for MSCS-related activities. Although SchoolSeed asserted that it did not maintain contracts or agreements with MSCS during the period under review, MSCS records maintained in APECS reflect multiple executed contracts, memoranda of understanding, professional and non-professional services agreements, and fiscal agent arrangements involving SchoolSeed or SchoolSeed Foundation. This inconsistency between representations made during interviews and District system records limited transparency and complicated the assessment of roles, responsibilities, and accountability.

**Observation #78** CLA's testing was constrained by SchoolSeed's limited production of financial records. SchoolSeed did not provide a complete general ledger, bank statements, or full QuickBooks records for the period under review and instead produced documentation only for the 2023 and 2024 Leadership Symposiums. As a result, CLA's analysis was restricted to those discrete projects and could not be extended to other MSCS-related contracts, payments, or donor-funded activities reflected in District records.

**Observation #79** Within the Leadership Symposium projects reviewed, CLA identified weaknesses in documentation and financial recordkeeping, including unsupported or partially supported revenue and expense transactions, reliance on internally

prepared spreadsheets in lieu of third-party evidence, inconsistencies between the general ledger and supporting documentation, and transactions appearing in supporting files but not recorded in the general ledger. CLA also noted inconsistent application and documentation of administrative fees assessed by SchoolSeed, increasing the risk that fees were not fully transparent or uniformly applied.

### Interim Conclusions

Inconsistencies between SchoolSeed's representations and District records, coupled with incomplete record production, limited CLA's ability to fully assess contractual relationships, financial activity, and accountability. Within the limited scope reviewed, deficiencies in recordkeeping and fee documentation further increased the risk that financial transactions were not uniformly administered.

### Recommendations

**Recommendation #76** SchoolSeed should formalize its relationships with Memphis-Shelby County Schools through clear, written agreements for any and all activity in which SchoolSeed acts as a fiscal agent, intermediary, or administrator of funds benefiting MSCS. Such agreements should clearly define the scope of services, roles and responsibilities, reporting requirements, fee structures, documentation standards, and audit or inspection rights to reduce ambiguity and enhance accountability for all parties.

**Recommendation #77** SchoolSeed should continue to enhance its financial documentation framework by maintaining comprehensive, project-level and organization-wide accounting records supported by third-party documentation. Although CLA has not yet requested specific additional information and SchoolSeed indicated that all documentation for the Learning Symposiums was provided, subsequent information requests as the review progresses may provide an opportunity to locate documentation not previously provided. Maintaining readily available third-party support would further support transparency and auditability.

## 6. Preliminary Conclusion

Based on the procedures performed to date, CLA preliminarily identified evidence that \$1,145,909.97 in funds disbursed were consistent with the ACFE guidance describing waste and abuse. This includes \$1,112,750.00 related to disbursements for professional and non-professional services contracts classified as waste or abuse due to inadequate oversight, unsupported or duplicative billings, contracting and payment activity occurring outside established procurement controls, and services that were duplicative of existing benefits. In addition, CLA identified evidence of \$33,159.79 in disbursements for payroll-related waste, consisting of \$21,343.36 in post-separation compensation paid to a former employee and \$11,816.61 related to an unsupported duplicative vacation payout.

Additionally, CLA identified widespread instances of noncompliance with District policies and procedures totaling \$1,729,522.81, which, while not rising to the level of fraud, waste, or abuse, reflect significant internal control failures and governance weaknesses. These matters relate to ACH disbursements, manual warrants, manual payroll checks, P-card and check request activity, and travel reimbursements processed without required documentation, approvals, or adherence to procurement requirements.

The forensic audit identified significant and recurring internal control, documentation, and records-management deficiencies that materially impaired the District's ability to demonstrate compliance, accountability, and effective stewardship of public funds. While many transactions reviewed appeared to represent legitimate District business activities, the absence of contemporaneous support, fragmented systems, inconsistent enforcement of policies, and reliance on institutional knowledge rather than documented controls increased the risk of error, noncompliance, and undetected misconduct. Several areas of the forensic audit remain in progress, and these conclusions are preliminary pending completion of remaining procedures and review of additional documentation.

## **7. Professional Standards Followed by CliftonLarsonAllen LLP**

The overall scope of work and approach was conducted utilizing standards in accordance with the Statement on Standards for Forensic Services No. 1 (SSFS No. 1) of the American Institute of Certified Public Accountants (AICPA) and the Code of Professional Standards of the Association of Certified Fraud Examiners (ACFE). This report does not constitute an audit, compilation, or review, in accordance with standards of the AICPA, the objective of which would be the expression of an opinion on any specified elements, accounts, or items. Accordingly, CLA does not express such an opinion.

Because of the unique nature of fraud, and because our engagement was limited to the matters described in the engagement letter, fraud and/or financial irregularities may exist within the organization that we may not have identified during the performance of our procedures. However, if during the performance of our services other matters had come to our attention suggesting possible financial improprieties and/or irregularities, we would have communicated such matters to the State.

The professional standards promulgated by the AICPA prohibit CLA from rendering an opinion as to whether there has been any fraud or other criminal activity by anyone associated with this engagement. Therefore, CLA does not render such opinions.

## 8. Information about CliftonLarsonAllen LLP

Established on January 2, 2012, CLA is well positioned with knowledge, insight, and industry-specific accounting, tax, and consulting services. CLA is the result of a union between Clifton Gunderson and LarsonAllen, both established more than 60 years ago. CLA has a national forensic and nonprofit practice.

CLA is one of the largest professional service and accounting firms in the country with a growing global network. With a nationwide network of experienced professionals, clients include law firms, school districts, CEOs, leaders in education, municipalities, governmental agencies, the law enforcement community, commercial businesses, and not-for-profit agencies. The CLA Forensic Services team is a highly respected and sought-out authority in fraud prevention, detection, and investigation. Our multi-disciplined team is comprised of Certified Public Accountants, Certified Fraud Examiners, professionals Certified in Financial Forensics, and attorneys who practice as forensic accountants.

Fola Abiola-Banjac, Esq. is an experienced licensed attorney practicing as a forensic accountant. Ms. Abiola-Banjac is accomplished and results-driven, offering extensive experience providing forensic, ethics, and regulatory compliance guidance to the leadership of public and private sector organizations, with extensive experience in forensic accounting investigations, document review, and the development of expert opinions. She has a demonstrated record of success investigating allegations of fraud, regulatory, and ethical requirements. She leads the forensic, litigation and investigations practice (Forensic Services) and offers a history of delivering solid results in a series of positions with CliftonLarsonAllen, Federal Energy Regulatory Commission, the Securities and Exchange Commission, and other corporations and agencies.

Ana Rodriguez, CPA, CFE, is a technical director in the Forensic Services practice of CLA and assisted Ms. Abiola-Banjac in this engagement. Her practice areas include accounting and auditing, fraud investigations and examinations, forensic accounting, internal control review and analysis, and litigation support. She brings over twelve years of experience in forensic accounting and fraud investigations, with a focus on educational institutions including school districts, colleges, and universities. As a forensic accountant and fraud examiner, Ms. Rodriguez has testified in administrative hearings and has served as an expert witness in criminal matters in the State of California.

**9. List of Attachments**

**Table 61: List of Attachments**

Attachment No.	Attachment Description
Attachment 01	List of interviews conducted

# Attachment 1

MSCS Forensic Audit - List of Interviews Conducted

	Interviewee	Title	Date of Interview	Location
1	Dr. Roderick Richmond	Superintendent	8/11/2025	In person
2	William Fulton	Director of Auditing	8/11/2025	In person
3	Richard Berroa	IT Director	8/11/2025	In person
4	Maria Stewart	Policy Manager	8/11/2025	In person
5	LeQueeya Braxton	Director of Procurement	8/11/2025	In person
6	JaNese Graves	Procurement Advisor	8/11/2025	In person
7	Leslie Knighten	Controller	8/11/2025	In person
8	Steve Schaeffer	Facilities and Operations Manager	8/11/2025	In person
9	Tito Langston	Assistant Superintendent of Operations	8/12/2025	In person
10	Doris Coleman, Stephanie Love, Michelle McKissick	MSCS Board Members	8/12/2025	In person
11	Justin Bailey	General Counsel	8/12/2025	In person
12	Denise Brownlee	Contract Administrator	8/12/2025	In person
13	Greg Gordon	Procurement Supply Chain Manager	8/12/2025	In person
14	Jason Mayse	Director of Payroll	8/12/2025	In person
15	Michelle Stuart	Facilities Officer	8/12/2025	In person
16	Paula Young	Accounts Payable Manager	8/12/2025	In person
17	Derrick Morris	Director II Federal Programs & Operations	8/13/2025	In person
18	Shenarick Story	Director of Grants Management & Compliance	8/13/2025	In person
19	Tamika Brown, Faith Mungan	General Counsel; Contract Advisor	8/13/2025	In person
20	Amber Hewitt Garcia	Board Member	8/13/2025	In person
21	Arlandra Parker	Director of Charter Schools	8/13/2025	In person
22	Rochelle Griffin	Director of Virtual Schools	8/13/2025	In person
23	Arlandra Parker	Director of Charter Schools	8/13/2025	In person
24	Andrea Williams	Manager of HR Staffing	8/13/2025	In person
25	Dawn White	Compliance Advisor	8/13/2025	In person
26	Leslie Knighten	Controller	8/13/2025	In person
27	Felicia Feeney	Director of Budgeting & Fiscal Planning	8/19/2025	In person
28	Crystal Oliver	Chief of Human Resources	8/27/2025	Virtual
29	Vincent McCaskill	President/CEO SchoolSeed	9/15/2025	Virtual
30	Jackie McCall	TN DEO, Senior Coordinator Early Childhood Quality and Supports	9/17/2025	Virtual
31	Sarah Taylor	Former Director of Auditing	9/22/2025	In person
32	Daphne Mathis	Senior Procurement Buyer	9/22/2025	In person
33	Leslie Knighten	Controller	9/22/2025	In person
34	Divalyn Gordon	Grant Manager for Head Start	9/22/2025	Virtual
35	Anthony Plummer	Advisor - Non-Instructional Staffing	9/22/2025	In person
36	Dr. Angela Whitelaw	Department Superintendent of Education Services	9/22/2025	In person
37	Felicia Calhoun	Accountant	9/22/2025	In person
38	LaShundia Brooks	Executive Director of Talent Management	9/22/2025	In person
39	Justin Bailey	General Counsel	9/23/2025	In person
40	Virginia Rodgers	Charter Finance Director	9/23/2025	In person
41	LaQueeya Braxton	Director of Procurement	9/23/2025	In person
42	Donna Goings	Director of Mental Health Center	9/23/2025	In person
43	Arlandra Parker	Director of Charter Schools	9/23/2025	In person
44	Alexis Person	Senior Benefits Advisor	9/23/2025	In person
45	Dr. Tiffany Lockett	Executive Director of Exception Education	9/23/2025	In person
46	Gwendolyn Jeffries	Senior Compensation Advisor	9/23/2025	In person
47	Marc Edinbugh	Compliance	9/23/2025	In person
48	Charlotte Vann	Exceptional Education Advisor (Medicaid Reimbursement)	9/24/2025	In person
49	Yolanda Timberlake	Executive Services Advisor	9/24/2025	In person
50	Leon Pattman	Former Internal Audit Chief	9/25/2025	Virtual
51	Paula Young	Accounts Payable	10/6/2025	Virtual
52	Greg Gordon, Mary Taylor	Nutrition - Procurement	10/23/2025	In person
53	Stacy Moore	Nutrition Senior Accountant	10/23/2025	In person
54	Edmond Ford	Commissioner	11/10/2025	Virtual
55	Virginia Rodgers	Charter Finance Director	11/18/2025	Virtual
56	Leslie Knighten	Controller	11/24/2025	Virtual
57	James E. White	Information Technology ERP Database Advisor	12/3/2025	Virtual
58	Justin Bailey	General Counsel	1/12/2026	In person
59	James E. White	Information Technology ERP Database Advisor	1/12/2026	Virtual
60	Dr. Angela Whitelaw	Department Superintendent of Education Services	1/12/2026	In person
61	Tito Langston	Assistant Superintendent of Operations	1/12/2026	In person
62	Divalyn Gordon	Grant Manager for Head Start	1/12/2026	In person
63	Denise Brownlee	Contract Analyst	1/13/2026	In person
64	Christopher Hardiman	Principal Cordova Middle School	1/13/2026	In person
65	Jason Boyd	Security Tech Manager	1/13/2026	In person
66	Bill White	Data and Research	1/13/2026	In person
67	Carolyn Jackson	Chief of Security	1/13/2026	In person
68	Monica Jordan	Proximity Lead	1/13/2026	In person
69	Gwendolyn Jeffries	Senior Compensation Advisor	1/13/2026	In person

MSCS Forensic Audit - List of Interviews Conducted

	Interviewee	Title	Date of Interview	Location
70	Tito Langston	Assistant Superintendent of Operations	1/14/2026	In person
71	Felicia Calhoun	Accountant Travel	1/14/2026	In person
72	Virginia Rodgers	Charter Finance Director	1/14/2026	In person
73	Michelle Stewart	Facilities Officer	1/14/2026	In person
74	Arlanda Parker	Director of Charter Schools	1/14/2026	In person
75	Shenarick Story	Director of Grants Management & Compliance	1/14/2026	In person
76	Andrea Williams	Manager of HR Staffing	1/14/2026	In person
77	Jason Mayse	Director of Payroll	1/14/2026	In person
78	Derrick Morris	Director II Federal Programs & Operations	1/15/2026	In person
79	Leslie Knighten	Business Finance Officer	1/15/2026	In person
80	Felecia Feeney	Director of Budgeting & Fiscal Planning	1/15/2026	In person
81	Tito Langston	Assistant Superintendent of Operations	1/15/2026	In person
82	Catherine Wood	Manager of HR Instructional Staffing	1/15/2026	In person
83	Vincent McCaskill	President/CEO SchoolSeed	1/15/2026	Virtual
84	Richard Meyer	Whitehaven STEM Building, Inc. Representative	1/15/2026	Virtual
85	Yolanda Timberlake	Executive Services Advisor (Board Staff)	1/27/2026	Virtual
86	Vincent McCaskill, Rhonda Hughey	President/CEO SchoolSeed; Accounting Manager SchoolSeed	2/6/2026	Virtual
87	Stephen Wherry, Kenneth Williams, Tamara Clark	ED of Business Operations; Director of Warehousing; Warehouse Manager	2/12/2026	Virtual
88	Tito Langston	Assistant Superintendent of Operations	2/16/2026	Virtual
89	Dr. Angela Whitelaw	Department Superintendent of Education Services	2/16/2026	In person
90	Dr. Bobby White	Frayser Community Project	2/16/2026	In person
91	Dr. Angela Whitelaw	Department Superintendent of Education Services	2/16/2026	In person
92	Sonja Chambers	Coordinator Graduations	2/16/2026	In person
93	Phyllis Crutcher	Building Operations	2/16/2026	In person
94	Tiffany Crutchfield	Building Operations	2/16/2026	In person
95	Justin Bailey	General Counsel	2/17/2026	In person
96	Leslie Knighten	Controller	2/17/2026	In person
97	Virgina Rodger, Leslie Knighten	Charter Finance Director; Controller	2/17/2026	In person
98	Greg Gordon, Quinterion Mitchell, Latoya Calhoun, Merlin Boyce	Supply Chain Manager; Distribution Manager, Analyst Distribution; Senior	2/17/2026	In person
99	Leslie Knighten	Controller	2/17/2026	In person
100	Virgina Rodgers, Leslie Knighten	Charter Finance Director, Controller	2/17/2026	in person
101	Shenarick Story, Derrick Sanders, Derrick Morris	Dir of Grants Management & Compliance; Grant Planning & Budgeting; Dir of Federal Programs	2/17/2026	In person
102	Marc Edinburgh, William Fulton	Office of School Compliance; Internal Auditor	2/18/2026	In person
103	Tito Langston	Assistant Superintendent of Operations	2/18/2026	In person
104	Kenneth Williams	Director of Warehouse Operations	2/18/2026	In person
105	Vincent Hunter	Principal, Whitehaven High School	2/20/2026	In person
106	Reginald Harris, Ian Jones, Kenneth Williams, Stephen Wherry, Tamara Clark		2/20/2026	Virtual
107	Carrye Holland	Principal, White Station High School	2/20/2026	In person
108	Stephen Wherry, Tamara Clark, Keneth Williams, Derrick Morris	Warehouse Team	2/23/2026	Virtual
109	Natalie McKinney	Board Chair	2/24/2026	Virtual



# Memphis Shelby County Schools Whitehaven High School Herbert STEM Center

## State of Tennessee Comptroller of the Treasury Interim Investigative Report VOLUME III

March 12, 2026

Prepared by:  
**Folashade Abiola-Banjac, Esq.**  
**Ana Rodriguez, CPA, CFE**

CliftonLarsonAllen LLP

**[CLAconnect.com](https://www.claconnect.com)**

CPAS | CONSULTANTS | WEALTH ADVISORS

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Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor



March 12, 2026

Jason E. Mumpower  
Tennessee Comptroller of the Treasury  
425 Rep. John Lewis Way North  
Nashville, TN 37243

**RE: Memphis Shelby County Schools - Whitehaven STEM Center**

Dear Mr. Mumpower:

CliftonLarsonAllen LLP (CLA) was retained on July 18, 2025, by the State of Tennessee, Comptroller of the Treasury (Comptroller), to perform an internal control assessment and provide forensic audit services related to Memphis-Shelby County Schools (MSCS or “the District”). On November 4, 2025, the scope of work was amended to include a separate investigative engagement concerning the circumstances surrounding the fundraising and construction of the MSCS Whitehaven High School STEM Center. The project was funded through a combination of public contributions and private donations, and questions arose regarding a lack of clarity concerning amounts collected and the amounts expended to complete the project.

The purpose of this interim report is to present the results of our work as of the date of this report, which identified **total funds collected of \$9,936,666.75, total funds used of \$9,051,919.91, and a resulting balance of \$884,746.84 in unexpended funds.**

We performed our engagement in accordance with the Statement on Standards for Forensic Services No. 1 (SSFS No. 1) issued by the American Institute of Certified Public Accountants (AICPA) and the Code of Professional Standards of the Association of Certified Fraud Examiners (ACFE). This engagement did not constitute an audit, compilation, or review conducted in accordance with AICPA standards, the objective of which would be the expression of an opinion on specified elements, accounts, or items, and accordingly, CLA does not express such an opinion.

Professional standards promulgated by the AICPA prohibit CLA from expressing an opinion as to whether fraud or other criminal activity has occurred, and standards promulgated by the ACFE prohibit Certified Fraud Examiners (CFEs) from expressing opinions regarding the guilt or innocence of any person or party; therefore, CLA does not render such opinions. Because fraud and irregularities are often concealed, no absolute assurance can be provided that all such matters have been identified, and this engagement cannot be relied upon to disclose all irregularities or illegal acts, including fraud, that may exist; however, to the extent such matters came to our attention during the course of our work, they have been included in this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Folashade Abiola-Banjac'.

**CliftonLarsonAllen LLP**

Folashade Abiola-Banjac  
Principal

## Table of Contents

1.	Executive Summary .....	1
2.	Predication .....	4
3.	Background on Individual and Entities .....	5
4.	Investigative Procedures .....	7
5.	Applicable Policies .....	9
6.	Results of Investigation .....	10
A.	Contracts .....	10
B.	Size of the Building .....	11
C.	Revenues .....	20
D.	Expenditures .....	35
E.	Fund Balance .....	40
F.	Current Status of Building .....	43
G.	The Future .....	47
7.	Interim Conclusion .....	50
8.	Professional Standards Followed by CliftonLarsonAllen LLP .....	51
9.	Information about CliftonLarsonAllen LLP .....	52

## 1. Executive Summary

### Predication

CLA's work included an investigation into the fundraising and construction of the MSCS Whitehaven High School Herbert STEM Center, a project spanning June 2018 through its October 2025 ribbon-cutting ceremony, in response to concerns regarding its mixed public- and private-funding structure and potential discrepancies between funds raised and construction costs. The investigation was initiated following an October 2, 2025, request from the Whitehaven Empowerment Zone Leadership Council seeking a transparent accounting of project expenditures, explanations for scope changes, including a reduction from approximately 24,000 to 20,656 square feet, and disclosure of any related construction change orders.

### Background on Individuals and Entities

The Herbert STEM Center project involved multiple individuals and nonprofit entities with distinct roles in fundraising, project management, and fiscal administration. Key participants included SchoolSeed as the fiscal agent; Richard J. Myers, who led fundraising and construction efforts and promoted a nonprofit-led school construction model; and Whitehaven STEM Building, Inc., a nonprofit entity formed to support that model. Together, these parties structured and administered the project while the District obtained ownership of the completed facility.

### Investigative Procedures

The objective of this engagement is to assess whether funds raised for the Herbert STEM Center were appropriately applied to construction costs and whether any conflicts of interest existed related to fundraising or construction contracts. CLA's work focused on understanding the project's public-private structure, identifying key participants, and reviewing financial and documentary evidence supporting donations and expenditures. Although CLA requested bank statements for an account held by SchoolSeed on behalf of Whitehaven STEM Building, Inc., those statements were not provided. Subject to this limitation, CLA reviewed the general ledger and supporting documentation for substantially all recorded revenues and expenditures.

### Results of Investigation

This interim report presents the results of CLA's investigation, as of the date of this report, including key observations related to project governance, financial administration, and stakeholder communication, as summarized below.

- **Lack of Formal Agreement:** No formal written agreement existed between the District and Whitehaven STEM Building, Inc. governing the project, resulting in undocumented District expectations related to project scope, roles, and responsibilities.

- **Reduction in Building Size and Communication Gaps:** The decision to reduce the size of the Herbert STEM Center occurred during the design phase, with the final construction contract reflecting a smaller facility than earlier design concepts. While no construction change orders were required, gaps were identified in stakeholder communication, including the absence of documented approval by the Whitehaven High School Principal for a smaller than originally designed building.
- **Funding Structure and Procurement:** The project was funded through approximately \$9.9 million in combined public and private contributions, with public entities providing 58% of total funding and private donors contributing 42%. Despite the predominance of public funds, competitive procurement was not required because the contractor and architect were identified in advance and public funding approvals did not impose procurement requirements. Accordingly, no procurement-related conflict-of-interest evaluation was applicable.
- **Accounting Records and Corrections:** SchoolSeed’s accounting records were largely consistent with Board briefings, public records, and donor recognition materials, with reasonable explanations for identified variances. Four general ledger errors resulting in a \$45,590 understatement of donations were identified and corrected following CLA’s inquiry.
- **Donor Recognition Practices:** Donor recognition plaques categorize contributors by monetary donation levels; however, certain listed names did not correspond to recorded cash donations. Although intended to recognize non-monetary contributions, this presentation creates a risk that donor information could be perceived as misleading regarding actual cash contributions.
- **Project Expenditures:** Total project expenditures totaled approximately \$9.1 million, primarily paid to the construction contractor and architect, with smaller amounts paid to SchoolSeed and other vendors. Expenditures were adequately supported and determined to be appropriate and directly related to construction and related project activities.
- **Remaining Funds:** Approximately \$885,000 remains in the Whitehaven STEM Building, Inc. account at SchoolSeed. Communication with the District regarding the intended use and access to these funds has been insufficient and appears to be contributing to diminished trust among Whitehaven STEM Building, Inc. and the Whitehaven community.
- **Future Maintenance and Equipment Funding:** The Case for Support identified privately controlled funds for future maintenance and equipment; however, the intended use and timing were not clearly communicated.
- **Operational Readiness of the Facility:** Although the Board accepted the donated facility and a certificate of occupancy has been in place since September 2025, the Herbert STEM Center is not yet operational for instructional use. Outstanding functionality issues remain, no definitive utilization timeline has been established, and classrooms are partially or fully unfurnished despite available funding.
- **AP Teacher Initiative Concepts:** Mr. Myers described preliminary discussions with the University of Memphis and potential use of some of the remaining funds to support

an Advance Placement (AP) teacher initiative. As of the date of this report, these concepts remain informal and have not been communicated to or approved by the District.

#### Interim Conclusion

From a financial perspective, total funds raised (**\$9,936,666.75**) exceeded total expenditures (**\$9,051,919.91**), and project costs were generally appropriate, supported, and directly related to the Herbert STEM Center. However, gaps in communication regarding the remaining balance (**\$884,746.84**), future equipment and maintenance funding, and the timeline for instructional use, limited transparency and contributed to ongoing uncertainty.

Readers are encouraged to review the full report, which provides detailed findings and recommendations developed as a result of the investigation. The additional context and documentation are intended to support a comprehensive understanding of the matters summarized above and to inform consideration of potential next steps.

## 2. Predication

CLA's work included an investigation into the circumstances surrounding the fundraising and construction of the MSCS Whitehaven High School Herbert STEM Center (the "Herbert STEM Center"), a project that spanned more than seven years from initial concept in June 2018 through the ribbon-cutting ceremony in October 2025.<sup>1</sup>

The basis for this investigation arose from the project's funding structure, which included a combination of private donations and public contributions, as well as questions from the Whitehaven community regarding potential variances between the total funds raised and the amounts expended to complete the construction project.

Specifically, the Whitehaven Empowerment Zone Leadership Council issued a formal letter dated October 2, 2025, requesting a complete and transparent accounting of the Herbert STEM Center project, including justification for certain financial and structural changes. The letter raised concerns regarding the size of the building, which the Council understood would be approximately 24,000 square feet but was ultimately constructed at 20,656 square feet, and requested an explanation for any construction contract change orders that may have resulted in a reduction in building size. In addition, the Council requested that the chairpersons of relevant governmental entities and all foundations that provided funding for the project receive a comprehensive, inclusive, and transparent accounting of all project costs. CLA was engaged on November 4, 2025, to conduct this investigation.

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<sup>1</sup> The active construction period was from the groundbreaking ceremony held on October 2, 2024, to the ribbon-cutting ceremony held on October 8, 2025.

### 3. Background on Individual and Entities

The development of the Whitehaven High School Herbert STEM Center involved multiple individuals and entities with distinct roles in fundraising, project oversight, and fiscal administration. Key participants included SchoolSeed, the nonprofit fiscal agent established to serve as the District’s intermediary for private donations; Richard J. Myers, who led fundraising and construction efforts and advanced a nonprofit-led school construction model; and Whitehaven STEM Building, Inc., a nonprofit entity formed in connection with that model. The following sections provide background information on these individuals and organizations to establish context for their involvement in the Herbert STEM Center project.

- **SchoolSeed:** SchoolSeed is the fiscal agent for the project. The Memphis City Schools Board of Education Commission originally created SchoolSeed (initially known as the Memphis City Schools Foundation) by passing a resolution in February 2009. SchoolSeed’s purpose was to establish an independent 501(c)(3) nonprofit organization to serve as the District’s intermediary for private donations where the community could donate funding for the support of schools. On October 22, 2024, the District Board approved a resolution reaffirming commitment to the SchoolSeed Foundation. Vincent McCaskill was the inaugural Chief Executive Officer (CEO) selected by the Board due to his communications and development roles held at the District since 2003. Mr. McCaskill continues in the CEO role with SchoolSeed.
- **Richard Myers:** Richard J. Myers led the fundraising and construction effort associated with the Herbert STEM Center, following his prior involvement in a privately funded courtyard renovation project at White Station High School. On September 21, 2016, the District approved Mr. Myers, a parent and attorney, to begin fundraising for the White Station project.<sup>2</sup> The proposal was presented to the Board by Designshop, the project architect, and was approved by the Facilities Committee. According to a news article, Mr. Myers' goal was to create a template for the community to give money to specific building projects that would be managed privately. Once completed, the District would hold the deeds to the projects, but a nonprofit entity would be created to manage each project. Mr. Myers stated that the project was intended to serve as a model for privately managed, nonprofit-led school construction projects, under which the District would retain ownership of completed facilities and donors would be eligible for naming rights. This model was intended to be applied at both White Station High School and Whitehaven High School. In 2016, no specific mention was made about the project at Whitehaven High School, and this history is provided as context for the construction of the Herbert STEM Center.
- **Whitehaven STEM Building, Inc.:** At the completion of the prior project led by Mr. Myers, it was mentioned that the fundraising model would include the creation of a nonprofit corporation and CLA confirmed that on June 11, 2018, Mr. Myers submitted the initial filings to the State of Tennessee to form a nonprofit corporation.<sup>3</sup> The

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<sup>2</sup> Mr. Myers is a member attorney with the law firm Glankler Brown, PLLC which is located in Memphis Tennessee.

<sup>3</sup> Whitehaven STEM Building, Inc., unlike SchoolSeed, is not a 501(c)(3) nonprofit formally recognized by the United States Internal Revenue Services (IRS) and exempt from federal income tax enabling donors to claim

establishment of the Tennessee nonprofit corporation is consistent with the model mentioned in 2016. Figure 1 shows the filing details of Whitehaven STEM Building, Inc.

**Figure 1: November 6, 2018, Whitehaven STEM Building Inc. Initial Filing with the State**

<b>WHITEHAVEN STEM BUILDING, INC.</b>			
Entity Type: Nonprofit Corporation		Status: Active	
Formed in: TENNESSEE		Control Number: 000968387	
Term of Duration: Perpetual		Initial Filing Date: 6/11/2018 5:12:12 PM	
Additional Designation: School Organization - Exempt		Fiscal Ending Month: December	
Religious Type: Non-Religious		AR Due Date: 04/01/2026	
Benefit Type: Mutual Benefit Corporation			
<u>Registered Agent</u>		<u>Principal Office Address</u>	<u>Mailing Address</u>
RICHARD JAMES MYERS		6000 POPLAR AVE FL 4	6000 POPLAR AVE FL 4
6000 POPLAR AVE FL 4		MEMPHIS, TN 38119-3981	MEMPHIS, TN 38119-3981
MEMPHIS, TN 38119			
AR Standing: Good	RA Standing: Good	Other Standing: Good	Revenue Standing: N/A
<b>History (8)</b>			
Type	Date	Tracking Number	Change History
2024 Annual Report for WHITEHAVEN STEM BUILDING, INC.	4/10/2025 1:08:25 PM	B2025218710	<ul style="list-style-type: none"> <li>Annual Report Due Date changed from: 4/1/2025 to: 4/1/2026</li> <li>NAICS changed</li> </ul>
2023 Annual Report for Whitehaven STEM Building, Inc.	4/1/2024 12:13:37 PM	B1541-6403	
2022 Annual Report for Whitehaven STEM Building, Inc.	4/3/2023 9:36:26 AM	B1373-0112	
2021 Annual Report for Whitehaven STEM Building, Inc.	3/31/2022 1:48:00 PM	B1192-3660	
2020 Annual Report for Whitehaven STEM Building, Inc.	3/27/2021 1:46:16 PM	B1007-4917	
2019 Annual Report for Whitehaven STEM Building, Inc.	3/26/2020 11:12:29 AM	B0845-8340	<ul style="list-style-type: none"> <li>Registered Agent Physical Address 3 changed from: RICHARD J. MYERS to: GLANKLER BROWN</li> </ul>
2018 Annual Report for Whitehaven STEM Building, Inc.	3/29/2019 4:02:17 PM	B0683-0689	

tax deductions for qualifying contributions. The Tennessee nonprofit status for Whitehaven STEM Building, Inc. established the legal structure and governance requirements but does not by itself confer federal tax-exempt status or allow donors to deduct contributions for federal tax purposes.

#### 4. Investigative Procedures

The objective of this engagement is to determine whether funds raised were properly applied to the construction of the facility and to assess whether any conflicts of interest existed in connection with the fundraising activities and the administration of construction contracts. This section communicates the investigative procedures conducted by CLA as of the date of this interim report and communicates the current status of completion.

CLA researched the history behind the public-private efforts to construct the Herbert STEM Center to gain an understanding of the different entities and individuals involved and whether any precedent existed for this type of effort. Additionally, CLA conducted comprehensive email review to establish a timeline of the events leading up to the fundraising efforts and commencement of the project as well as the completion of the project.

CLA interviewed individuals currently employed by the District such as the Superintendent of Operations, the Controller-Accounting & Reporting Department, the Facilities Officer, the Superintendent, the Executive Director of Internal Audit, the Officer of School Compliance, and the Principals at both Whitehaven High School and White Station High School. CLA also interviewed representatives of SchoolSeed and of Whitehaven STEM Building, Inc.

SchoolSeed indicated that it had established a bank account designated exclusively for the funds of Whitehaven STEM Building, Inc. CLA requested copies of the related bank statements; however, SchoolSeed stated that a decision had been made not to provide CLA with the bank statements. CLA did obtain and examine the general ledger maintained by SchoolSeed in its capacity as fiscal agent for Whitehaven STEM Building, Inc., along with supporting documentation for substantially all recorded expenditures, rather than on a sample basis.

CLA examined District Board, Memphis City Council, and Shelby County Board of Commissioners meeting agendas, supporting documents, and minutes to identify approved contributions related to the construction of the Herbert STEM Center, including documentation of accepted donations and approved naming rights. This review identified the project's larger contributions; however, additional investigative procedures were performed to identify donations of smaller dollar amounts. Specifically, CLA accessed the Internet Archive (Wayback Machine) to review donations displayed on the donor wall maintained by SchoolSeed and visited the Herbert STEM Center to photograph donor plaques displayed on site.<sup>4</sup> These procedures were performed to compare donations identified through research and investigative efforts with donations recorded in the general ledger maintained by SchoolSeed as fiscal agent for Whitehaven STEM Building, Inc. All identified donations were examined and compared to the general ledger in their entirety, rather than on a sample basis.

CLA conducted a comprehensive review of electronic communications, applying targeted keyword searches across the full population of emails obtained in connection with the

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<sup>4</sup> The Wayback Machine is a publicly accessible digital archive maintained by the nonprofit Internet Archive that preserves historical versions of public webpages; courts have recognized its use for retrieving prior web content but generally require authentication through testimony or affidavit.

internal control assessment and forensic audit within the original scope of engagement. The review encompassed correspondence files for approximately 40 current and former District Board members and employees, as summarized in Table 1.

**Table 1: Email Files Retrieved by CLA**

Description	Quantification
Number of Custodians	40
Count of emails/attached documents	3,214,640
Number of pages	20,542,225
Size	2.17TB

Relevant email communications and electronic documents identified in connection with this investigation are summarized in this report.

Percentage of Completion: 85%

SSFS No. 1 permits the issuance of interim reports and interim findings or conclusions for work completed to date, provided that any scope limitations are clearly disclosed and conclusions remain subject to revision if additional information becomes available. Accordingly, should additional information or documentation be obtained after issuance of this interim report, certain observations and the interim conclusion may be revised, updated, or deleted in the final report.

As of the time of this interim report, CLA has completed approximately 85% of the work that includes conducting research, email review, interviews, analysis of financial records, and testing of revenues and expenditures. However, some investigative procedures remain outstanding such as obtaining additional documentation requested from SchoolSeed, obtaining additional information and documentation from White Station High School relating to one expense where items were sold from this school to Whitehaven STEM Building, Inc. for use in the Herbert STEM Center, and conducting additional interviews of certain individuals.

## 5. Applicable Policies

The following policies are relevant to various aspects of this investigation and are referenced throughout this report to provide context for the procedures performed and observations noted.

- **Board Policy 2019 Grants, Gifts, Donations, & Sponsorships:** The purpose of this policy is to establish guidelines for the acceptance and administration of grants, gifts, donations, and/or sponsorships. The conditions of donations must be fully assessed and understood prior to acceptance/approval. The Board is responsible for approving items at or exceeding a \$15,000.00 value. The Superintendent shall be required to provide notification of intended and actual use of the donations approved by the Board. A donor may be granted naming rights of District real estate in accordance with policy 1007 Naming District Real Estate.
- **Board Policy 1007 Naming District Real Estate:** District policy provides that naming rights for District real estate may be granted under limited circumstances, including recognition of outstanding contributions to the District. Naming in recognition is subject to Board approval and discretion and must align with the District's goals, mission, and vision. In considering naming an asset after an individual, the Board evaluates the individual's significance to students, employees, and the broader community.
- **Board Policy 3013 Inventory Management:** This policy establishes an effective and efficient District-wide management program for the recording of inventory, accounting, and disposal/disposition of personal property owned by the District. The District reserves the right to transfer equipment to other schools if the equipment is declared excess to school or departmental needs in accordance with District guidelines.

## 6. Results of Investigation

This section presents the results of the investigation, including an overview of contracts, the building size, revenues, expenditures, and the remaining fund balance. It also provides the current status of the building and outlines key considerations for the future.

### A. Contracts

CLA conducted research, inquiries, and email reviews to determine whether formal written contracts existed among the primary entities involved in, or benefiting from, the construction project. CLA identified certain written contracts; however, no formal written contract with the District was identified. This section describes the absence of a formal written contract with the District and summarizes the other primary contracts that were identified.

**District:** The District representatives confirmed during interviews with CLA that a formal written contract for this project did not exist between Whitehaven STEM Building, Inc., SchoolSeed, and the District. Through the results of email review CLA further confirmed that a contract was never drafted or executed at any point. Below is a list of relevant communications regarding the contracts.

- CLA identified an email sent on May 1, 2024, from the District's Senior Manager, Accounting & Reporting asking the Assistant Superintendent of Operations whether a memorandum of understanding (MOU) existed for the Whitehaven project and if so to forward to her. The Assistant Superintendent of Operations responded that he would send. On May 7, 2024, the Senior Manager followed up to request the MOU. CLA did not identify the receipt of the MOU via email and inquired with the Superintendent of Operations during an interview whether an MOU existed or was drafted at any point. He stated that there was never an MOU in place but did not know the reasons why one did not exist. He explained that when he responded to the Senior Manager's inquiry, he was under the impression there had been an MOU.
- CLA identified an email sent on October 6, 2025, by the District Counsel, expressing that at a minimum an MOU should have been executed and mentioning concerns about possibly requesting a retroactive MOU.
- CLA identified that on the same day, October 6, 2025, the Superintendent, in a confidential briefing, provided information to the Board regarding the failure by the prior administration to formalize any agreement between SchoolSeed and the District, and Whitehaven STEM Building, Inc.

CLA inquired with Mr. Myers regarding a contract or MOU with the District and Mr. Myers responded that one was not needed and that the agreement had been an oral agreement discussed with the Superintendent and the Board chair in 2019. Furthermore, he stated although he doubts he would ever lead another similar

project for the benefit of the District, if the District were to require a contract, "...it would be real simple."<sup>5</sup>

Although a written contract with the District did not exist for this project, Whitehaven STEM Building, Inc., had formal written contracts for the following:

- **SchoolSeed:** Whitehaven STEM Building, Inc. contracted the services of SchoolSeed as the fiscal agent for the project responsible for receiving and administering all funds related to the project at a cost of 2% of all funds deposited into the Whitehaven STEM Building, Inc. account held with SchoolSeed. The contract was effective June 27, 2018.
- **Designshop:** Designshop was the architectural firm involved in the project. On June 22, 2018, Whitehaven STEM Building, Inc. entered into a contract with Architecture firm, Designshop for design services concerning the project. Two other contracts were executed subsequently on May 13, 2022 and on November 30, 2023.
- **Montgomery Martin:** Montgomery Martin was the construction company involved in the project. The contract between Whitehaven STEM Building, Inc and Montgomery Martin was executed on August 19, 2024.

#### Interim Observations

**Observation #1** No written contract or memorandum of understanding for the project existed between the District and Whitehaven STEM Building, Inc. for the construction of the Whitehaven High School STEM Building. Therefore, memorialization of the expectations, building size, total funds required for the project, an understanding of how the funds were to be fundraised, collected, distributed, and accounted for were also unclear and undocumented.

#### Recommendations

**Recommendation #1** For any future projects that the District may authorize through the use of a public-private partnership, it is recommended that a formal written agreement be established and approved by the Board. The terms of the agreement should clearly delineate the District's and the nonprofit's responsibilities.

### **B. Size of the Building**

Through the research and email review conducted it was evident that the Whitehaven community expressed concerns relating to the size of the building which they believed

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<sup>5</sup> This was communicated to CLA by Mr. Myers during a virtual interview CLA conducted with him on January 15, 2026. By "real simple" he meant a contract would be high-level and not detailed.

would be approximately 24,000 square feet but instead was built at 20,656 square feet. The bullets below describe details regarding some of these concerns.

- On October 2, 2025, the District received an inquiry from Fox 13 News stating that the community leaders, founders, and parents have raised questions about transparency, funding, and structural changes to the facility. Five specific questions were included relating to ownership and contracts, change orders, funding oversight, accountability, and the certificate of occupancy. CLA notes, the email concluded with the statement that “...this project represents a significant investment in the Whitehaven community, and there are concerns that promises made to families and students are not being fulfilled.”
- CLA identified a letter dated on the same day, October 2, 2025, from the Whitehaven Empowerment Zone Leadership Council Chairman to the District requesting clear documentation and justification regarding financial as well as structural changes. Specifically, the letter requested a full accounting of the funds raised, distribution list of expenditures, and an explanation of change orders including a clear justification for the reduction of approximately 4,500 square feet in the planned facility. This reduction was revised on March 20, 2024, and thereafter, a request to chairpersons of government entities and foundations that provided funding for the project to receive comprehensive, inclusive, and transparent accounting of all proforma costs.<sup>6</sup> This letter was electronically signed by Eddie S. Jones, Jr. the Whitehaven Empowerment Zone Leadership Council Executive Board Chairman.

CLA prepared a timeline of events as it relates to the facts identified relating to the size of the Herbert STEM Center. As mentioned previously, the process from beginning to end was over seven years long and the listing below describes details specifically concerning the size of the building.

*Originally Designed as a 24,562 Square Foot Building*

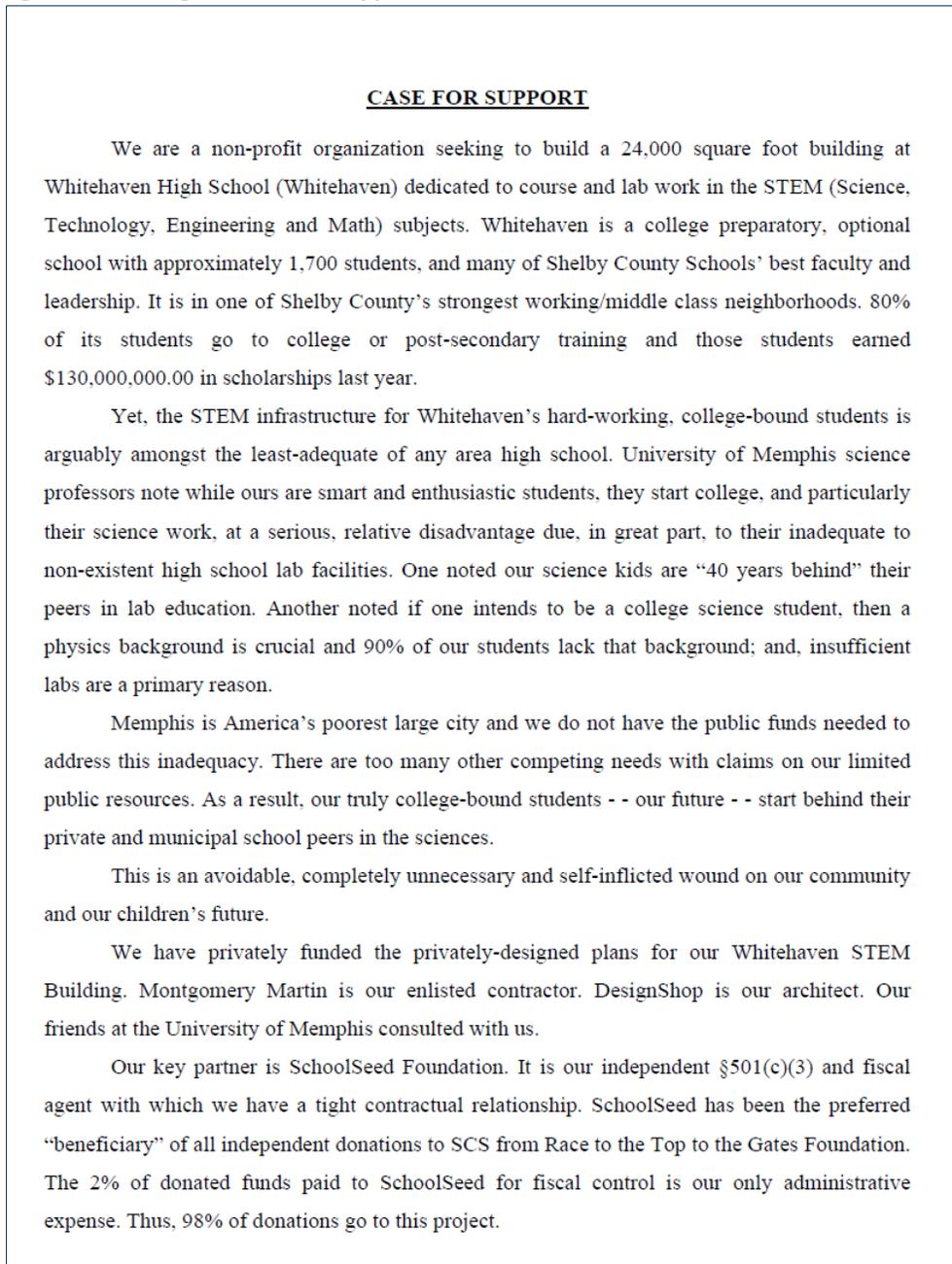
- The initial Designshop drawings labeled 19015 and dated September 23, 2019, show on page 4 the total floor space of 24,652 square feet.
- However, on August 4, 2021, the Case for Support submitted to the Shelby County Board of Commissioners listed the building size to be approximately 24,000 square feet. Further, CLA notes, the Commissioners approved a \$300,000.00 grant payable to SchoolSeed to “partially fund a STEM lab in the Whitehaven Community.” Other exhibits presented along with the Case for Support included a letter from Mr. Myers to SchoolSeed with a budget from Montgomery Martin communicating estimated cost of the Whitehaven High School STEM building at \$5,761,109.00 based on the 100% Design Development set of plans from Designshop dated September 23,

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<sup>6</sup> The foundations providing funding for the project listed in this letter included the Herbert Family Foundation, Assisi Foundation, Tennessee Valley Authority, The Speer Charitable Trust, Canale Foundation, King Rogers, Pinnacle Financial Partners, Elvis Presley Enterprises, and Brown Baptist Church.

2019. This resolution was sponsored by Chairman Eddie S. Jones, Jr. Figure 2 includes the first page of the Case for Support document.

**Figure 2: First Page of Case For Support Document**



- CLA identified the first Naming Rights agreement that was executed with effective date of May 1, 2023, with James Herbert and Judi Herbert for their initial donation

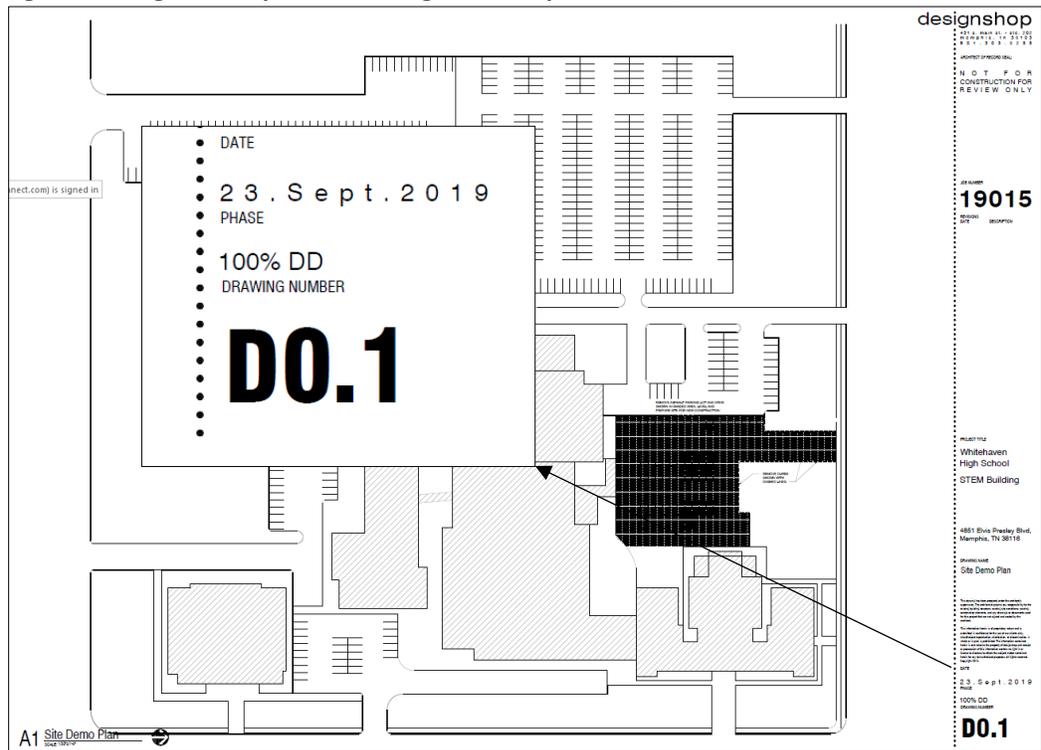
of \$2,000,000.00. This agreement referred to the STEM Building as “originally designed to be 24,000 SF with nine labs.”<sup>7</sup>

- CLA notes, the Naming Rights agreements approved by the Board during the July 29, 2025, meeting also had the same language regarding the STEM Building size, “originally designed to be 24,000 SF with nine labs.”

#### *Changes to the Square Footage of The Building*

- As noted, the initial Designshop drawings labeled 19015 and dated September 23, 2019, indicate on page 4 a total floor area of 24,652 square feet. These drawings are identified as Design Development (DD) drawings, as indicated by the “DD” designation in the lower right corner of the cover page as shown in Figure 3. Design Development drawings are preliminary in nature and are typically not fully detailed and precede Construction Documents.

**Figure 3: Design Development Drawings dated September 23, 2019**



- CLA identified additional Design Development drawings were prepared by Designshop labeled Job Number 22017 and dated June 21, 2023. The total floor area for these drawings is 18,579 square feet and it includes a storm shelter as indicated in Figure 4.

<sup>7</sup> The naming rights agreement specified that the Whitehaven High School STEM building would be named the “Herbert STEM Center.” Subsequent references in this report refer to this building as the Herbert STEM Center.

Figure 4: Design Development Drawings – Portion of Page 2

CODE NOTES		
<b>APPLICABLE CODES</b>		
PERMITTED UNDER THE FOLLOWING:		
2021 INTERNATIONAL BUILDING CODE W/ LOCAL AMENDMENTS		
2021 ENERGY CONSERVATION CODE W/ LOCAL AMENDMENTS		
2020 NATIONAL ELECTRICAL CODE W/ LOCAL AMENDMENTS		
2021 INTERNATIONAL PLUMBING CODE W/ LOCAL AMENDMENTS		
2021 INTERNATIONAL MECHANICAL CODE W/ LOCAL AMENDMENTS		
2021 INTERNATIONAL FUEL GAS CODE W/ LOCAL AMENDMENTS		
<b>ZONING DISTRICT</b>		
R-10 - RESIDENTIAL SINGLE FAMILY - 10		
EDUCATION FACILITY: SCHOOL, PUBLIC OR PRIVATE (K-12) PERMITTED		
<b>ZONING INFO (UDC 3.10.2)</b>	<b>ALLOWABLE</b>	<b>ACTUAL</b>
MIN. LOT AREA:	20,000 SF	EXISTING: N/A
WIDTH:	100 FT	EXISTING: N/A
BUILDING HEIGHT:	40 FT (MAX)	+/- 31 FT
FRONT SETBACK:	20 FT (MAX)	EXISTING: N/A
SIDE SETBACK:	10 FT (MAX)	+/- 70 FT
REAR SETBACK:	20 FT (MAX)	+/- 450 FT
FRONT PARKING SETBACK:	20 FT (MAX)	EXISTING: N/A
<b>CONSTRUCTION TYPE (SECTION 602.5)</b>		
TYPE II-B UNPROTECTED		
SPRINKLERED		
NON-COMBUSTIBLE MATERIALS		
<b>OCCUPANCY CLASSIFICATION (SECTION 309)</b>		
E - EDUCATION		
<b>BUILDING HEIGHTS AND AREAS (CHAPTER 5)</b>		
ALLOWABLE HEIGHT:	75 FEET	
ACTUAL HEIGHT:	31 FEET	
ALLOWED NUMBER OF STORIES:	3	
ACTUAL STORIES:	2	
ALLOWABLE FLOOR AREA:	43,500 SQFT	
ACTUAL FLOOR AREA:	18,579 SQFT	
(1ST FLOOR) 9,965 SQFT + (2ND FLOOR) 9,507 SQFT = (TOTAL) 18,472 SQFT		
<b>FIRE RESISTANCE RATINGS (TABLE 601.1)</b>		
<b>OCCUPANCY (TABLE 1004.1.2)</b>		
OCCUPANCY CALCULATIONS:		
CLASSROOM AREAS (3,879/20 NET)	194	
SHOP/VOCATIONAL/LAB AREA (4,973/50 NET)	100	
ACCESSORY STORAGE AREAS (805/300 GROSS)	603	
TOTAL:	297	
<b>MEANS OF EGRESS (TABLE 1006.3.1)</b>		
NUMBER OF EXITS REQUIRED	2	
NUMBER OF EXITS PROVIDED	8	
<b>WIDTH OF STAIR REQUIRED (SECTION 1005.3.1)</b>		
0.3 PER OCCUPANT = 84.6"   106" PROVIDED		
<b>WIDTH OF EXIT REQUIRED (SECTION 1005.3.2)</b>		
0.2 PER OCCUPANT = 56.4"   456" PROVIDED		
<b>EXIT ACCESS DISTANCE (TABLE 1017.2)</b>		
250 FT MAX.   158'-0" ACTUAL PROVIDED		
<b>LENGTH OF DEAD END CORRIDOR (SECTION 1020.4)</b>		
50 FT MAX.   21'-0" ACTUAL PROVIDED		
<b>INTERIOR WALL &amp; CEILING REQUIREMENTS (TABLE 803.11)</b>		
CORRIDORS	CLASS B	
EXIT ENCLOSURES & PASSAGEWAYS	CLASS C	
ROOMS & ENCLOSED SPACES	CLASS C	
<b>WALL, PARTITION, &amp; OPENING PROTECTIVES (TABLE 508.4)</b>		
OCCUPANCY SEPARATION: NO SEPARATION REQUIRED		
<b>STORM SHELTER REQUIREMENT (SECTION 423)</b>		
STORM SHELTER:	REQUIRED	
AREA:	297 OCCUPANTS X 5 SQUARE FEET/OCC. =	1,485 S.F.
	+ 2 WHEELCHAIR SPACE X 10 SQUARE FEET =	20 S.F.
	TOTAL STORM SHELTER AREA REQUIRED =	1,505 S.F.
	TOTAL STORM SHELTER AREA PROVIDED =	1,599 S.F.
<b>PLUMBING SYSTEMS</b>		

- Additional Design Development drawings were prepared by Designshop labeled Job Number 22017 and dated October 20, 2023. The total floor area for these drawings was 18,579 square feet and included a storm shelter.
- CLA notes the final Construction Documents drawings prepared by Designshop and labeled Job Number 23035 were dated March 18, 2024. CLA visited the District Facilities Office and physically reviewed the voluminous construction documents noting that the total floor area for these drawings is 19,524 square feet and include a storm shelter. Final Construction Documents are identified with the “CD” designation on the cover page as shown in Figure 5. The Facilities Officer confirmed to CLA that these Construction Document drawings were used for the construction of the Herbert STEM Center and explained that these drawings are required prior to even breaking ground for the construction to commence.<sup>8</sup> The contract with the construction company, Montgomery Martin, was executed on August 19, 2024, for a sum of \$8,041,616 based on the Construction Documents by Designshop dated March 18, 2024.<sup>9</sup>

<sup>8</sup> Two separate groundbreaking ceremonies took place. The first took place on April 4, 2024; however, due to funding uncertainties the construction work did not commence. A second groundbreaking ceremony took place on October 2, 2024.

<sup>9</sup> Exhibit B to Montgomery Martin’s contract includes the list of Contract Documents that reference the Construction Documents with drawing date of March 18, 2024.

**Figure 5: Construction Document Drawings dated March 18, 2024**

- CLA additionally accessed the publicly available Shelby County/City of Memphis Board of Adjustment (BOA) staff report and recommendation showing building size of 19,524 square feet as shown in Figure 6.<sup>10</sup>

**Figure 6: Portion of Board of Adjustment Staff Report**

dpsd MEMPHIS AND SHELBY COUNTY		STAFF REPORT	
<b>AGENDA ITEM:</b>	11	<b>B.O.A. MEETING:</b> June 26, 2024	
<b>CASE NUMBER:</b>	BOA 2024-0048 (City)		
<b>LOCATION:</b>	4855 Elvis Presley Boulevard		
<b>OWNER/APPLICANT:</b>	Memphis City Schools/ Roy Lamica		
<b>REPRESENTATIVE:</b>	Roy Lamica, EFI Global		
<b>REQUEST:</b>	Variance from Section 4.5.3 to allow a reduction in required parking minimums for Whitehaven High School		
<b>EXISTING ZONING:</b>	Residential-Single Family – 10 (R-10) and a portion of the site is within the Residential Corridor Overlay		
<b>CONCLUSIONS</b>			
<ol style="list-style-type: none"> <li>1. The Memphis Shelby County School District seeks to construct a STEM (Science, Technology, Engineering and Math) center at the Whitehaven High School campus.</li> <li>2. The 19,524 square foot STEM facility is proposed to be built in an existing parking area accessible to faculty and staff.</li> <li>3. While 58 parking spaces would be added for the new facility, 94 existing parking spaces would be eliminated leaving an overall parking deficit of 36 parking spaces at the school.</li> <li>4. However, the applicant's representative and school administrators determined that an excess of 230 parking spaces go unused during regular school hours.</li> <li>5. The granting of this variance will not cause substantial detriment to the public good, nor will it substantially impair the intent and purpose of an adopted plan or the Code, nor will it be injurious to the neighborhood or the general welfare, and it will be harmony with the purpose and intent of the development code.</li> </ol>			

<sup>10</sup> The Certificate of Occupancy is discussed subsequently in the *Current Status of Building* section and lists a building size of 20,656 square feet. Differences between square footage figures cited in the Board of Adjustment approvals and those listed on a Certificate of Occupancy are common. BOA approvals are based on planning-level information available at the time of zoning review, while Certificates of Occupancy reflect final as-built conditions and may include additional code-required or support spaces incorporated during construction.

### *Communications Regarding Changes to The Square Footage of The Building*

Based on the review of emails and interviews conducted, it appears that there was a significant amount of communication regarding the changes to the square footage of the building as time progressed; however, there are also indications that at least the Principal of Whitehaven High School, may not have received this communication directly before the construction commenced. The following list of relevant communications provides details as to communications regarding the changing square footage of the building.

- CLA identified a letter dated January 24, 2023, from Designshop to Whitehaven STEM Building, Inc. noting that there had been no changes from the dimensions of original schematic design package to the progress meeting on June 20, 2022. Designshop further stated that changes included in that letter occurred as a result of the June 20, 2022, meeting and were presented at the progress meeting on July 25, 2022.<sup>11</sup> The letter details several required and not required changes; however, there was no change in overall building footprint dimensions. Under required changes it listed the addition of the storm shelter which prior to January 2021, was not required by the local code office. This letter concludes with the note that since the building was originally estimated in 2019, the financial landscape of the building industry has seen generational shifts in costs and timelines. It further mentioned “a building that was \$220/sq. ft. in 2019 is now roughly \$400-\$500/sq. ft.”
- CLA notes on January 31, 2023, Montgomery Martin sent an email to Mr. Myers providing a budget revision for the building. The email mentioned that in the first section of the budget are the items from the Designshop list from 2019, and that in the second section there are additional items to reduce the budget further. The first section stated a Montgomery Martin construction budget of \$11,371,517, and a second section provided a cost savings revised budget estimate of \$9,287,517.
- CLA identified an email dated September 20, 2023, from Mr. Myers to the Interim Superintendent and the Chair of the Whitehaven Empowerment Zone Leadership Council Executive Board, along with other District employees and SchoolSeed. In this email, Mr. Myers communicated, gratitude to the District for additional funding and stated, “the archs [*sic*] will come up with a rough draft downsize proposal, the one I sent a few weeks ago, which is attached. that [*sic*] is how building would have generally looked downsized from 24K SF to 18.5K SF, assuming an estimated 8.5MM budget.”
- CLA identified an email dated October 27, 2023, from Mr. Myers to multiple recipients, including the District Interim Superintendent, the Chief of Business Operations, the current Assistant Superintendent of Operations, other District employees, Mr. Herbert and other donors, SchoolSeed, and Eddie S. Jones at eddie.s.jones@shlbycountyttn.gov who is the chairman of the Whitehaven

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<sup>11</sup> These two meeting dates were also mentioned in an email from the Whitehaven High School Principal on June 12, 2025. The email from the principal is discussed in a subsequent subsection within this section.

Empowerment Zone Leadership Council.<sup>12</sup> CLA observed that the Whitehaven High School Principal was not included in this email communication. In this email, Mr. Myers communicated that attached were the initial renderings of the “18.5K SF stem building at Whitehaven high [sic].” He asked that the Chief of Business Operations review and approve, or state required revisions of the attached and particularly the rendering. The Design Development drawings attached to these emails were the drawings labeled Job Number 22017 and dated October 20, 2023, that were previously mentioned. The total floor area in these drawings was 18,579 square feet. Mr. Myers followed up on his request on November 6, 2023, this time only copying District employees and SchoolSeed. The Chief of Business Operations forwarded the request to two other employees, including the Chief of Building Operations, and asked for assistance responding to the email.

- On November 8, 2023, the Chief of Building Operations responded to Mr. Myers’ email stating, “If school approves and agrees [sic] I also reviewed and approve the layout.” Mr. Myers responded on the same date, “whs approved the stem building in 2019, based on preliminary plans for a 24K SF building. this is a modification thereof to fit our budget [sic]. We’ll proceed.” CLA notes that this email message from Mr. Myers appears to indicate that he does not plan to share the updated Design Development drawings showing total floor area of 18,579 square feet with the Whitehaven High School Principal.
- Further, CLA notes on June 12, 2025, the Whitehaven High School Principal emailed the Chair of the Whitehaven Empowerment Zone Leadership Council and others including the District Superintendent of Operations and the Facilities Officer. In this email he communicated concerns over differences in what he expected the size of the building to be and what was actually being constructed. He provided an overall conclusion that there was a reduction of approximately 4,358 square feet based on his calculations referencing the Design Development drawings labeled 19015 reviewed during a meeting held on June 22, 2022, and the Design Development drawings labeled 22017 from a July 25, 2022, meeting.<sup>13</sup> Based on the Design Development drawings the Principal referenced, it does not appear that he had access to the final Construction Documents drawing labeled Job Number 23035 dated March 18, 2024.
- Lastly, on June 12, 2025, the current Facility Officer emailed SchoolSeed with a copy to Mr. Myers asking for a list of donating parties and amounts so that she is prepared for any questions from the Board as she would be taking the Herbert STEM Center Naming Rights contracts to the Board for approval. She further communicated that the Whitehaven High School Principal is concerned that the building is different from what he thought and was concerned that donors were “not getting what they thought.” SchoolSeed responded that as for the Principal’s

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<sup>12</sup> There are several other emails where Mr. Myers communicated with District representatives about decreasing the size of the building due to the increased costs. For brevity, only this email communicating the decrease in size is included in this interim report.

<sup>13</sup> These two meeting dates were also mentioned in the Designshop letter dated January 24, 2023, which indicated that there was no change in overall building footprint dimensions.

remarks, “all donors were going to take their money back if the building didn’t get built. The reality is the money that was raised would not have paid for all the extras. Inflation pushed the building to almost 12 million dollars. The storm shelter added did not help. It is my understanding that adjustments were made with the approval of the lead donor who gave \$2.5 million to this. He was the one who was going to pull his money out.”

CLA inquired of Mr. Myers whether he had communicated the change in the building’s square footage to donors, the District, the Whitehaven Empowerment Zone Leadership Council, and the Whitehaven High School administration. Mr. Myers stated that he had kept stakeholders informed of the changes and that he believed his communications with the Chair of the Whitehaven Empowerment Zone Leadership Council satisfied his responsibility to inform the school and the broader community. He further stated that, due to significant increases in construction costs resulting from the COVID-19 pandemic, there was concern that donors, particularly the largest donor, Mr. Herbert, might request the return of their contributions if construction did not commence. Mr. Myers indicated that the revised design was pursued because the original design was estimated to cost more than \$12,000,000.00, an amount which he stated could not be raised.

The Assistant Superintendent of Operations and the Facilities Officer confirmed to CLA that Mr. Myers had kept the District apprised of the need to reduce the size of the building. Based on their experience with other school construction projects and their observations of significant increases in construction costs following the COVID-19 pandemic, they concurred that a reduction in building size was necessary due to increased construction costs and the addition of a storm shelter requirement.

As of the date of this interim report, CLA has been unable to contact and schedule an interview with the Chairman of the Whitehaven Empowerment Zone Leadership Council. CLA expects to conduct this interview and possibly others after the issuance of this interim report.

### Interim Observations

**Observation #2** Email evidence indicates that Mr. Myers communicated with District representatives, donors (including Mr. Herbert), and the Chairman of the Whitehaven Empowerment Zone Leadership Council Executive Board regarding the need to reduce the size of the Herbert STEM Center. The 2019 Design Development drawings reflected a total floor area of 24,652 square feet; however, these drawings did not constitute the final Construction Documents. The final Construction Documents, dated March 18, 2024, reflected a reduced total floor area of 19,524 square feet and are the documents referenced in the construction contract with Montgomery Martin. No construction change orders were identified that reduced the building size from 24,652 square feet to 19,524 square feet as there was never a

contract with Montgomery Martin for the construction of a 24,652 square foot building.<sup>14</sup>

However, based on email correspondence reviewed, particularly communications dated November 8, 2023, it appears that Mr. Myers did not provide the Whitehaven High School Principal with the opportunity to review and approve the updated Design Development drawings reflecting a reduction in total floor area to 18,579 square feet. Whether the Chairman of the Whitehaven Empowerment Zone Leadership Council Executive Board reviewed the communications in which he was included regarding the reduction in building size and whether that information was subsequently communicated by him to the Whitehaven community or the Principal has not yet been determined.

### Recommendations

**Recommendation #2** To avoid similar concerns in future projects, the District should establish and enforce a formal stakeholder communication protocol for capital projects funded through a combination of public and private sources to improve transparency, ensure appropriate stakeholder involvement, and reduce the risk of misunderstandings regarding project scope and approvals.

### **C. Revenues**

This section communicates the details of the fundraising efforts and the results of CLA's investigation into funds raised for the project and the sources. The Herbert STEM Center was financed through a combination of private donations and public contributions. As per the agreement between Whitehaven STEM Building, Inc. and SchoolSeed, all funds were received by SchoolSeed to administer and account for. Based on the results of research and interviews conducted, it is clear that Mr. Myers was the primary fundraiser and was supported in these efforts by SchoolSeed's CEO.

#### *Background on Fundraising efforts*

Fundraising for the project commenced in 2019 and accelerated in 2020. Early contributions were relatively modest in amount; however, they indicate that active fundraising efforts had begun. Mr. Myers indicated that these early contributors were among the first donors and that their funds were used to support the purchase of the initial Designshop Design Development drawings.<sup>15</sup> Table 2 details the 2019 contributions received by SchoolSeed.

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<sup>14</sup> Additional details relating to the Montgomery Martin Contract and change orders are discussed in the *Expenditures* section of this report.

<sup>15</sup> As mentioned, the first Design Development drawings from Designshop were dated September 23, 2019.

**Table 2: Results of Initial Fundraising Efforts**

Date	Transaction Type	Donor Name	Amount
04/18/2019	Deposit	Brandon Morrison	\$ 10,000.00
04/18/2019	Deposit	Jim and Libby Witherington	1,000.00
05/29/2019	Deposit	Rogers Commercial Properties	2,500.00
05/29/2019	Deposit	George & Bena Cates	5,000.00
Total Raised in 2019			<u>\$ 18,500.00</u>

Fundraising efforts in early 2020 were evident and started to result in larger contributions. The listing below indicates some of those early 2020 efforts.

- CLA notes that on February 6, 2020, SchoolSeed communicated with representatives of the Assisi Foundation regarding a grant request submitted by Mr. Myers for the construction of the Herbert STEM Center. In that communication, SchoolSeed indicated that a separate grant submission from the District, related to a project identified as a top priority by the superintendent at the time, should take precedence over the grant requested for the STEM building.
- CLA identified a detailed email dated February 12, 2020, from SchoolSeed soliciting donations through the SchoolSeed donor portal. The email stated, "Please consider financially supporting our children's future by completing the link below. Your donation will go directly to the construction and development of Whitehaven's new STEM building and will impact the education of generations to come."<sup>16</sup>
- Lastly, on February 11, 2020, Mr. Myers communicated with a representative of the Assisi Foundation to acknowledge the Foundation's selection of another MSCS grant. In that communication, he also reported that a \$2,000,000.00 private gift had been secured the prior week during a visit to Whitehaven High School with a prospective donor, noting that the school's principal shared a yearbook from the prospective donor's graduation during the visit. Mr. Myers further indicated that a meeting with the Governor was scheduled and expressed hope for an additional award ranging from \$500,000.00 to \$1,000,000.00. Further communications within the same email chain reference a discussion with Nike as a potential donor.

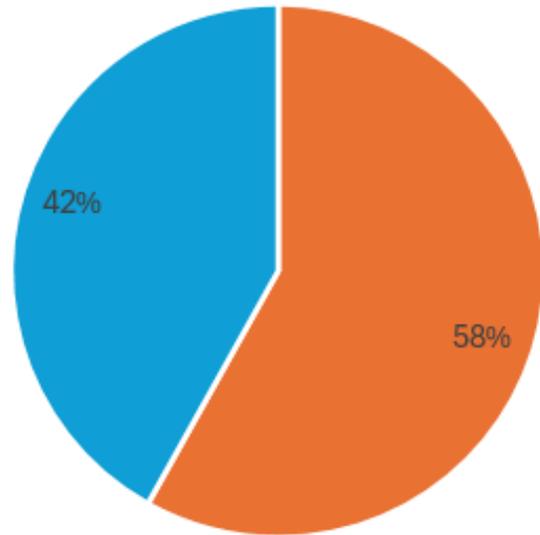
Although the initial project completion date was by the 2021 academic year, fundraising activities were disrupted and did not proceed as planned due to the COVID-19 pandemic. Fundraising efforts resumed and gained momentum again beginning in 2021, resulting in funding commitments from public entities, including Shelby County, the City of Memphis, the District, and the Tennessee Valley Authority.

<sup>16</sup> The link included in this email is the link that CLA utilized to search the SchoolSeed donation wall through the internet archive mentioned previously.

### *Private and Public Contributions*

Contributions were received from both public and private sources, with public contributions accounting for 58% of the total and private donations comprising the remaining 42%, as illustrated in the chart to the right.

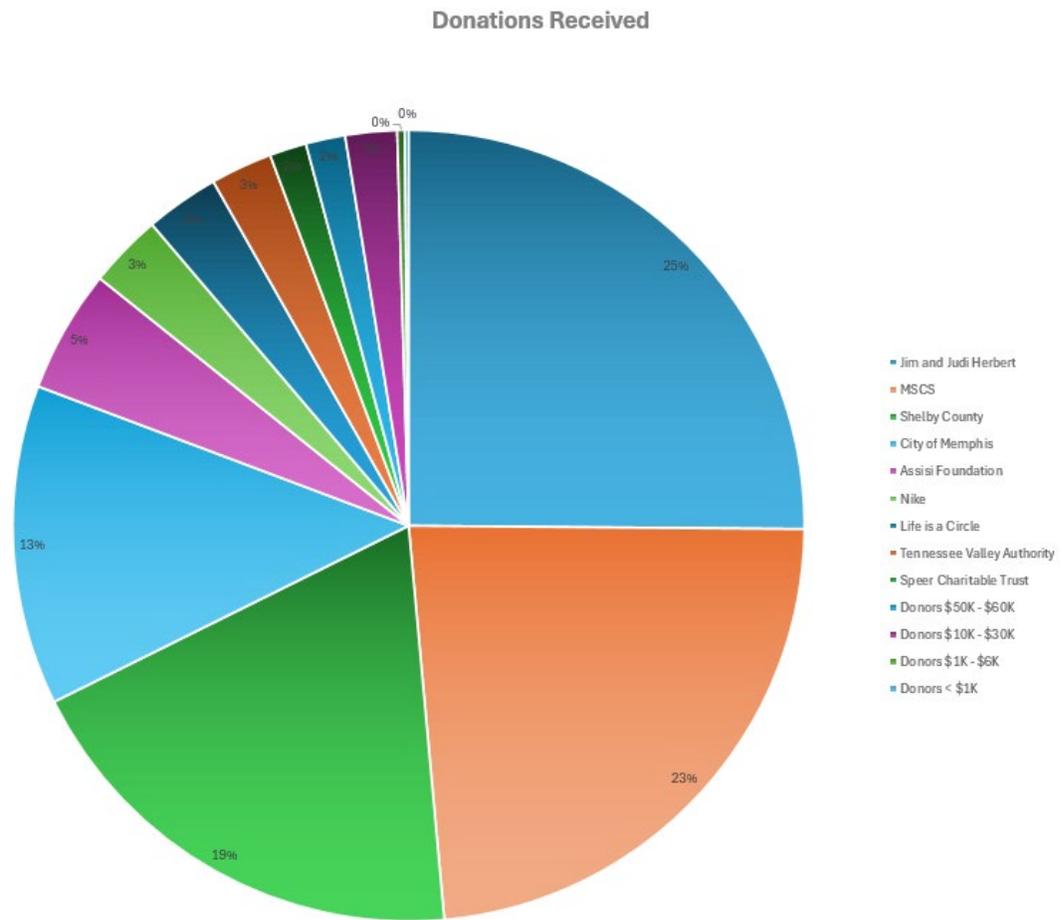
Public entity contributions totaled \$5,781,090.00 and included: \$2,330,090.00 from the District, \$1,900,000.00 from Shelby County, \$1,300,000.00 from the City of Memphis, and \$251,000.00 from the Tennessee Valley Authority.



Although nearly two-thirds of the funds raised for the construction of the Herbert STEM Center were contributed by public entities, there was no expectation that a competitive procurement process would be undertaken, as the Case for Support document shared with donors, including public entities, identified Montgomery Martin as the contractor and Designshop as the architect. Furthermore, the resolutions of public entities approving the funding did not include a requirement for a competitive procurement process for vendor selection. While Tennessee law generally requires competitive procurement when public entities directly contract for construction or services (e.g., Tenn. Code Ann. §§ 12-3-1212, 5-14-108), those requirements were not imposed in this instance according to resolutions approving the funding.<sup>17</sup>

Six major private donors contributed gifts exceeding \$100,000.00. The largest contribution was provided by Jim and Judi Herbert in the amount of \$2,500,000.00, followed by the Assisi Foundation with a donation of \$500,000.00. Nike and the Life Is A Circle Foundation each contributed \$300,000.00, and the Speer Charitable Trust contributed \$150,000.00. There were other private entities and individual donors who gave from \$20.00 to \$60,000.00. The chart below presents the largest public and private donors as a percentage of total contributions and groups donors contributing less than \$60,000.00 into tiered categories for comparative analysis.

<sup>17</sup> Resolutions approved by the District and the County are subsequently discussed in sections *MCSC Contributions Structure* and *Review of Payments by the City of Memphis and Shelby County*, respectively.



*MCSC Contributions Structure*

During the period from the initiation of fundraising efforts through project completion, the District experienced multiple changes in the superintendent role, which contributed to uncertainty regarding MSCS’s commitment to the project. The superintendent in place when fundraising efforts began separated from the District before there was evidence of any formal commitment by MSCS to provide funding.

The interim superintendent who followed made commitments verbally and through text messages; however, no formal agreement or documentation was executed prior to the conclusion of her interim appointment, and a new superintendent was in place by March 2024. Although SchoolSeed recorded MSCS donation pledges in its accounting records, no corresponding formalized commitment was approved by the Board and issued by the District until August 20, 2024.

An extensive volume of email correspondence documents delays by the District in providing funding. For purposes of brevity, this report presents only the most relevant communications and related Board actions surrounding the District’s commitments to the Herbert STEM Center project.

- On December 1, 2022, the Manager, Accounting & Reporting communicated via email to SchoolSeed that the Interim Superintendent confirmed a \$1.3 million budget allocation.
- On May 24, 2024, Mr. Myers emailed the District Board Chair a letter in an attempt to confirm an additional \$1 million in funding he believed was committed to by the Prior Superintendent and the Assistant Superintendent of Operations.
- On June 26, 2024, SchoolSeed issued an invoice to the District requesting payment of \$2.3 million. The District did not process payment for this invoice and the prior Superintendent responded that she did not see any Board approvals beyond the \$1.3 million approved in fiscal year 2022. She additionally communicated that payments could be made only on a reimbursement basis.
- On August 14, 2024, the Board Chair emailed the Superintendent and a County representative, with a copy to other Board members and individuals. In this email she provided the results of the previous day's committee meeting. She summarized that the meeting provided an opportunity for the administration and Board to publicly express concerns, gather feedback, and clarify expectations to resolve prior uncertainty. Key discussion points included funding mechanics, with consensus reached to shift from an upfront payment to a reimbursement model. As a result, the resolution was revised to reflect reimbursable funding through submitted receipts, enabling the project to move forward pending Board approval at a tentatively scheduled Special Called Meeting. An attachment containing Montgomery Martin's storm shelter cost of \$1,041,243.00 was included in the email.
- On August 20, 2024, a Special Call Meeting was held to approve the resolution amendment to fund the Herbert STEM Center. The resolution was approved indicating a commitment of \$1,041,243.00 in addition to the \$1,300,000.00 funded by the previous administration through County Capital Bonded Funds for a total commitment of \$2,341,243.00. The approved resolution listed requirements for SchoolSeed to submit receipts, executed contracts, paid invoices, and payment disbursement confirmation.

#### *Review of Contributions Made by the District*

The District received the first invoice from SchoolSeed requesting reimbursement on September 6, 2024. In accordance with the approved Board resolution, the invoice submitted by SchoolSeed included vendor invoices paid by SchoolSeed and documentation confirming those payments. However, the supporting documentation did not include executed contracts for vendors where such contracts existed, and District accounts payable personnel did not request the missing contracts.<sup>18</sup> CLA reviewed the remaining invoices submitted by SchoolSeed and confirmed that each included vendor invoices or payment applications and proof of payment. None of the submissions included executed contracts with Designshop or Montgomery Martin. In total, the District

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<sup>18</sup> The accounts payable representative appropriately requested that the Facilities Officer confirm the work had been performed prior to processing payment.

reimbursed SchoolSeed \$2,330,090.00 as listed in Table 3, which is approximately \$11,153.00 less than the approved budget.

**Table 3: Payments by District to SchoolSeed for STEM Building Project Reimbursements<sup>19</sup>**

Year	Acctg Date	Description	Amount	Funding Source	Fund	Project
FY 2025	9/13/2024	School Seed Foundation-WH HS Stem Bldg Addition	\$ 9,490.73	Shelby County Government	07	C984
FY 2025	10/11/2024	School Seed Foundation-WH HS Stem Bldg Addition	2,773.48	Shelby County Government	07	C984
FY 2025	10/23/2024	School Seed Foundation-WH HS Stem Bldg Addition	168,189.47	Shelby County Government	07	C984
FY 2025	11/13/2024	School Seed Foundation-WH HS Stem Bldg Addition	19,312.34	Shelby County Government	07	C984
FY 2025	11/18/2024	School Seed Foundation-WH HS Stem Bldg Addition	308,657.42	Shelby County Government	07	C984
FY 2025	1/10/2025	School Seed Foundation-WH HS Stem Bldg Addition	45,946.48	Shelby County Government	07	C984
FY 2025	1/10/2025	School Seed Foundation-WH HS Stem Bldg Addition	670,187.70	Shelby County Government	07	C984
FY 2025	1/10/2025	School Seed Foundation-WH HS Stem Bldg Addition	37,691.27	Shelby County Government	07	C984
FY 2025	1/10/2025	School Seed Foundation-WH HS Stem Bldg Addition	5,505.06	Shelby County Government	07	C984
FY 2025	1/22/2025	School Seed Foundation-WH HS Stem Bldg Addition	4,603.21	Shelby County Government	07	C984
FY 2025	1/28/2025	School Seed Foundation-WH HS Stem Bldg Addition	27,642.84	Shelby County Government	07	C984
FY 2025	1/28/2025	School Seed Foundation-WH HS Stem Bldg Addition	633,659.03	Fund 1 Investment	01	IY25
FY 2025	2/13/2025	School Seed Foundation-WH HS Stem Bldg Addition	366,639.63	Fund 1 Investment	01	IY25
FY 2025	2/13/2025	School Seed Foundation-WH HS Stem Bldg Addition	29,791.34	Fund 1 Investment	01	IY25

Total

\$ 2,330,090.00

#### *Review of Payments by the City of Memphis and Shelby County*

The City of Memphis donated \$1,300,000.00 and CLA identified that these contribution amounts were received. For example, the City Council's approval of a final contribution of \$500,000.00 on September 26, 2023.

Shelby County donated a total of \$1,900,000.00, which CLA was able to confirm through a review of the Shelby County Board of Commissioners' meeting minutes and additional corroborating research. The County Commission clearly approved a \$300,000.00 grant in August 2021 and a \$600,000.00 grant in January 2022. However, ambiguity arose with respect to the grant approved on December 4, 2023, as the minutes approved appeared to indicate a contribution of \$1,550,000.00 as shown in Figure 6.

<sup>19</sup> The descriptions in this table were extracted from the District's general ledger and CLA did not modify the descriptions to include the correct spelling of the entity name, SchoolSeed.

**Figure 7: Extraction of County Commission Minutes for December 4, 2023.**

**NOTE: CHAIRWOMAN CLAY BIBBS STATED THAT ITEM 33 WOULD BE TAKEN UP AT THIS TIME.**

33. Resolution amending the Fiscal Year 2024 Operating Budget and allocating, appropriating, and expending \$1,550,000.00 to Schoolseed for the Whitehaven High School Stem Center to support and enhance the tradition of academic excellence and expansion of various educational programs. This item requires the expenditure of General Funds in an amount not to exceed \$1,550,000.00. Sponsored by Commissioner Dr. Edmund Ford, Jr, Commissioner Erika Sugarmon and Commissioner Britney Thornton.

SCHOOLSEED - WHITEHAVEN STEM.DOC

SCHOOLSEED - WHITEHAVEN STEM.DOC

Moved by Commissioner Sugarmon, seconded by Commissioner Ford

33. Resolution amending the Fiscal Year 2024 Operating Budget and allocating, appropriating, and expending \$1,550,000.00 to Schoolseed for the Whitehaven High School Stem Center to support and enhance the tradition of academic excellence and expansion of various educational programs. This item requires the expenditure of General Funds in an amount not to exceed \$1,550,000.00. Sponsored by Commissioner Dr. Edmund Ford, Jr, Commissioner Erika Sugarmon and Commissioner Britney Thornton.

**PASSED** : Motion carried 12-0

**AYES:** Commissioner Whaley, Commissioner Wright, Commissioner Mills, Commissioner Lowery, Vice Chair Caswell, Commissioner Sugarmon, Commissioner Ford, Commissioner Bradford, Commissioner Thornton, Commissioner Avant, Commissioner Brooks, Chairwoman Clay Bibbs

**NAYS:** None

**ABSENT:** Commissioner Morrison

**RECUSED:** None

The heading of the resolution attached to the minutes also communicated an appropriation of \$1,550,000.00 to SchoolSeed for the Whitehaven High School STEM center. Notwithstanding the heading, the body of the resolution stated: “This encompasses contributions to the construction of the Whitehaven STEM building at Whitehaven High School, financial backing for the Whitehaven branch of the YMCA, and support for other entities, as determined by SchoolSeed, that unequivocally align with the mission of SchoolSeed.”

Due to this ambiguity, and because only a \$1,000,000.00 donation for this time period had been recorded by SchoolSeed in its general ledger, CLA requested that SchoolSeed provide copies of all executed contracts with both the City and the County. SchoolSeed advised that it did not have executed contracts, as the payments had been received based solely on publicly approved motions rather than formal agreements. SchoolSeed further acknowledged that it also found the wording of the December 4, 2023, resolution unclear and indicated that the language had caused confusion internally.

As a result of this uncertainty regarding the intent of the resolution, SchoolSeed contacted Shelby County and requested an amendment to clarify the specific amounts allocated to each initiative. SchoolSeed also indicated that it would obtain and provide the executed amendment to CLA once available.

SchoolSeed subsequently obtained the amendment and provided it to CLA. The amended document, signed by the County on April 5, 2024, described funding for a new facility to house the Whitehaven High School STEM Center and included an amended Exhibit A. That

exhibit allocated \$1,000,000.00 for HVAC, \$400,000.00 for community education outreach and family empowerment support, and \$150,000.00 for SchoolSeed Foundation operational support.

SchoolSeed further communicated to CLA that, even after the amendment was executed, it continued to perceive ambiguity in the County-related agreements. In May 2025, SchoolSeed emailed the County Commission Chair seeking additional clarification but did not receive a response. As a result, SchoolSeed informed CLA, “We are likely going to return the portion of the resources that were for ‘other entities support’ because the language is ambiguous.” The email sent by SchoolSeed to the County Commission Chair on May 14, 2025, communicated the updated policy regarding support of County projects and specifically stated that all terms of any future engagement be clearly outlined in the County-issued contract.

Based on additional inquiry and review of the amended documentation, CLA obtained sufficient confirmation that the resolution approved by the County Commission on December 4, 2023, was intended to award \$1,000,000.00 for the Whitehaven STEM Building. Accordingly, the total amount of \$1,900,000.00 recorded in the general ledger as donations from Shelby County appears accurate.

#### *Total Funds Raised*

The general ledger provided by SchoolSeed was examined to verify that that the expected donations were recorded, based on the results of examination of the SchoolSeed’s donor wall accessed through an internet archive, the briefings provided to the Board, the naming rights agreements, and the donor names listed on the plaques displayed in the STEM building. There were approximately four errors that were identified through this review and the SchoolSeed accounting department researched and confirmed to CLA that in fact those were errors and would be corrected. The table below shows the corrected listing of donations in summary by donor.<sup>20</sup> The notes column on the right contains a reference to additional explanations necessary due to the results of the analysis which did not require a correction. These explanations are provided immediately after the table.

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<sup>20</sup> The four errors included the following: Pinnacle Bank contributed \$50,000 according to Naming Rights agreement; however, the general ledger listed only \$4,500.00, for a \$45,500.00 understatement. Financial Federal and/or Kent Wunderlich contributed \$30,000 according to Naming Rights agreement; while the general ledger listed only \$20,000.00, for a \$10,000.00 understatement. King Rogers listed \$60,000.00 in the general ledger but the Naming Rights agreement and confirmation from Mr. Myers communicated that that the King Rogers contribution was \$50,000.00, for a \$10,000.00 overstatement. Lastly the District paid \$2,330,090 according to payments confirmed by CLA, while the general ledger listed 2,330,000.00, an understatement of \$90.00. The total net understatement was \$45,590.00 ( $\$45,500 + \$10,000.00 - \$10,000.00 + \$90.00 = \$45,590.00$ ).

**Table 4: Summary of Donations Received by SchoolSeed for STEM Building Project**

No.	Donor Name	Total	Notes
1	Jim and Judi Herbert <sup>21</sup>	\$ 2,500,000.00	-
2	MSCS	2,330,090.00	-
3	Shelby County	1,900,000.00	-
4	City of Memphis	1,300,000.00	-
5	Assisi Foundation	500,000.00	-
6	Nike	300,000.00	-
7	Life Is A Circle Foundation	300,000.00	[1]
8	Tennessee Valley Authority	251,000.00	-
9	Speer Charitable Trust	150,000.00	-
10	King and Judy Rogers	50,000.00	-
11	Pinnacle Bank	50,000.00	-
12	Canale Foundation Inc.	50,000.00	-
13	Financial Federal Kent Wunderlich	30,000.00	-
14	Valero	27,000.00	-
15	Jim and Libby Witherington <sup>22</sup>	26,000.00	-
16	Christian Community Foundation of Memphis and Midsouth	25,000.00	-
17	Reaves Law Firm	21,250.00	[2]
18	Brown Missionary Baptist Church	20,000.00	-
19	Triumph Community Development Foundation	10,500.00	-
20	Robert Spence	10,000.00	-
21	Michael & Christina Scarbrough/Prospero Health	10,000.00	-
22	The Rouse Company Foundation	10,000.00	-
23	Brandon Morrison	10,000.00	[3]
24	Nancy Walker	10,000.00	-
25	Rotary Club Memphis East	6,000.00	-
26	George & Bena Cates	5,000.00	[4]
27	Hopson Dorsey	3,500.00	-
28	Rogers Commercial Properties	2,500.00	[5]
29	Real Life Ministries	2,000.00	-
30	Lisbeth C Breazeale	1,500.00	-
31	SI - Confirmed Anonymous	1,500.00	-
32	By God Inspired Ministries	1,250.00	[6]
33	Larry Maples	1,200.00	-

<sup>21</sup> Although the initial contribution by Jim and Judi Herbert was \$2,000,000.00, CLA confirmed that an additional \$500,000.00 was donated for a total donation of \$2,500,000.00.

<sup>22</sup> Jim and Libby Witherington were included in the list of initial donors mentioned in Table 2 on page 21 with an initial donation of \$1,000.00. Two additional donations of \$12,500.00 each were recorded with dates of October 20, 2023, and November 4, 2024, respectively, for total donations of \$26,000.00 as summarized in this table.

No.	Donor Name	Total	Notes
34	Dennis Dockery	1,000.00	-
35	New Hope Baptist Church	1,000.00	-
36	Jo Carroll Turville	1,000.00	-
37	John and Mary Martin	1,000.00	-
38	Breazeale James	1,000.00	-
39	Healing Center	1,000.00	[7]
40	Jenkins Earnestine	950.00	-
41	William Mattox	700.00	-
42	Valeria Edmonds	600.00	-
43	Alain Delon Williams	600.00	-
44	Ameriprise Financial	500.00	-
45	Tom and Pansy Tomilson	500.00	-
46	Wayne and Suzanne Williams	500.00	-
47	Clementhia Poole	500.00	-
48	Community Foundation of Greater Memphis	500.00	-
49	Barbara George Pollard	500.00	-
50	Jr. Ewing	500.00	-
51	Professional Advisory Services	500.00	-
52	Marsh Mickens	450.00	-
53	Angela Edwards	400.00	-
54	Jerome Perkins	300.00	-
55	Traci Townsel	300.00	-
56	Kedziora Martinrex	300.00	-
57	Robert Gatewood	300.00	-
58	Bonitta Saulsberry	300.00	-
59	Jennifer Whitehaven Stem Collins	300.00	-
60	Yvette Brooks	300.00	-
61	Memphis Edwards	300.00	-
62	Athena Granger Hearn	300.00	-
63	James Hentz	250.00	-
64	Gary R Dowdy	250.00	-
65	Willie Wilson	150.00	-
66	Danielle Albright	150.00	-
67	Angela Mathis	150.00	-
68	Derrick Mcintosh	150.00	-
69	Danielle Lee	150.00	-
70	Jackson Roosevelt	150.00	-
71	Kirby Bill	150.00	-
72	Cox Shelia	150.00	-
73	LaVerne Reed	150.00	-
74	Phillip Tate	150.00	-

No.	Donor Name	Total	Notes
75	Ralph Johnson	150.00	-
76	Lola Bolden	150.00	-
77	Joann Massey	150.00	-
78	Carrie Harris	150.00	-
79	Melissa Coleman	150.00	-
80	Suzanne Kelly	150.00	-
81	Rita Prior	150.00	-
82	Ted & Abbay Evannoff	150.00	-
83	Justin Jones	150.00	-
84	Ann McCormick	100.00	-
85	Carol Culbreath	100.00	-
86	TJ Walsh	100.00	-
87	Marsha Mickens	100.00	-
88	Aisha Dotson	100.00	-
89	Maurice Cash app Sargent	100.00	-
90	Thomas Yow	100.00	-
91	McGarry Presley	100.00	-
92	Alisa Wilson	100.00	-
93	John Stephen Draper	100.00	-
94	Cortney Richardson	100.00	-
95	Susan Neely-Barnes	100.00	-
96	Charles Fulton	100.00	-
97	Anonymous Cash app	91.75	-
98	Don Guttenplan	50.00	-
99	Deetra Tate	50.00	-
100	Stephen Morris	35.00	-
101	Jefferson Adrienne	30.00	-
102	Shannon Cotton	25.00	-
103	Mary Rose Reed	25.00	-
104	Johnathan Irby	20.00	-
105	Mt. Vernon	0.00	[8]
Total Donations		\$ 9,936,666.75	

There were some differences identified when comparing the results of research for some of the donors as indicated in the Notes column; however, no correction to the recorded donation amounts was deemed necessary. These differences are explained below.

[1] On March 26, 2024, a Board Briefing document referenced a \$300,000.00 donation from Elvis Presley Enterprises. However, the SchoolSeed's general ledger did not reflect a donation from that entity, nor did the naming rights documents approved by the Board on July 29, 2025, include Elvis Presley Enterprises. CLA inquired with Mr. Myers and SchoolSeed regarding the referenced donation and was informed that Joel Weinshanker

made a \$300,000.00 donation in honor of Life Is A Circle Foundation. Upon review of supporting documentation, CLA determined that \$100,000.00 was received via wire transfer from Mr. Weinshanker and \$200,000.00 was received via check from the Elvis Presley Charitable Foundation. According to research results, Mr. Weinshanker serves as the managing partner and majority owner of Elvis Presley Enterprises, the president and a Board member of the Elvis Presley Charitable Foundation, and the principal officer of Life Is A Circle Foundation; therefore, it appears reasonable that Mr. Myers honored the request to list Life Is A Circle Foundation as the donor.<sup>23</sup>

**[2]** On the same March 26, 2024, Board Briefing document, \$150,000.00 was listed as a donation for Reaves Law Firm. Additionally, this pledge was reported by the Daily Memphian on May 29, 2022. However, the general ledger listed a donation of only \$21,250.00. During the initial interview with Mr. Myers, he communicated to CLA that payment had been received for nearly all the larger pledges, with the exception of a local law firm. CLA asked that Mr. Myers confirm that Reaves Law Firm had not kept its donation commitment, and he confirmed that was the case. As of the date of this interim report, CLA is yet to contact Reaves Law Firm to confirm their donation amount.

**[3]** The plaques displayed on the walls of the STEM building do not list a donation from Brandon Morrison, while the general ledger lists a \$10,000.00 donation. Mr. Myers did not specifically address whether he had failed to list Mr. Morrison on the honor plaques. Refer to Table 2 which lists this donation as one of the first four donations received.

**[4]** The plaques displayed on the walls of the Herbert STEM Center do not list a donation from George and Bena Cates; however, the general ledger lists a \$5,000.00 donation. Mr. Myers communicated to CLA that he had failed to include George and Bena Cates in the plaques. He confirmed the donation had been received and had in fact been one of the earlier donations. Refer to Table 2 which lists this donation as one of the first four donations received.

**[5]** The plaques displayed on the walls of the Herbert STEM Center do not list a donation from Rogers Commercial property; however, the general ledger lists a \$2,500.00 donation. Mr. Myers communicated to CLA that he had failed to include Rogers Commercial property on the plaques. He confirmed the donation had been received and had in fact been one of the earlier donations. Refer to Table 2 which lists this donation as one of the first four donations received.

**[6]** On the March 26, 2024, Board Briefing document previously mentioned, a donation of \$10,000.00 was listed for By God Inspired. Additionally, a Naming Rights agreement was approved by the Board and executed for the same amount on July 29, 2025. However, the general ledger listed a donation of only \$1,250.00. The CEO of SchoolSeed confirmed

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<sup>23</sup> CLA does not make a determination as to whether it is appropriate for the Elvis Presley Charitable Foundation to not be listed as an official donor based on the request of Mr. Weinshanker to honor Life Is A Circle with this donation.

that he is affiliated with the By God Inspired church and confirmed that only the recorded donation of \$1,250.00 had been made.

[7] On the same March 26, 2024, Board Briefing document, a donation of \$2,000.00 was recorded for Real Life Ministries, while the general ledger recorded only \$1,000.00. SchoolSeed confirmed to CLA that only \$1,000.00 had been received. For all of these donations that were communicated during the March 26, 2024, briefing, it was explained to CLA that at that point they were relying on the pledges made not actually the amounts already received.

[8] On the same March 26, 2024, Board Briefing document, a donation of \$1,500.00 was listed for Mt. Vernon. The general ledger listed Mt. Vernon with an adjustment to \$0.00 with the note, "Mt. Vernon Baptist church Original Pledged. \$1,500 but paid zero."

#### *Matching Names Displayed on Plaques in STEM Building to the General Ledger*

The review of the plaques identified two names listed under the \$10,000.00 to \$99,000.00 donation level: Oteka Technologies and "In Honor of Patrice Robinson." SchoolSeed confirmed that no monetary donations were received from either party. Mr. Myers explained that Oteka Technologies was recognized because the company performed approximately \$100,000.00 in work but charged only \$37,400.00.<sup>24</sup> With respect to "In Honor of Patrice Robinson," Mr. Myers stated that "a number of people helped get this done who didn't give me money," and that he included their names and images in the building as a way to express appreciation.

There were also three names listed on the plaques under the \$1,000.00 to \$9,999.00 donation level that could not be identified in the general ledger. Mr. Myers provided the same explanation, stating that these individuals were recognized for non-monetary contributions to the project.

Lastly, while 43 names listed on the plaques under the less-than-\$1,000.00 donation level were matched, 32 names could not be matched to specific contributors in the general ledger. Conversely, the general ledger reflected 22 contributors with donations ranging from \$30.00 to \$700.00 whose names did not appear on the plaques. The explanation provided for these discrepancies was that sometimes individuals donated but they wanted to honor someone else, so the names could not be matched. In total, there were ten more names displayed on the plaques at the under-\$1,000.00 contribution level than unmatched contributors in the general ledger for donations under \$1,000.00.

#### Interim Observations

**Observation #3** Total funds raised for the Herbert STEM Center project amounted to \$9,936,666.75, of which \$5,781,090.00 was contributed by public entities, including the District, Shelby County, the City of Memphis,

<sup>24</sup> CLA reviewed the invoice from Oteka Technologies and confirmed it was for \$37,400.00. However, there is no communication on the invoice that a discount had been provided on the work. As of the date of this interim report, CLA has not contacted Oteka Technologies to confirm.

and the Tennessee Valley Authority, and \$4,155,576.75 was generated through private donations, representing approximately 58% and 42% of total funding, respectively. Although a majority of the funds raised for construction were contributed by public entities, a competitive procurement process was not expected, as the Case for Support identified Montgomery Martin as the contractor and Designshop as the architect, and the resolutions approving the public funding did not require competitive procurement. While Tennessee law generally requires competitive procurement when public entities directly contract for construction or services (e.g., Tenn. Code Ann. §§ 12-3-1212, 5-14-108), those requirements were not imposed through the funding resolutions. Accordingly, no separate evaluation related to potential conflicts of interest was identified as applicable to the fundraising activities and the administration of construction contracts.

- Observation #4** Generally, the accounting records maintained by SchoolSeed were able to be reconciled to the information presented to the Board through Board Briefings, Naming Rights agreements, County and City minutes, the SchoolSeed electronic donor wall, and the donor recognition plaques displayed in the Herbert STEM Center, or a reasonable explanation was provided for any differences. Four errors were identified in the general ledger that resulted in a \$45,590.00 understatement of donations received; However, SchoolSeed acknowledged the errors following CLA's inquiry, corrected the general ledger, and provided it to CLA on March 3, 2026.
- Observation #5** Donor recognition plaques classify contributors by monetary donation ranges; however, certain names listed within these tiers do not correspond to a matching cash contribution recorded in the general ledger. Specifically, Oteka Technologies and "In Honor of Patrice Robinson" are listed under the \$10,000.00 to \$99,000.00 level despite confirmation that no monetary donations were received from either party, and similar variances were identified at lower donation levels. Mr. Myers stated that these recognitions were intended to acknowledge non-monetary contributions. Nevertheless, including non-cash contributors within dollar-designated donation categories may reasonably lead readers to infer that monetary contributions were made at the stated levels, creating a risk that the donor information presented on these plaques could be viewed as misleading with respect to actual cash donations.
- Observation #6** The District approved a resolution on August 20, 2024, committing \$1,041,243.00 in additional funding, supplementing the \$1,300,000.00 previously funded by the prior administration through County Capital Bonded Funds, for a total commitment of

\$2,341,243.00. The approved resolution required SchoolSeed to submit receipts, executed contracts, paid invoices, and payment disbursement documentation. SchoolSeed submitted all required documentation with the exception of executed contracts, and the District's accounts payable personnel did not request the contracts as required. This represents a failure to follow the requirements specified in the Board-approved resolution. Although CLA confirmed that valid contracts did exist, this matter is communicated as a procedural deficiency on the part of the District.

### Recommendations

**Recommendation #3** SchoolSeed should implement formal reconciliation and documentation procedures to ensure that all donation information presented to the Board, reflected in donor recognition materials, and recorded in the general ledger is complete, accurate, and consistently supported. This should include (1) timely reconciliation of the general ledger to Board communications and donor recognition records, (2) documented review and approval of adjustments to donation records, and (3) retention of supporting documentation for all recognized contributions, including explanations for non-monetary recognition.

**Recommendation #4** In the event that a similar project is undertaken in the future, clear guidelines governing donor recognition practices to ensure alignment between recognition categories and the nature of contributions received should be in place. Specifically, donor recognition materials should clearly distinguish between monetary and non-monetary contributions, and non-cash contributors should not be presented within dollar-designated donation tiers unless the value represents a verifiable cash contribution recorded in the general ledger. Where recognition of non-monetary support is desired, alternative acknowledgment methods (e.g., a separate recognition category or descriptive notation) should be used to reduce the risk of misinterpretation. In addition, donor recognition listings should be reviewed and reconciled to supporting records prior to publication or display to ensure accuracy and consistency.

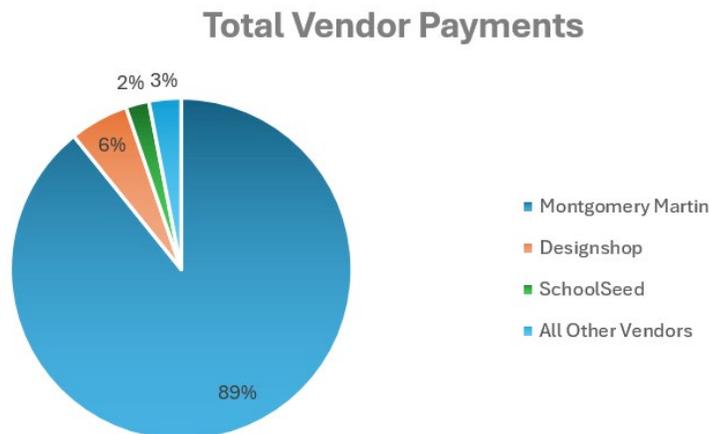
**Recommendation #5** The District should reinforce accounts payable procedures to ensure that personnel are knowledgeable of, and consistently comply with, all documentation requirements established by Board-approved resolutions prior to processing payments. Specifically, accounts payable staff should be required to verify the receipt and review of executed contracts, invoices, and other supporting documentation as a condition of payment authorization. In addition, the District should consider implementing standardized checklists, training, or supervisory review controls to confirm that payments are made only after all

required documentation has been obtained and validated in accordance with governing resolutions and applicable policies.

#### D. Expenditures

Expenditures related to the STEM building construction consisted primarily of payments to the two largest vendors, the architecture firm and the construction company, along with other project-related costs discussed in this section. As previously noted, CLA examined substantially all recorded expenditures and determined that they represented legitimate project expenses. In one instance, upon CLA's request for supporting documentation, SchoolSeed identified an expenditure that had been incorrectly recorded to the Whitehaven STEM Building, Inc. account. SchoolSeed subsequently communicated that the expenditure was removed from the account.<sup>25,26</sup>

Total expenditures for the Herbert STEM Center project amounted to \$9,051,919.91. Approximately 89% of the expenditures represented payments to Montgomery Martin, the construction contractor, 6% were payments to Designshop, the architectural firm, and 2% represented SchoolSeed's compensation for its services as fiscal agent. The remaining 3% consisted of payments to various vendors, including utilities such as MLGW and marketing firms such as Trust Marketing Communications.



#### *Details of Expenditures*

Table 5 below summarizes payments that CLA confirmed were legitimate project expenditures. The three largest vendors are discussed in detail immediately following the

<sup>25</sup> The expenditure recorded in error to the Whitehaven STEM Building, Inc. account was for \$14,717.43 and had been recorded as a payment to Designshop on September 15, 2025.

<sup>26</sup> The original general ledger reflected total expenditures of \$9,065,125.14. This amount included an erroneous entry of \$14,717.43 and did not reflect administrative fees due to SchoolSeed arising from the recognition of additional revenues associated with the correction of the four revenue errors discussed in the prior section.

table. In addition, two other vendors are specifically discussed due to the specific nature of the transactions and their relevance to the District.

**Table 5: Expenditures by Vendor for STEM Building Project**

No.	Vendor Name	Grand Total	Notes
1	Montgomery Martin	\$ 8,073,449.44	[1]
2	Designshop	505,330.39	[2]
3	SchoolSeed Admin Fees	198,733.34	[3]
4	MLGW	65,630.23	-
5	Trust Marketing Communications	44,000.00	-
6	Oteka Technologies	37,400.00	-
7	Devona Stimpson	24,520.00	-
8	Scully & Associates	15,000.00	-
9	Loss from Stock Sale	14,166.74	-
10	Alive Paint	13,000.00	-
11	Specialty Solutions	10,234.00	-
12	Geotechnology (Glassware Washers)	8,100.00	-
13	White Station High School AP Biology Account held at SchoolSeed for Dr. Chikezie O. Madu	8,079.00	[4]
14	Forever Ready Productions (Video Shoots)	6,120.00	-
15	Hicks Convention Services (Tents, tables, Chairs)	5,378.70	-
16	Signmatters	4,360.00	-
17	Lanier Land Surveying	4,000.00	-
18	Brick Markers	2,863.40	-
19	Melissa Coleman (shovels & ribbon)	2,125.60	-
20	It's Your Day!	2,000.00	-
21	Draper's Catering	1,973.00	-
22	Banks Finley White & Co	1,000.00	-
23	Tomeka Simone Dawson (Accountant)	1,000.00	-
24	White Station Courtyard Account Held with SchoolSeed	750.00	[5]
25	Wire Transfer Fee	646.00	-
26	Returned Check Fee	535.00	-
27	T and T Catering	500.00	-
28	Diligence Corporation	288.00	-
29	Teddy Bear Express	250.00	-
30	Shovels	189.07	-
31	Reimbursement with Report Filed with State	143.22	-
32	Ignite Website Graphic Design	100.00	-
33	FedEx	48.28	-
34	Parking	6.50	-
Total		<u>\$ 9,051,919.91</u>	

[1] Montgomery Martin's contract was dated August 19, 2024, for a total amount of \$8,041,616.00. Five separate change orders were issued, some reducing the amount and some increasing the total contract amount. The net amount of the change orders was \$31,833.00 which resulted in a final contract amount of \$8,073,449.00.<sup>27</sup> The total

<sup>27</sup> Original contract amount plus net change orders equals total final contract amount (\$8,041,616.00 + \$31,833.00 = \$8,073,449.00).

amount paid to this vendor properly reflected the final contract amount.<sup>28</sup> CLA examined the contract, the change orders, and all of the payment applications and confirmed that the payments made were appropriate for the project and did not exceed the final contract amount. Table 6 provides a summary of the five change orders and descriptions for them.

**Table 6: Montgomery Martin Contract Change Orders for STEM Building Project**

Change Order No.	Date	Amount	Description
1	10/4/2024	\$ (49,005.00)	Surety bond credit for (\$62,475) and ROW Permit for \$13,470
2	10/28/2024	41,160.00	Demolition savings for (\$5,234); EPDM Roof for \$5,760; Site fire protection for (\$7,624); Additional LV rough-in for \$29,842; and Re-routed existing water line for \$18,416
3	12/2/2024	10,985.00	Storm drain adjustments for \$10,015 and drywall at second floor elevator for \$970
4	7/22/2025	37,642.00	Added baffles (suspended acoustical panels) for \$37,642
5	9/29/2025	(8,949.00)	Final credits to the contract for unspent allowances: unsuitable soils allowance for (\$7,599), and test pits allowance of (\$1,350) <sup>29</sup>
Total		<u>\$ 31,833.00</u>	

**[2]** Designshop had three separate contracts (1) executed on June 22, 2018, for \$23,000.00, (2) executed on June 13, 2022, for \$85,670.00, and (3) executed on November 28, 2023, for \$295,540. All the contracts contained language allowing for reimbursables. Payments were made to this vendor based on appropriate invoices totaling \$499,770.09 for the three contracts. The general ledger reflected total payments to Designshop of \$505,330.39, which exceeded the total invoiced amount by \$5,560.30. The supporting documentation for the payment details shows that the variance was attributed to two invoices that included late fees of approximately \$100 each, an \$8.00 electronic payment fee, and primarily a 3% processing fee applied to certain invoices paid by SchoolSeed via credit card. CLA inquired whether the use of a credit card had been approved by Whitehaven STEM Building, Inc, and Mr. Myers confirmed that he had approved. Accordingly, the \$5,560.30 excess recorded in the general ledger was appropriately supported as late fees and cost of processing payments.<sup>30</sup>

**[3]** The SchoolSeed contract with Whitehaven STEM Building, Inc. listed compensation for services provided at 2% of donations received. The review of the original general ledger provided by SchoolSeed showed that the 2% administrative fees recorded was \$197,221.54 which was approximately \$599.99 less than expected based on a recalculation CLA performed. CLA inquired with SchoolSeed regarding this difference. Additionally, due to the understatement of revenue amounting to \$45,590.00 mentioned

<sup>28</sup> The contract amount rounds to the nearest dollar, which is appropriate and results in total contract amount of \$8,073,449.00 and actual payments of \$8,073,449.49.

<sup>29</sup> Owner allowances are pre-set amounts included in a construction contract for items not yet fully defined or selected at the time of initial contract, such as finishes or equipment, allowing the project to proceed without delay. Any unused portion is refunded to the owner because allowances are placeholders for actual costs only.

<sup>30</sup> CLA does not make a determination as to the appropriateness of using a credit card to pay vendor invoices while incurring a 3% fee, while payments processed by check incur zero additional cost.

previously, there were two adjustments that SchoolSeed communicated it would record. The final amount of fees to SchoolSeed is \$198,933.34 which is 2% of total revenue (\$9,936,666.75 x 2% = \$198,733.34).

**[4]** A payment of \$8,079.00 was recorded in the general ledger on March 18, 2025, under journal entry number "03.18.25 WSstem," with a memo stating, "See attachment from Richard." The initial supporting documentation consisted of a PDF document listing science-related equipment, quantities, and prices totaling the payment amount; however, this documentation was insufficient for CLA to obtain a comprehensive understanding of the transaction. Upon further inquiry, CLA was provided the request for payment that included a letter from Mr. Myers dated March 14, 2025. This letter explained his consultation with a teacher at White Station High School, and an agreement whereby the teacher would provide at a discounted price unused, unopened science equipment originally purchased with grant funds. The letter further stated that the payment amount would be used to establish a White Station High School AP Biology account with SchoolSeed for the teacher to access in the future. Figure 7 includes a portion of this letter.<sup>31</sup>

**Figure 8: Portion of Letter Requesting Payment for Equipment Purchase**

The items on [REDACTED] list are in inventory at White Station, unused and unopened, from a grant to purchase same for MSCS Schools. For some unknown reason, the schools, including Whitehaven, have not taken delivery of this equipment. So, the agreement I have reached with [REDACTED] is that we will pay a reduced amount reflected on the attached sheet, totaling \$8,079.00. This is a reduced price from the new purchase price Whitehaven noted from their vendors.

[REDACTED] has asked us, and I have agreed, to place the \$8,079.00 in a SchoolSeed account in the name of White Station High School AP Biology. The funds will be accessed by [REDACTED] for AP Bio supplies, the invoices for which funds will be obtained and provided to SchoolSeed for payment. Please let me know if there are any questions or issues with this approach.

CLA inquired with the District regarding the grant that may have been used to purchase the items sold by the teacher to Whitehaven STEM Building, Inc. The principal at White Station High School communicated that she was unaware that this transaction had taken place and that any inventory under the care of the teacher would be from the TtGG (Teaching the Genome Generation) grant. This grant is a federal grant received through The Jackson Laboratory and accepted by the Board on June 20, 2023. Based on Board Policy 3013, the teacher did not have the authority to sell these items, or the authority place the funds outside of a District account. Further concerns exist as this is a federal grant and items purchased with federal grant funds must be tracked, inventoried, and used only for authorized grant purposes throughout the life of the award, in accordance with the Uniform Administrative Requirements at 2 CFR § 200.313. At the conclusion of the grant, any equipment or materials that are no longer needed must be formally reviewed for disposition, which may include continued use on other federally funded projects, transfer, return to the granting agency, or sale with reimbursement of the federal share. Lastly, the grant appears to be intended for the benefit of multiple schools, and the letter from Mr. Myers indicates that other schools, including Whitehaven High

<sup>31</sup> The letter also mentioned a separate \$750.00 payment directly to the teacher for his services.

School, never took possession of the equipment. Accordingly, it appears questionable that the equipment was sold rather than transferred to Whitehaven High School.<sup>32</sup>

[5] A payment of \$750.00 was made to the White Station Courtyard account held with SchoolSeed. Supporting documentation indicates that the payment represents the transfer of 500 unscrubbed bricks, sold at \$1.50 per brick, from leftover materials associated with the White Station High School Courtyard Project to Whitehaven STEM Building, Inc. As mentioned previously, the White Station High School Courtyard project was a privately funded project Mr. Myers led. This information is provided for context as there are no concerns identified by CLA relating to this transaction.

#### Interim Observations

**Observation #7** Total expenditures for the Herbert STEM Center project amounted to \$9,051,919.91. Approximately 89% of the expenditures were payments to Montgomery Martin, the construction contractor, 6% were payments to Designshop, the architectural firm, and 2% represented SchoolSeed's compensation for its services as fiscal agent. The remaining 3% consisted of payments to various vendors, including utilities such as MLGW and marketing firms such as Trust Marketing Communications. Based on a review of supporting documentation, the expenditures were determined to be appropriate and sufficiently supported, and were related to the construction, furnishing, and equipping of the STEM building, as well as marketing activities, groundbreaking events, and ribbon-cutting ceremonies.

**Observation #8** Although the expenditures directly related to the construction and outfitting of the STEM building were determined to be appropriate, an ancillary transaction involving the discounted sale of grant-funded equipment by a teacher at White Station High School to Whitehaven STEM Building, Inc. appears inconsistent with District policy and federal grant requirements. Additionally, the deposit of the sale proceeds into an account held at SchoolSeed, without communication or approval from the White Station High School Principal or the District, also appears inconsistent with District policy.

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<sup>32</sup> The teacher was away at a conference during the week CLA was on site in February 2026 and has since been unavailable due to a family emergency requiring international travel. After this interim draft had completed CLA's initial internal quality review process, CLA received an email from the White Station High School Principal, which provided a response from the teacher. His response indicated the grant funds used to originally purchase the equipment sold had been from a private grant that had been deposited with SchoolSeed. CLA has not been able to complete the investigation into this concern. Therefore, information reported in this interim report may change after CLA is able to review and scrutinize responses and materials provided by the teacher after this interim report had completed its internal quality review process.

### Recommendations

**Recommendation #6** The District should establish and enforce formal procedures governing the handling, transfer, and disposition of equipment purchased with grant funds. These procedures require appropriate District review and approval prior to any sale or transfer of grant-funded items, ensure compliance with applicable federal grant requirements, and mandate clear communication with school leadership and the District regarding any related transactions.

**Recommendation #7** The District should provide periodic training to teachers and other staff responsible for managing grant-funded laboratory or classroom equipment on grant compliance requirements, inventory tracking, disposition procedures, and required approvals. Such training should emphasize that grant-funded equipment remains subject to federal and District controls regardless of location or end use.

### **E. Fund Balance**

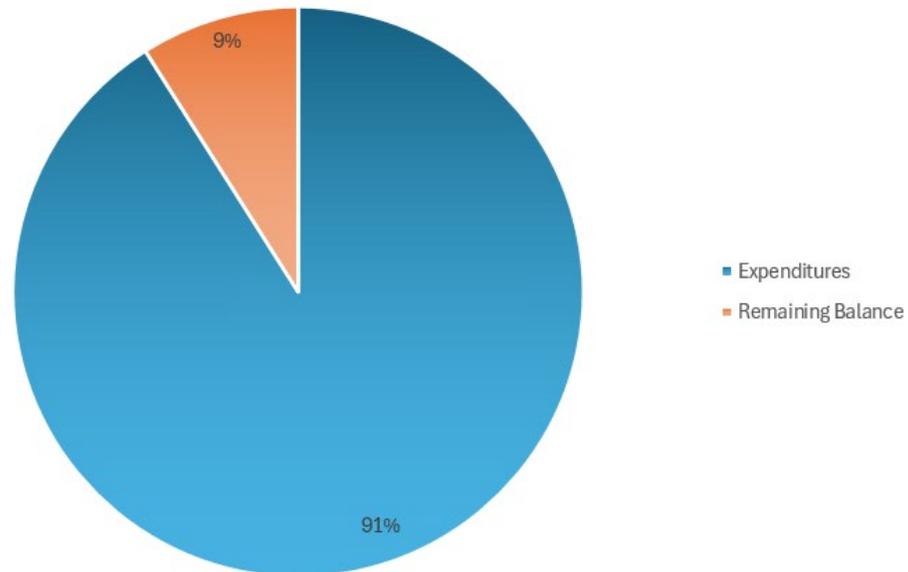
The amount raised for the construction of the Herbert STEM Center exceeded total expenditures, and a balance remains in the Whitehaven STEM Building, Inc. account held with SchoolSeed. As noted previously, SchoolSeed informed CLA that it established a separate bank account used exclusively for Whitehaven STEM Building, Inc. funds. However, although CLA requested all bank statements, or at a minimum the most recent bank statement, to reconcile the account balance, SchoolSeed advised CLA that a decision was made not to provide the bank statements. Consequently, CLA presents the balance of the Whitehaven STEM Building, Inc. account based on an extensive examination of revenues and expenditures, but without review of a bank statement or bank reconciliation. Subject to this limitation, CLA concludes that the balance remaining in the Whitehaven STEM Building, Inc. account is \$884,746.84, as reflected in Table 7.

**Table 7: Remaining Balance on Whitehaven STEM Building, Inc. Account**

Description	Amount
Revenues	\$ 9,936,666.75
Expenditures	(9,051,919.91)
Remaining Balance	<u>\$ 884,746.84</u>

Approximately 91% of all revenue raised (\$9,936,666.75) was used for the construction of the Herbert STEM Center, while approximately 9% (\$884,746.84) remains unused and is held in the Whitehaven STEM Building, Inc. account with SchoolSeed.

## Allocation of Revenue Raised for the Whitehaven STEM Building Construction



### *Planned use for Remaining Funds*

CLA inquired with Mr. Myers what the planned use for the remaining balance on the account is. He stated the initial Case for Support document, which he shared with donors, communicated the intention to keep a balance on the account for future support of the STEM building.

Although Mr. Myers provided this document, CLA independently searched District emails and Board minutes to corroborate that this document had been shared; however, CLA was unable to locate it. Mr. Myers communicated that this document was a constant feature in all his communications with the District about this effort but likely provided printed copies. Neither the Assistant Superintendent of Operations nor the Facilities Officer recall seeing or receiving this document.

CLA confirmed the Case for Support document had been shared, as it was included as an attachment to the Shelby County Board of Commissioners agenda for the August 4, 2021, meeting at which the initial \$300,000.00 County grant was approved. The Case for Support mentioned the following:

- A \$250,000.00 budget for lab furniture, fixtures, and equipment
- A \$250,000.00 maintenance fund, “which we will privately control through SchoolSeed so that our involvement with this investment endures.”

Mr. Myers provided CLA with an email communication from him to SchoolSeed on January 23, 2026, where Mr. Myers mentioned, “I assured our donors that we’d have a maintenance fund of 250K and an equipment fund of 250K ... we spend [*sic*] around 20K for equipment so that fund should hold 230K ... As you and I discussed, regarding equipment, I decided to wait for mscs to digest the building and its potential before buying any equipment ... So what I want to do is hold that equipment fund until we receive detailed grant requests from MSCS ... we don’t want to buy stuff they can get otherwise.”<sup>33</sup> Mr. Myers further confirmed to CLA that he expects the District to submit a formal proposal to request equipment only after other funding options are exhausted. He specifically mentioned, “it is good stewardship of that building to keep it [the maintenance fund] for when it is REALLY needed... they have to make a convincing case that they just can’t afford to fix something.”

Separately from these two \$250,000.00 funds, Mr. Myers also mentioned the expectation that funding would be made available for an AP teacher through a program he was working on with the University of Memphis. For this, he sent an email he had with a donor (Life Is A Circle Foundation) where the possibility was discussed although no specific fund amount was mentioned. Mr. Myers stated that the last \$200,000.00 received from Life Is A Circle was intended for this purpose.<sup>34</sup>

#### *Knowledge by the District of Available Funds for the STEM Building Project*

CLA inquired with the Facilities Officer and the Assistant Superintendent of Operations whether they had knowledge of two funds set aside for maintenance and for furniture, fixtures, and equipment. Both indicated that these set-aside funds had not been communicated to them. CLA further inquired with Mr. Myers regarding his communications with the District about these set-aside funds and the expected process for submitting requests. Mr. Myers stated, “I have not been overly enthusiastic about communicating the ffe and ap lab funds with mscs [*sic*].” He further stated that any request for these funds would need to be made by the Superintendent or the Board Chair, and not by Whitehaven High School or the Whitehaven Empowerment Zone Leadership Council. Mr. Myers also informed CLA that Whitehaven High School staff had expressly stated that they did not desire any further involvement by Whitehaven STEM Building, Inc. with their school.

#### Interim Observations

**Observation #9** Although a balance of \$ 884,746.84 remains in the Whitehaven STEM Building, Inc. account held by SchoolSeed, there is a deficiency in communication with the District regarding the remaining funds, the expected use of those funds, and the process by which the funds may be accessed. This lack of communication appears to be associated

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<sup>33</sup> For context, CLA first interviewed Mr. Myers on January 15, 2026.

<sup>34</sup> Refer to the *Expenditures* section beginning on page 35 where details relating to the Elvis Presley Charitable Foundation payment and the application of this payment to donor Life Is A Circle Foundation are explained.

with an apparent loss of trust between the Whitehaven Empowerment Zone Leadership Council/Whitehaven High School community and Whitehaven STEM Building, Inc.

**Observation #10** The Case for Support document identifies a \$250,000.00 maintenance fund to be privately controlled through SchoolSeed for future use. The Case for Support also includes a \$250,000.00 budget for laboratory furniture, fixtures, and equipment; however, it does not indicate that these funds are intended for future replacement of such items. It appears that Mr. Myers elected to delay the purchase of equipment to allow the District time to evaluate the building and its potential use. However, this decision was not accompanied by communication to the District regarding the expectation that the District would be required to submit detailed grant requests for equipment that the District is otherwise unable to purchase directly or obtain through public grant funding in order to furnish and equip the Herbert STEM Center.

#### Recommendations

**Recommendation #8** The District should consider formalizing governance and communication protocols for externally held project funds by requiring a written memorandum of understanding (MOU) with SchoolSeed and Whitehaven STEM Building, Inc. that (1) identifies the current fund balance and authorized purpose(s), (2) establishes a documented request and disbursement process, and (3) designates District points of contact for oversight and dispute escalation. These steps will improve transparency and reduce the risk of misunderstanding regarding the control and use of funds held for the benefit of the Herbert STEM Center and program.

#### **F. Current Status of Building**

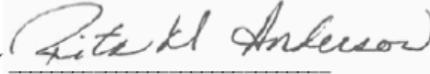
The Herbert STEM Center was completed, and the Certificate of Occupancy was issued by the Memphis and Shelby County Division of Planning and Development with a date of September 16, 2025, noting the street address as 1119 Whitehaven Lane and the square footage at 20,656.<sup>35</sup> Figure 8 shows the top portion of the certificate. The ribbon cutting

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<sup>35</sup> The Montgomery Martin construction documents, as well as the Shelby County/City of Memphis Board of Adjustment (BOA) Staff Report dated June 26, 2024, list the building size as 19,524 square feet. The fact that the Certificate of Occupancy reflects a building size of 20,656 square feet does not indicate a discrepancy. As previously explained, differences between square-footage figures cited in Board of Adjustment approvals and those listed on a Certificate of Occupancy are common, as BOA approvals are based on planning-level information available at the time of zoning review, while Certificates of Occupancy reflect final as-built conditions and may include additional code-required or support spaces incorporated during construction.

ceremony took place on October 8, 2025, and the Board accepted the donation of the Herbert STEM Center during its October 28, 2025, business meeting.

**Figure 9: Herbert STEM Center Certificate of Occupancy**

	
<h2>Certificate of Occupancy</h2>	
<p>Record Number COM-NEW-24-000042</p>	
<p>BUSINESS NAME: <i>WHITEHAVEN HIGH SCHOOL STEM BUILDING</i></p>	
<p>BUSINESS OWNER: <i>Whitehaven High School STEM Building</i></p>	
<p>DESCRIPTION OF WORK PERMITTED: <i>New, stand-alone STEM Building on existing campus of Whitehaven High School.</i></p>	
<p>OCCUPANCY CLASSIFICATION: <i>E Educational (Schools, Child Care, etc.): 20656 Sq. Ft.</i></p>	
<p>OCCUPANT LOAD: <i>378</i></p>	<p>AUTOMATIC SPRINKLER: <i>Yes</i></p>
<p>SPECIAL STIPULATIONS AND CONDITIONS</p>	
<p><b>THIS CERTIFICATE SHALL BE POSTED IN A CONSPICUOUS LOCATION</b></p>	
<p><b>RITA ANDERSON</b></p>	
<p>BUILDING OFFICIAL OF OFFICE OF CONSTRUCTION CODE ENFORCEMENT 6465 MULLINS STATION ROAD MEMPHIS, TENNESSEE 38134</p>	
<p>ISSUED BY </p>	<p>On this date: 09/16/2025</p>

CLA visited the Designshop and Montgomery Martin websites to identify references to completed projects and specifically the Herbert STEM Center. The Designshop website contained more comprehensive details and images including both architectural renderings and photographs of the completed project.<sup>36</sup>

CLA visited Whitehaven High School in January 2026 and again in February 2026, and it was apparent that the Herbert STEM Center was not in use. Figure 9 and Figure 10 include photographs of a partially furnished classroom and an unfurnished classroom, respectively.

<sup>36</sup> The Designshop website showcasing the completed project is found at the following: <https://www.designshoparc.com/work/whitehaven-high-school-stem>. Note that images depicting people within the spaces are likely renderings, as architectural renderings commonly include human figures to illustrate scale and anticipated use during the design phase. Photographs represent the constructed facility. CLA understands that the inclusion of both image types reflects standard architectural practice and was not intended to misrepresent the completed project.

**Figure 10: Photograph of Partially Furnished Classroom**



**Figure 11: Photograph of Unfurnished Classroom**



CLA inquired with the District regarding the building's lack of occupancy and learned that there are remaining open items related to the building's functionality, as well as the above-mentioned unfurnished or partially furnished classrooms. This information is detailed in the subsections below.

- The Assistant Superintendent of Operations communicated to CLA that utilities and core systems are in place and operational and the Facilities Officer confirmed that the building and all built-in components, including electrical and HVAC systems, are complete and ready for occupancy. She stated that her team is overseeing a District-wide project to upgrade intercom systems from low-voltage to internet-based systems, and that the Whitehaven STEM Building will be included in a future phase of this initiative. However, the intercom upgrade was not included in the Fiscal Year 2026 plan, and quotes must be obtained and funding budgeted through an adjustment requiring Board approval. As a result, she was unable to provide CLA with a specific completion date, though she indicated the upgrade would occur in the near future. She further stated that the absence of an intercom system does not prevent occupancy of the building, as staff can communicate using walkie-talkies and/or phones.
- The Executive Director of IT Operations informed CLA that the building currently does not have internet or telephone service, as additional wiring must be installed before those systems can be implemented.<sup>37</sup> He stated that he and the Security Officer met with the wiring vendor on Tuesday, February 24, 2026, to obtain an estimate. When asked whether a timeline could be provided for installation of internet and telephone services, he indicated that he was unable to provide an estimated completion date. He explained that he had been asked just that same week to begin gathering quotes and expressed uncertainty regarding the availability of funding and whether Board approval would be required once quotes were received from all departments.

#### Interim Observations

**Observation #11** Although the Board accepted the donation of the Whitehaven High School STEM building (Herbert STEM Center), and a certificate of occupancy was obtained since September 2025, remaining open items related to the building's functionality are in the process of being addressed. As of the date of this interim report, it appears that there is no specific date towards which Whitehaven High School

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<sup>37</sup> Oteka Technologies, the sixth vendor listed in Table 5, according to its invoice, provided services and products related to the installation of data cabling infrastructure. This work included data drops, wireless access point intercom and security systems, a fiber backbone from the main building to the STEM building, and the installation of data racks and cable routing equipment. However, the Executive Director of IT Operations informed CLA that the installed wiring is insufficient to support the installation of internet and telephone systems in the building.

administrators may plan to begin utilizing the Herbert STEM Center for instruction.

**Observation #12** As mentioned in the prior section of this report, a balance of \$884,746.84 remains in the Whitehaven STEM Building, Inc. account that includes an approximate budget of \$250,000.00 for furniture, fixtures and equipment mentioned in the Case for Support document shared with donors; nonetheless the classrooms in the building are currently either partially or completely unfurnished.

### Recommendations

**Recommendation #9** CLA recommends that the District, in coordination with Whitehaven High School administration, develop a formal plan to address remaining functional issues, including assigned responsibilities and target completion dates, and establish a timeline for when the Herbert STEM Center is expected to be placed into instructional use.

**Recommendation #10** Building on Recommendation #8 and Recommendation #9, CLA recommends that the District, in coordination with Whitehaven High School administration, determine which furniture, fixtures, and equipment the District is able to provide and which items must be provided by Whitehaven STEM Building, Inc. Instruction cannot reasonably commence in a partially or unfurnished and unequipped building, particularly given that approximately 9% of total funds raised (\$884,746.84) remains unused, including \$250,000 designated for this purpose in the Case for Support shared with donors.

## **G. The Future**

### *Saturday School Laboratory*

Mr. Myers stated that he believes, at present, Whitehaven High School does not have a sufficient number of AP science students to justify offering AP coursework or hiring a dedicated AP teacher or laboratory (Lab) instructor. He indicated that, if a sufficient number of students were identified at Whitehaven High School and surrounding schools, arrangements could be pursued to support AP instruction, including coordination with the University of Memphis to provide qualified teachers and lab instructors. He further noted that preliminary discussions with the University of Memphis had already occurred. Additionally, he stated that if a Saturday lab program were implemented to allow students outside of Whitehaven High School to participate, transportation considerations would need to be addressed, and Whitehaven STEM Building, Inc. would assist with the necessary funding.

Mr. Myers communicated to CLA that there was an oral agreement with the District to offer Saturday lab sessions that would allow students outside of Whitehaven High School

to access and benefit from the Herbert STEM Center. Mr. Myers stated that this agreement was not documented in writing but was discussed in 2022 with the Chief Academic Officer and the Deputy Superintendent of Strategic Operations, immediately prior to a presentation to one of the project's larger donors.

According to Mr. Myers, a local community church pastor expressed a desire for educational programming within the STEM building to be accessible to students throughout the greater Whitehaven area. Mr. Myers explained that the proposed Saturday lab sessions were viewed as the mechanism to provide this broader access. He further stated that the Chief Academic Officer and the Deputy Superintendent of Strategic Operations agreed to this arrangement despite opposition from the Whitehaven High School Principal. Mr. Myers noted that, although the principal disagreed, the arrangement proceeded based on the District's reporting structure. Mr. Myers also indicated that he presented this component of the plan to the Assisi Foundation and believed that it contributed to the Foundation's decision to provide a donation.<sup>38</sup>

CLA inquired with the Chief Academic Officer as to whether she recalled this agreement or any discussion regarding a Saturday lab program that would allow students throughout the greater Whitehaven area access to the building. She informed CLA that she had no recollection of any discussion or oral agreement regarding a Saturday lab program that would allow non-Whitehaven High School students access to the building.

As of the date of this interim report, CLA has not conducted further inquiries with other individuals or entities identified as having knowledge of this alleged verbal agreement.

#### *Advanced Placement Teacher Program*

Mr. Myers communicated that he believes Whitehaven High School has a limited number of qualified AP science teachers. He stated that support from the University of Memphis would be necessary to address this concern. In 2022, he met with the University's Chancellor at the time, the Dean of the College of Arts and Sciences, and the Dean of the School of Education to discuss developing a plan to provide such support.

Furthermore, he stated that the Life Is A Circle Foundation representative agreed to make funding available for the AP teacher program with the University of Memphis at a cost of \$5,000.00 to \$7,000.00 per semester. Additionally, Life Is A Circle Foundation would create a program whereby an AP teacher who decides to reside in the Whitehaven area would receive a gift of 25% of the cost of a house, up to \$50,000.00 on the condition that they reside in that house for no less than three years.<sup>39</sup> As of the date of this preliminary report, CLA has not conducted further inquiries with other individuals or entities identified as having knowledge of the AP teacher program.

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<sup>38</sup> The Assisi Foundation's donation of \$500,000.00 was recorded in the general ledger in December 2022.

<sup>39</sup> Refer to the Expenditures section beginning on page 35 where details relating to the Elvis Presley Charitable Foundation payment and the application of this payment to donor Life Is A Circle Foundation are explained.

### Interim Observations

**Observation #13** Information regarding the proposed Saturday School Laboratory and AP teacher program was primarily based on representations made by Mr. Myers and reflects preliminary discussions rather than formalized plans or agreements. CLA did not obtain corroboration from District leadership supporting the existence of a plan for an approved Saturday School Laboratory or a defined AP teacher initiative. As of the date of this interim report, these initiatives appear to remain conceptual in nature, with key elements, including authorization, documentation, funding commitments, and implementation responsibilities, not formally established or communicated to the District leadership.

### Recommendations

**Recommendation #11** Consistent with the governance and communication framework described in Recommendation #8, the District should consider documenting, at a high level, its understanding of any prospective or conceptual programmatic uses of the Herbert STEM Center that are presented by Whitehaven STEM Building, Inc. Such documentation could serve as a shared reference to align expectations among the District, SchoolSeed, Whitehaven STEM Building, Inc., and supporting organizations, and would help ensure that proposed initiatives are clearly distinguished from District-approved programs prior to implementation. These steps would support transparency and coordination while preserving flexibility for future collaboration.

## 7. Interim Conclusion

The interim observations identified through this engagement highlight a series of governance, documentation, communication, and oversight issues associated with the fundraising, construction, and transition to operational use of the Whitehaven High School Herbert STEM Center. While the project was completed and no unsupported construction expenditures were identified, weaknesses in formal agreements, role clarity, and communication among stakeholders contributed to uncertainty and stakeholder concern.

At the outset, the absence of a written agreement between the District and Whitehaven STEM Building, Inc. resulted in unclear expectations regarding project scope, building size, fundraising structure, and financial accountability. As the project progressed, reductions in building size and design changes were communicated informally, and opportunities for review and approval by the Whitehaven High School Administration and the Whitehaven Empowerment Zone Leadership Council were unclear, contributing to confusion within the Whitehaven High School community.

From a financial perspective, total **funds raised (\$9,936,666.75)** exceeded total **expenditures (\$9,051,919.91)**, and the majority of expenditures were appropriate, supported, and directly related to the project. Accounting records maintained by SchoolSeed were largely reconcilable to reported information, and identified errors were corrected following CLA's inquiry. However, donor recognition practices did not consistently distinguish between monetary and non-monetary contributions, creating a risk of misinterpretation.

The engagement also identified gaps in communication regarding **remaining funds (\$884,746.84)**, future equipment purchases, maintenance funding, and the anticipated instructional use of the facility. These issues appear to have contributed to diminished trust among project stakeholders and delayed the building's full operational use. Overall, the observations underscore the importance of formal documentation, transparent communication, and consistent adherence to Board-approved requirements when projects involve public funding, private donations, and nonprofit intermediaries.

As of the date of this interim report, the Herbert STEM Center is not being used for instructional purposes, and no specific date has been identified for when Whitehaven High School administrators plan to begin instructional use of the facility.

## **8. Professional Standards Followed by CliftonLarsonAllen LLP**

The overall scope of work and approach was conducted utilizing standards in accordance with the Statement on Standards for Forensic Services No. 1 (SSFS No. 1) of the American Institute of Certified Public Accountants (AICPA) and the Code of Professional Standards of the Association of Certified Fraud Examiners (ACFE). This report does not constitute an audit, compilation, or review, in accordance with standards of the AICPA, the objective of which would be the expression of an opinion on any specified elements, accounts, or items. Accordingly, CLA does not express such an opinion.

Because of the unique nature of fraud, and because our engagement was limited to the matters described in the engagement letter, fraud and/or financial irregularities may exist within the organization that we may not have identified during the performance of our procedures. However, if during the performance of our services other matters had come to our attention suggesting possible financial improprieties and/or irregularities, we would have communicated such matters to the State.

The professional standards promulgated by the AICPA prohibit CLA from rendering an opinion as to whether there has been any fraud or other criminal activity by anyone associated with this engagement. Therefore, CLA does not render such opinions.

## 9. Information about CliftonLarsonAllen LLP

Established on January 2, 2012, CLA is well positioned with knowledge, insight, and industry-specific accounting, tax, and consulting services. CLA is the result of a union between Clifton Gunderson and LarsonAllen, both established more than 60 years ago. CLA has a national forensic and nonprofit practice.

CLA is one of the largest professional service and accounting firms in the country with a growing global network. With a nationwide network of experienced professionals, clients include law firms, school districts, CEOs, leaders in education, municipalities, governmental agencies, the law enforcement community, commercial businesses, and not-for-profit agencies. The CLA Forensic Services team is a highly respected and sought-out authority in fraud prevention, detection, and investigation. Our multi-disciplined team is comprised of Certified Public Accountants, Certified Fraud Examiners, professionals Certified in Financial Forensics, and attorneys who practice as forensic accountants.

Fola Abiola-Banjac, Esq. is an experienced licensed attorney practicing as a forensic accountant. Ms. Abiola-Banjac is accomplished and results-driven, offering extensive experience providing forensic, ethics, and regulatory compliance guidance to the leadership of public and private sector organizations, with extensive experience in forensic accounting investigations, document review, and the development of expert opinions. She has demonstrated a record of success investigating allegations of fraud, regulatory, and ethical requirements. She leads the forensic, litigation and investigations practice (Forensic Services) and offers a history of delivering solid results in a series of positions with CliftonLarsonAllen, Federal Energy Regulatory Commission, the Securities and Exchange Commission, and other corporations and agencies.

Ana Rodriguez, CPA, CFE, is a technical director in the Forensic Services practice of CLA and assisted Ms. Abiola-Banjac in this engagement. Her practice areas include accounting and auditing, fraud investigations and examinations, forensic accounting, internal control review and analysis, and litigation support. She brings over twelve years of experience in forensic accounting and fraud investigations, with a focus on educational institutions including school districts, colleges, and universities. As a forensic accountant and fraud examiner, Ms. Rodriguez has testified in administrative hearings and has served as an expert witness in criminal matters in the State of California.