FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
CSIS California School Information Services

Mendocino County Office of Education

Extraordinary Audit of the

Ukiah Unified School District Adult School

October 22, 2014

Joel D. Montero
Chief Executive Officer



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FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM
CSIS California School Information Services

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Paul Tichinin, Superintendent

Mendocino County Office of Education

2240 Old River Road

Ukiah, CA 95482

Dear Superintendent Tichinin:

In August 2014, the Mendocino County Office of Education and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement to conduct an AB 139 extraordinary audit to determine if fraud, misappropriation of funds or other illegal activities may have occurred at the Ukiah Unified School District's adult school. The county office has reason to believe, based on review of documentation by and reports from the Ukiah Unified school district administration, that misappropriation of student fees and tuition payments that participating students paid may have occurred.

This report contains the study team's findings and recommendations.

FCMAT appreciates the opportunity to serve you and extends thanks to all the staff of the Mendocino County Office of Education and Ukiah Unified School District for their cooperation and assistance during fieldwork.

Sincerely,

Joel D. Montero

Chief Executive Officer

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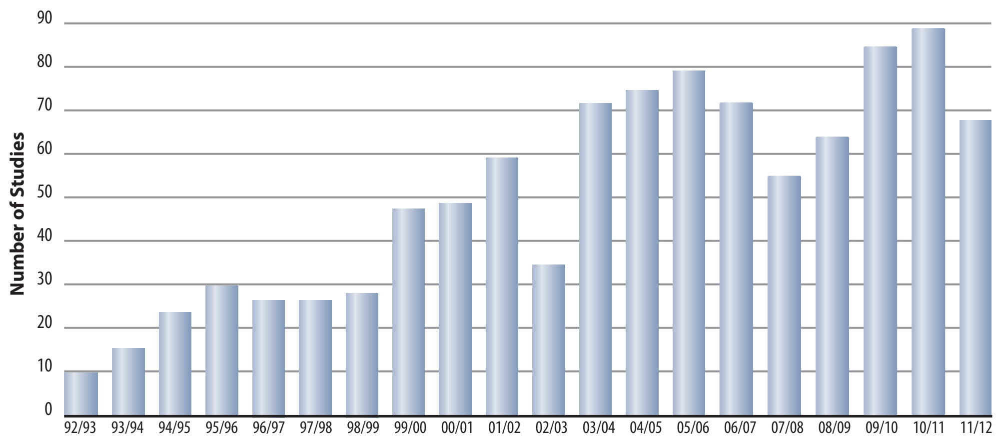
About FCMAT

FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related school business and data services. FCMAT's fiscal and management assistance services are used not just to help avert fiscal crisis, but to promote sound financial practices and efficient operations. FCMAT's data management services are used to help local educational agencies (LEAs) meet state reporting responsibilities, improve data quality, and share information.

FCMAT may be requested to provide fiscal crisis or management assistance by a school district, charter school, community college, county office of education, the state Superintendent of Public Instruction, or the Legislature.

When a request or assignment is received, FCMAT assembles a study team that works closely with the local education agency to define the scope of work, conduct on-site fieldwork and provide a written report with findings and recommendations to help resolve issues, overcome challenges and plan for the future.

Studies by Fiscal Year



FCMAT also develops and provides numerous publications, software tools, workshops and professional development opportunities to help local educational agencies operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) arm of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS) and also maintains DataGate, the FCMAT/CSIS software LEAs use for CSIS services. FCMAT was created by Assembly Bill 1200 in 1992 to assist LEAs to meet and sustain their financial obligations. Assembly Bill 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide data management work. Assembly Bill 1115 in 1999 codified CSIS' mission.

AB 1200 is also a statewide plan for county offices of education and school districts to work together locally to improve fiscal procedures and accountability standards. Assembly Bill 2756 (2004) provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans.

In January 2006, SB 430 (charter schools) and AB 1366 (community colleges) became law and expanded FCMAT's services to those types of LEAs.

Since 1992, FCMAT has been engaged to perform more than 1,000 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by Joel D. Montero, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

Introduction

Background

The Ukiah Unified School District is located in the county of Mendocino and serves approximately 5,800 students, preschool age through adult. The district is comprised of six elementary schools, two middle schools, and a comprehensive high school. The district operates an early education preschool, an alternative education high school, and an adult school.

The Ukiah Adult School offers training programs including General Educational Development (GED) preparation and testing, and Licensed Vocational Nursing (LVN). The adult school has a longstanding history of preparing students for the National Council Licensure Examination for Practical Nurses for more than 40 years and recently became an authorized Title IV administrator, allowing the district to administer Federal Student Aid (FSA) including Pell Grant awards.

In early June 2014, the district administration identified inconsistencies and irregularities between the cash collections receipted at the district's adult school and those forwarded to the school district business office for deposit. The district reported these concerns and provided the Ukiah Police Department with preliminary evidence prepared by the district's adult school administration. The police department conducted a preliminary investigation, interviewing district and school site staff recording a summarization of findings in a police report dated 6/27/2014-0712.

Because of concerns that allegations of potential illegal acts, including fraud, may violate government and education codes related to fraud and/or misappropriation of assets, the county superintendent initiated an investigation to determine whether sufficient evidence of fraud, misappropriation of funds or other illegal activities exists to merit reporting the matter to the local district attorney's office for further investigation.

Under the provisions of Education Code section 1241.5(b), in August 2014 the Mendocino County Office of Education requested that FCMAT assist the county office by conducting an AB 139 extraordinary audit to determine if fraud, misappropriation of funds or other illegal activities may have occurred at the district's adult school. The study agreement specifies that FCMAT will perform the following:

1. Interview key management, certificated or classified employees responsible for student tuition and program fees to identify and assess the organizational structure and operating style, written communications, and all internal risk assessment processes.

2. Review the organizational chart, delegation of authority, and management reports of each employee responsible for the various activities related to student tuition and program fees.

3. Interview select staff members to obtain the staff perspective. Interviews will include, but may not be limited to, the superintendent and district office or other site personnel. During all interviews the team will solicit input on concerns or areas of risk.

4. Evaluate the adequacy of the organizational structure and various reporting processes to help determine whether accountability for financial results is clearly demonstrated.

5. If the organizational structure and various reporting processes do not appear adequate, provide recommended or alternative structures or reporting processes to provide additional assurance. This may include comparisons to similar adult school program operations, or to corresponding departments in the district.

6. Identify all key activities (assessment and billing, fee adjustments or allowances, collections and write-off, and distribution) and gain an understanding of the business processes and the positions responsible for them.

7. Review financial processes and document those positions responsible for initiating, reviewing, approving, and reconciling financial transactions.

8. Evaluate processes for adequate separation of duties and proper authorization and approval to help determine whether they are sufficient to provide reasonable assurance that the district's resources are properly safeguarded.

9. Interview department information systems personnel to identify all relevant information systems, applications, databases, and interfaces (manual or electronic) with other systems. For example, the team will strive to obtain the following information:

    a. Is this an electronic or manual information system

    b. Does the system interface with core administrative information systems? If yes, is that process manual or electronic?

    c. What type(s) of source documents are used to input the data?

    d. Who has access to the data in the system?

    e. What type of access and editing controls are in place within the automated or manual system?

    f. How are transactions reviewed and approved within the system?

The team will sample test data for the 2013-14 and two prior fiscal years and will include a summary review of the total adult school program fees or tuition payments for each fiscal year. Testing associated with this review will be based on sample selection and may not include all transactions and records for this period. Sample testing and review results are intended to provide reasonable but not absolute assurance regarding the accuracy of the district's transactions and financial activity.

Fieldwork

Investigating allegations of fraud requires a number of steps including interviews with potential witnesses and gathering evidence from internal and external sources. FCMAT reviewed, analyzed and tested business records including cash receipts, deposit history, general ledger activity, vendor master files, financial reports, board policy and administrative regulations, and internal documents from various departments and independent sources.

FCMAT also conducted interviews with management personnel, business office and other district staff to obtain information on general business practices and the events that occurred during the 2013-14 and two preceding fiscal years, including any alleged mismanagement, fraud or abuse.

Although there are many different types of fraud, occupational fraud is common when employees are in positions of trust and have access to assets. Embezzlement occurs when someone who is lawfully entrusted with property takes it for his or her personal use. Common elements in all fraud include the following:

- Intent, or knowingly committing a wrongful act
- Misrepresentation to accomplish the act
- Reliance on weaknesses in the internal control structure
- Concealment to hide the act

Scope and Procedures

The primary purpose of this review is to provide the Mendocino County Office of Education and the district with reasonable assurance, based on testing, that there are adequate management controls for the district's reporting and monitoring of financial transactions, and determine whether fraud, misappropriation of funds or other illegal activities may have occurred.

Fraud investigations consist of gathering adequate information about specific allegations and performing audit test procedures to determine whether fraud may have occurred; evaluating the associated loss; determining who was involved and how it may have occurred.

During interviews, FCMAT study team members asked questions on policies and procedures; job responsibilities; cash handling; purchasing and expenditure practices; transaction authorization; cash deposit practices, adult school program administration; student financial aid administration and open-ended questions designed to elicit information about other possible irregularities related to the scope of work.

1. FCMAT also performed substantive testing procedures for all cash received by the Ukiah Adult School during fiscal years 2011-12, 2012-13 and 2013-14.

FCMAT's findings and recommendations are the result of the above audit procedures.

Study Guidelines

FCMAT provides a variety of services to school districts and county offices of education upon request. Education Code Section 1241.5(b) permits a county superintendent of schools to review or audit the expenditures and internal controls of any school district in that county if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. According to the Education Code, the review or audit conducted by the county superintendent will focus on the alleged fraud, misappropriation of funds, or other illegal fiscal practices and is to be conducted in a timely and efficient manner. This is in accordance with Education Code Section 42638(b), which states the following:

> If the county superintendent determines that there is evidence that fraud or misappropriation of funds has occurred, the county superintendent shall notify the governing board of the school district, the State Controller, the Superintendent of Public Instruction, and the local district attorney.

Therefore, FCMAT focused on the allegations of misappropriation of assets, cash receipting practices, cash receipts issued by the Ukiah Adult School, completed deposits submitted by the adult school to the district business office, and district deposits in the Mendocino County Treasurers Office recorded in the district's general ledger during the 2011-12, 2012-13 and 2013-14 fiscal years. These actions were taken to determine whether the district and/or its personnel *may* have been involved in or committed fraudulent activities.

FCMAT visited the district on August 5-7, 2014 to conduct interviews, collect data and review documents. This report is the result of those activities and is divided into the following sections:

- Definitions of Fraud and Internal Controls
- Substantive Testing
- Organizational Structure and Control Environment
- Other Concerns
- Fraud Prevention and Detection
- AB139 Extraordinary Audit Report Summary
- Appendices

Study Team

The study team was composed of the following members:

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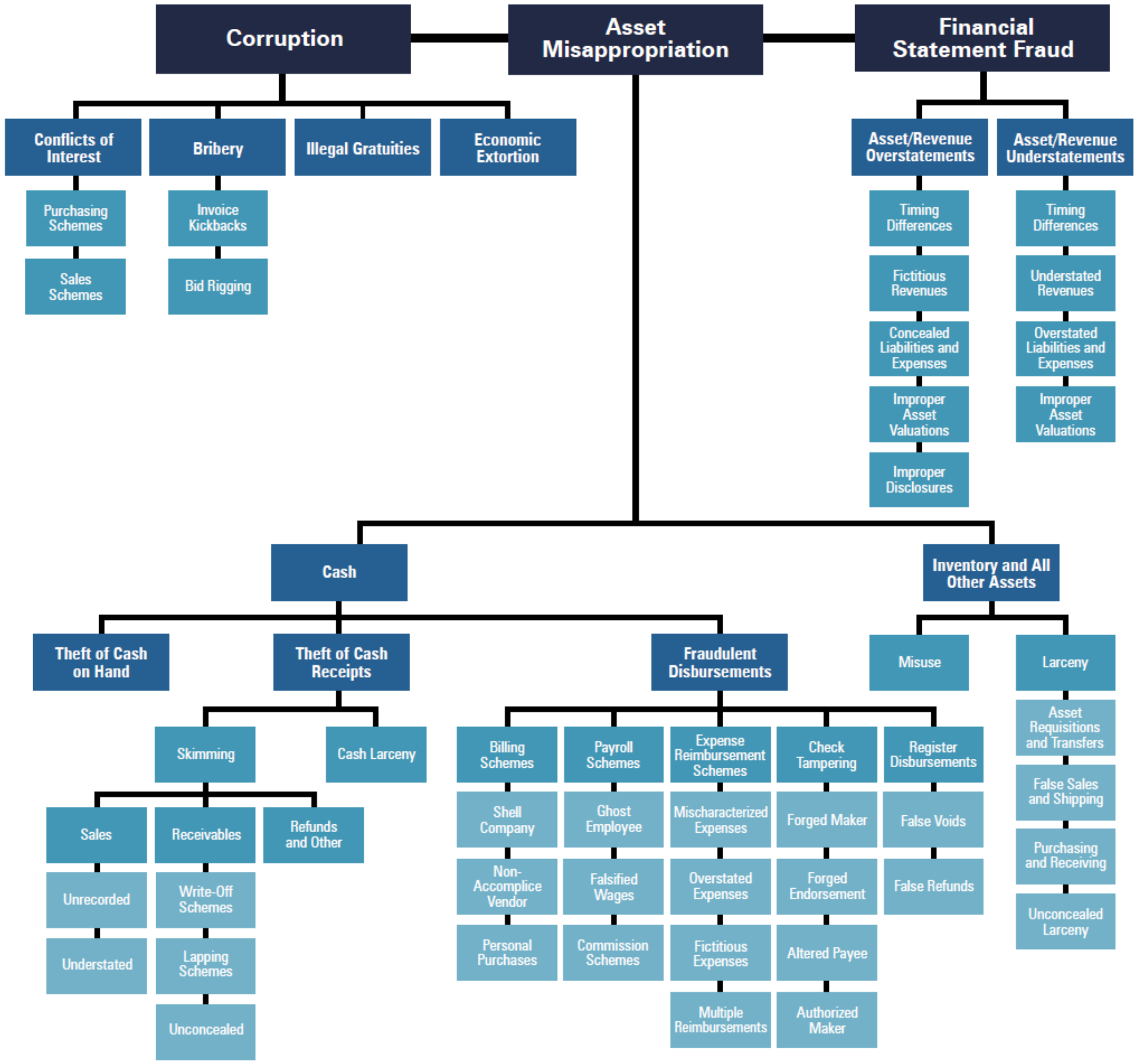
Definition of Fraud and Internal Controls

Fraud can include an array of irregularities and illegal acts characterized by intentional deception and misrepresentations of material facts. One of the main issues in evaluating the adult education program at the Ukiah Unified School District was the receipt of tuition for the licensed vocational nursing (LVN) program in the form of checks and cash and whether fraud may have occurred in this area.

A material weakness is a deficiency in the internal control process that may allow errors and omissions, intentional or otherwise, including fraud, to occur. When a material weakness exists, employees in the normal course of business may not detect errors in time to correct them. A material weakness also can be a violation of law or regulations. Although all employees have some degree of responsibility for internal controls, the governing board, superintendent and senior management are ultimately responsible.

Occupational Fraud

Occupational fraud occurs when an organization's owners, executives, managers or employees use their occupation to deliberately misuse or misapply the employer's resources or assets for personal benefit. The three main types of occupational fraud are corruption, asset misappropriation, and financial statement fraud. The diagram on the following page shows the Occupational Fraud and Abuse Classification System, also referred to as the fraud tree. (ACFE 2014 Report to the Nations on Occupational Fraud and Abuse)



Corruption involves an employee or employees using influence in business transactions to obtain a personal benefit that violates that employee's duty to the employer or the organization. Asset misappropriation includes cash skimming, falsifying expense reports and/or forging company checks. Financial statement fraud includes the intentional misstatement or omission of material information in financial reports.

Occupational fraud is one of the most difficult types of fraud and abuse to detect; however, the most common method of detection is tips, which help prevent occupational fraud three times as often as any other detection method. According to the 2014 Report to the Nations conducted and published by the Association of Certified Fraud Examiners, asset misappropriation is by far the most common of the three primary categories of occupational fraud, occurring in more than 85% of cases the association analyzed for this report. Corruptions schemes accounted for 36.8% of the 1,483 cases analyzed, with a median loss of $200,000. The 2014 report also noted that those who commit fraud often engage in schemes that fall within more than one of the three distinct occupational fraud categories identified.

Internal Controls

Internal controls are the principal mechanism for preventing and/or deterring fraud or illegal acts. Illegal acts, misappropriation of assets or other fraudulent activities can include an assortment of irregularities characterized by intentional deception and misrepresentation of material facts. Effective internal control processes provide reasonable assurance that a district's operations are effective and efficient, the financial information produced is reliable, and the organization operates in compliance with all applicable laws and regulations.

Internal control elements provide the framework for an effective fraud prevention program. An effective internal control structure includes the policies and procedures used by staff, adequate accounting and information systems, the work environment, and the professionalism of employees.

Internal control consists of five components:

1. **Control Environment** is the tone of the organization and influences the behavior of employees. It is the foundation for the other components of internal controls.

2. **Risk Assessment** analyzes and identifies the risks that the organization will not achieve its objectives. This component structures the basis for how these risks should be managed.

3. **Information and Communication** require systems that gather, identify and exchange information in a format and time frame that enable the people in the organization to successfully perform their duties.

4. **Control Activities** ensure that management directives are carried out. Control activities are designed to discourage errors or irregularities or find them after they have occurred.

5. **Monitoring** is essential and used to assess the quality of internal control performance over time

The following is a partial list of deficiencies and omissions that can cause internal control failures:

- Failure to adequately segregate duties and responsibilities related to authorization.
- Failure to limit access to assets or sensitive data (e.g. cash, fixed assets, personnel records).
- Failure to record transactions, resulting in lack of accountability and the possibility of theft.
- Failure to reconcile assets with the correct records.
- Unauthorized transactions, resulting in skimming, embezzlement or larceny.
- Lack of monitoring or implementation of internal controls by the governing board and management or by unqualified personnel.
- Collusion among employees where little or no supervision exists.

A system of internal controls consists of policies and procedures designed to provide the governing board and management with reasonable assurance that the organization is achieving its objectives and goals. Traditionally referred to as hard controls, these include segregation of duties; limiting access to cash; management review and approval, and reconciliations. Other types of internal controls, typically referred to as soft controls, include management tone, performance evaluations, training programs, and maintaining established policies, procedures and standards of conduct.

A strong system of internal controls that includes all five of the above elements can provide reasonable but not absolute assurance that the organization will achieve its goals and objectives.

Control Environment

The internal control environment is critical because it establishes the moral tone of the organization. Though intangible, it begins with the leadership and consists of employees' perception of the ethical conduct displayed by the governing board and executive management.

The control environment is a prerequisite that enables other components of internal control to be effective in achieving the goals and objectives necessary to prevent and/or deter fraud or illegal acts. It sets the tone for the organization, provides discipline and control, and includes factors such as integrity, ethical values and competence of employees. The control environment can be weakened significantly by a lack of experience in financial management and internal controls.

Control Activities

Control activities are a fundamental element of internal controls, and are a direct result of policies and procedures designed to prevent and identify misuse of a district's assets, including preventing any employee from overriding controls in the system. Control activities include the following:

1. Performance reviews, which compare actual data with expectations. In accounting and business offices, this most often occurs when budgeted amounts are compared with actual expenditures to identify variances and followed up with budget transfers to prevent overspending.

2. Information processing, which includes the approvals, authorizations, verifications and reconciliations necessary to ensure that transactions are valid, complete and accurate.

3. Physical controls, which are the processes and procedures designed to safeguard and secure assets and records.

4. Segregation of duties, which consists of processes and procedures that ensure that no employee or group is placed in a position to be able to commit and conceal errors or fraud in the normal course of duties. In general, segregation of duties includes separating the custody of assets, the authorization or approval of transactions affecting those assets, the recording or reporting of related transactions, and the execution of the transactions. Adequate segregation of duties reduces the likelihood that errors will remain undetected by providing for separate processing by different individuals at various stages of a transaction and for independent review of the work.

Findings and Recommendations

Substantive Testing

FCMAT's review of Ukiah Adult School included testing the cash receipt and deposit transactions of the adult school deposits for fiscal years 2011-12, 2012-13, and 2013-14. All transactions receipted and deposits recorded in the district's financial software system ledgers during these fiscal years were reviewed. The district accounts for all Ukiah Adult School financial activity in the general fund in a locally defined resource code 639, allowing the team to efficiently analyze all transactions recorded in subsidiary ledgers and reports.

FCMAT requested and obtained from the Mendocino County Office of Education financial system the Ukiah Unified School District reports for the 2011-12, 2012-13 and 2013-14 fiscal years and performed procedures:

- The data in the detailed general ledger reports was analyzed and sorted to identify all transactions related to the Ukiah Adult School recorded in Standardized Account Code Structure (SACS) Resource Code 639.
- The deposit history report data was analyzed and sorted to identify all deposit transactions related to the adult school.
- All original receipts from receipt books issued to the adult school, listed in inventory and/or included in school site/district deposits during the 2011-12, 2012-13 and 2013-14 fiscal years, were traced to or identified as omitted from deposits recorded in the general ledger.
- All supporting documentation was reviewed for adult school deposits included in district deposits recorded in 2011-12, 2012-13 and 2013-14 fiscal years.
- The math accuracy was verified for all adult school deposit receipts and correlating documentation including receipts issued by the adult school.
- The form and total was verified for all consideration included in each adult school deposit and its agreement with accompanying adult school receipts.
- FCMAT identified all receipts that were voided, utilized for preschool and appropriately excluded from adult school deposits, and those that were issued but not included in school site/district deposits.

FCMAT reviewed 1,278 transactions each documented through the issuance of a prenumbered, preprinted, standard receipt completed by the adult school staff from July 11, 2011 through June 19, 2014. Upon completion of testing 173 transactions totaling $93,182.00 were identified where the receipt was issued, but cash and the associated yellow receipt copy were omitted from the deposits prepared by the school site and forwarded to the district business office for deposit in the general fund. The table below is a summary reconciliations of the transactions reviewed and related findings. A detailed list of transactions tested with identifiable exceptions is attached in Appendix A to this report.

Transaction Testing Summary of Exceptions

	# of Transactions	Cash	Check	Total
Receipts issued by Adult School and traced to district deposits	1078	$115,025.00	$486,391.26	$601,416.26
Receipts issued not included in district deposits recorded in the General Ledger	173	90,852.00	2,330.00	93,182.00
Receipts issued for programs other than Adult School - properly excluded	27	400.25	1,824.45	2,224.70
Total Receipted Transactions Tested	1278	$206,277.25	$490,545.71	$696,822.96
Transactions included in district deposits for Adult School / Not receipted by site	18			$16,341.12
Total collections receipted and traced to Adult School deposits				$617,757.38
District deposits recorded in General Ledger for Adult School				$617,757.38

Several weaknesses related to cash-handing procedures were identified during FCMAT's review and are described in greater detail in the following pages.

Organizational Structure and Control Environment

The district's hierarchical administrative structure is typical of California school districts. The superintendent acts as the chief executive officer, and the district's functions are carried out through three organizational divisions, Educational Services, Human Resources and Business Services. The adult education school is under the Educational Services Division as are all of the other schools in the district.

The district's adult school has a recent history of administrative turnover and is overseen by an interim assistant principal. The interim assistant principal is a retired district administrator who served in various administrative positions, including as the adult education administrator, for almost 40 years. The interim assistant principal has served as the administrator in charge of the adult education programs for the last two school years under a letter of agreement with the district. He reports directly to the director of alternative education who is responsible to the assistant superintendent of educational services. He is supported by two clerical positions: one secretary III and one attendance secretary II.

Although leadership changes can be difficult, change in leadership can also introduce new ideas and approaches about how processes should be performed. Leadership change also often identifies areas of complacency in adherence to established processes and procedures.

The term "internal control" is clearly defined by the accounting industry as it applies to organizations, including school districts. An organization establishes control over its operations by setting objectives, goals, budgets and performance expectations. An effective internal control structure provides the means to monitor, direct, and measure the organization's assets and resource and plays a key role in protecting the organization from fraud, abuse or misappropriation. Many factors influence internal controls effectiveness, including the social environment and how it affects employee's behavior, the availability and quality of information used to monitor the organizations operations, and the procedures and policies that guide the organization. The district has permitted the adult school to operate with a great deal of autonomy and little oversight over the financial activities related to programs and student financial aid administration. This lack of oversight presented a significant weakness in the district's internal control over cash collections. Greater detail regarding specific weaknesses is discussed later in this report.

Each person in a school district is responsible for internal control in some capacity because nearly everyone produces information used by the internal control system or takes action to implement organizational control. An example would be the segregation of duties related to purchasing. Each school site or department initiates requisitions for supplies. Internal controls are used to process requisitions through budget approvals and/or program approval by someone other than the initiator of the requisition. Additional controls are commonly established requiring only purchasing staff to create and release the purchase order to the vendor once the requisition has been approved. These activities are separated from those related to authorization of processing payment to the vendor once items are received. Segregation of duties prevents an employee from having access and authority over multiple steps in the transaction process from the start to finish, reducing the opportunity for fraud or misuse of funds. Further, each individual should take responsibility for appropriately communicating problems in operations, noncompliance with policies and procedures, or illegal actions.

The superintendent, as the organization's leader and chief executive officer, sets the organizational tone that influences all decisions, activities and the control awareness of employees. Factors that contribute to a positive control environment include management philosophy and operating style, ethical values, integrity, organizational structure or configuration, assignment of authority and responsibility, and employee expertise and proficiency.

The chief business official is ultimately responsible for overseeing the integration of all five internal control components into one cohesive structure and monitoring and revising that structure to ensure its adequacy is maintained. The administrative team provides leadership and direction to managers and reviews and gives feedback on internal control decisions. In turn, the managers assign the responsibility of establishing specific internal control procedures and policies, control activities and monitoring the personnel responsible for unit functions.

The governing board works as a group to provide governances, oversight and guidance, while individual board members particularly enhance the control environment when they are informed, free of bias, inquisitive, conduct themselves in an ethical and principled manner and expect the same standard from everyone in the organization. Independent auditors assess the controls and determine if properly designed, implemented, and monitor whether the controls work effectively. They also may make recommendations for improving internal controls.

The adult school operates a fee-for-service licensed vocational nursing program as well as the following programs that are offered free to the community:

- GED test preparation
- Adult school diploma classes
- English as a second language
- Citizenship
- Class for disabled adults

- The adult school's flagship program is the licensed vocational nursing (LVN) program. This fee-based program is delivered in two instructional formats. The full-time program is 18 months long and is aligned with the district's instructional calendar. Students attend classes four days per week, and two are 10-hour days. Students do not attend classes during the summer break. The part-time program is 24 months long and runs through summer. Students attend classes three times a week, and one is a 10-hour day.

The LVN program is an extremely competitive program. The program is oversubscribed and usually receives more than 120 applicants for 30 to 45 slots. Interviews with staff indicate the number of slots offered from one class to the next has been inconsistent, ranging from 33-45. To gain admittance, prospective students must submit a completed application and transcripts and take a standardized entrance examination. If the prospective student passes the entrance examination, he or she proceeds to an oral interview with a panel. Panel members give each applicant a score that is averaged across all panel members. The entrance examination combined with the panel score is used to determine the final score for each applicant. However, other factors such as a letter of recommendation or work history can also be considered in addition to the applicant's final score.

The entire tuition for the LVN program is $6,500; however, students can pay in installments and almost always use this option. The cost for the first term is $2,500 and includes textbooks. The two subsequent terms cost $2,000 each, and students must purchase their own uniforms.

Revenue Recognition and Collection

Adult school staff reported that students have been permitted to make alternative payment arrangements at the discretion of the secretary III, who is solely responsible for tracking student account balances and payments. The district has not established procedures for modifying the established fee-payment schedule. A significant internal controls weakness results from assigning isolated control and discretion solely to one individual for student account management, fee schedule modifications, fee collection and postings without, at a minimum, including review and authorization. This weakness is magnified when combined with other identified weaknesses related to the cash collections procedures discussed elsewhere in this report.

The weak internal controls and procedures for LVN program revenue combined with the absence of proper review and authorization procedures provide an opportunity for the staff member to make adjustments to outstanding student fee balances that may not otherwise be valid.

Student information is maintained in a database designed by the district information technology (IT) staff and is not integrated into any other system. The secretary III enters data into the student information system from each application and notes if the student is accepted into the LVN program. The secretary III enters student tuition payments into the database by simply adjusting the total amount paid rather than identifying each payment date and amount. Although the district utilizes the Quintessential School Systems/QSS Control Center (QSS/QCC) financial system, which includes an accounts receivable module, the school does not use this system to track student obligations and receipts. No procedures are established to recognize revenue and the obligation of the student for outstanding fees on acceptance into the LVN program. Revenue is recognized on a cash basis, when student fees are paid and deposited, rather than a modified accrual basis of accounting.

California School Accounting Manual (CSAM) Procedure 101, Governmental Accounting, Basics of Accounting, refers to the timing of recognizing transactions and events in the accounting records and reporting them in the financial statements. Following the modified accrual basis of accounting, revenues are recognized in the period when they become available and measurable, and expenditures are recognized when a liability is incurred, regardless of when the receipt or payment of cash takes place. The term "available" means collectible within the current period or soon thereafter to be used to pay the liabilities of the current period.

An accounts receivable should be created in the district's financial system for each individual student when he or she is accepted into the LVN program. Payments should be applied to the outstanding account receivable when the student pays fees.

The adult school contracts with local agencies for interns and other services recognized as other local revenues. An invoice should be generated at the time of signed agreement and an accounts receivable established. An example of transactions with appropriate object code is listed below.

A journal entry may be recorded to adjust the outstanding accounts receivable balance in the district's unaudited actuals to recognize income in the appropriate accounting period if outstanding balances exceed a reasonable collection timeframe after each fiscal year end.

File folders are created for every applicant to maintain documentation for the application, testing and interviews, and a second folder is created for each student accepted into the LVN program. Each student accepted receives an acceptance letter that requires a written response stating his or her intent to attend. The second folder includes the letter of intent, background check, immunization records, and copies of receipts issued to students when tuition payments are made. FCMAT interviews found that although all adult school staff accept student payments and issue receipts, the secretary III is responsible for entering the tuition due from each student into the database as well as maintaining and monitoring student account information including payments and outstanding balances. The secretary III also prepares invoices and receives payments from agencies that extend grants to students attending adult school programs.

Staff duties and activities observed by FCMAT are not consistent with district Board Policy 3400 (Internal Controls/Fraud Prevention) and accounting standards. Duties are not sufficiently segregated since one person can record the amount due (accounts receivable), receive payment, record payment transaction, and determine the remaining balance due for each student as demonstrated by the adult school secretary III. Staff members also indicated that student tuition fee revenue, collections and outstanding balances are not reconciled. The lack of procedures and segregation of duties creates the potential for unintentional errors and omissions as well as intentional illegal acts, including fraud.

An ideal accounts receivable process requires recognition and recording of the tuition due for each student accepted into the LVN program. Adult school staff should enter tuition and invoice amounts into the district financial software system while district office staff should receive and process payments. By entering the data in the district financial system, revenue is recorded and recognized immediately when an account receivable is recorded. As student payments are received, they are posted to the account receivable, making it easy to identify and track any unpaid balances. Outstanding student balances are necessary to determine if a diploma may be granted to a student upon completion of a program since all outstanding fee balances must be resolved. Additionally, payment history is necessary to determine outstanding balances to be carried over to a new fiscal year, determine the necessary adjustments resulting if a student is dropped from the program, or track student payments received but not applied to the correct student account. Inquiries with staff indicated that the district has not received complaints resulting from errors and/or nonposting of student fee payments to accounts.

Agreements with local agencies provide internships for LVN students. When the agreements are signed, the secretary III creates an invoice and mails it to the agency. The secretary III writes a receipt when payment is received. The payment is placed in the safe and included with weekly deposit. An accounts receivable process does not exist to identify and track payments or outstanding balances. The lack of segregation of duties allows opportunity for intentional or unintentional omissions. The ideal accounts receivable process requires identifying and recording the amount due for each agreement. Adult school staff should enter invoice amounts into the district financial software system, and district office staff should receive and process payments.

Receipting Process

The adult school utilizes a 4-part sequentially prenumbered, preprinted, standard receipt book issued by the district office. The accounting technician III in the Business Services Department at the district office is responsible for distributing receipt books. An informal log is maintained at the district office for all receipt books by sequence, but there are no control procedures to monitor use once distributed. As receipt books are collected, the individual enters the date and signs the log on next to each sequential book removed from the supply cabinet. The accounting technician III does not accompany individuals or verify and document receipt books and numbers removed. Completed receipt books are not returned once exhausted, nor is there any verification that receipts issued are forwarded to the district office with the proceeds after issuance.

Standardized receipts are not required districtwide. School sites and or departments that wish to purchase their own receipt books for documenting cash collections are permitted to do so without any oversight, tracking or reconciliations by the business office staff. The lack of a standardized receipting practice districtwide provides the opportunity for an individual to purchase and use any receipt book to acknowledge collections and omit them from deposits since no custody controls or verification processes have been established to ensure all cash collections are forwarded for deposit.

Because of the lack of control over receipt books, receipts and the related value can easily be lost, misplaced, or stolen. Further, the lack of standardized controls and procedures for cash handling and receipting combined with the lack of procedures for recognizing, recording and managing program revenues for student fees and accounts provide the opportunity for site-level staff to accept cash, issue a receipt for payment and omit the proceeds from deposits.

Both the secretary III and attendance secretary II have the authority to collect receipt books from the district office although a review of the book log indicates that the attendance secretary II generally completes this task. The adult school frequently picks up multiple books at a time from the district office. The same receipt books are utilized to document all cash collections, both in person and by mail, for any particular purpose including those for LVN tuition, General Educational Development (GED) testing fees and local grant funding intended to be distributed by the district for student awards.

The adult education office receipted cash and checks for tuition using two separate receipt books, which circulated among all three of the adult education staff. It is common for each secretary to keep a book near his or her workspace, and the remaining unused books are locked in the safe. The fact that multiple receipt books are used simultaneously causes receipts to be issued out of sequence, making it difficult to easily track the issuance of all receipts and ensure they are accounted for in deposits. The adult school does not prepare a receipt book log or a log of cash collections nor is a reconciliation of receipts conducted. The district should require the adult education office staff to use only one receipt book to ensure that the deposits can be tracked by an uninterrupted numerical sequence.

Students can pay their tuition with cash, checks or money orders, but credit cards are not accepted. The assistant principal, secretary III, attendance secretary II, and sometimes an adult education teacher receive payments. Once payment is made, a receipt is issued and signed by the employee who prepared the receipt. The receipt shows whether the payment was made with cash, money order or check. The white copy is retained by the student, the yellow copy is placed with the payment to the safe, the pink copy goes in the student's file, and the goldenrod copy stays in the receipt book. All four copies of a voided receipt remain intact in the receipt book. Cash, checks and money orders are stored in a cash box in the office safe. The top tray of the cash box contains $5, $10 and $20 bills, and $100 bills are stored in the bottom. Adult education staff indicates that they receive several $100 bills at a time. Funds received are delivered to the district office for deposit once per week. Cash and coin are itemized on the deposit slip and copies of checks and/or money orders received are also provided to the district office.

The adult education office staff receipted cash and checks and placed them in a locked safe; however, all three of the adult education staff had keys. At least one employee stored her keys in an unsecured location that is utilized by IT personnel to access the safe unsupervised and store system backup tapes. Circulating more than one key increases the potential for fraud. The best practice is to limit the number of keys to one and ensure it is stored in a secured location.

Adult School Deposits

The attendance secretary II prepares and delivers all adult school deposits to the accounting technician III at the district office every two weeks or weekly when cash collections are high volume.

The secretary counts all cash and checks and verifies that the total is the same as that of the yellow receipt copies in the cashbox. She then creates a deposit receipt (district-created form) that includes the date, completed by, total of checks and currency, account codes, and deposit total. All checks are photocopied and attached with the yellow receipt copies to the deposit receipt. The site-level supervisor does not perform a second-party review or approve the deposit and its content. Once complete, the secretary II takes the deposit package to the accounting technician III in the district business office. The adult education office did not require funds to be counted jointly by two employees before the funds were transported to the district office for deposit. Double-counting receipts is the industry standard and is important in preventing fraud.

The accounting technician III and the attendance secretary II immediately count and verify the cash upon delivery at the district office. The accounting technician II reviews the deposit receipt, notes who delivered the deposit, the date, the verified amount, the date deposited, and the initials. A district business office receipt is issued for the total deposit and given to the attendance secretary II, and the deposit is logged and locked in a safe at the district office. Once each week, the accounting coordinator creates a consolidated deposit in the district financial system. A batch is opened to record all deposits collected districtwide, and each line item is entered and balanced to a receipt log prepared by the district office. Once it is entered and posted in the financial system, the district office attendance technician consolidates and balances the cash and checks for the entire deposit in preparation for delivery to the Mendocino County Treasurer. The director of fiscal services reviews deposits.

The receipt numbers issued by the school site from receipt books issued by the district office are not tracked, verified or logged through the entire process. There is a considerable weakness and an opportunity for fraud, misappropriation of funds or other illegal activity in the absence of control and verification of each receipt from the time that a receipt book is issued to the school site to the point that receipts and accompanying cash collections are forwarded to the district office for deposit. Also problematic the absence of requirement that all receipt books be returned and accounted for once exhausted.

When the adult school attendance secretary II prepares the deposit receipt, the numbers should be written in sequence and verified to ensure all those preceding are accounted for and subsequent ones remain intact in the books. To establish a clear audit trail, the range of receipt numbers should be noted on the deposit receipt and in the district financial system when posting deposits. A log should be maintained at the adult school and include receipt books received by the district office and the person to which they are assigned. In addition, a cash receipts log should be created to track all receipts as they are processed for deposit. The adult school and business office should use this log to ensure all receipts are accounted for when processing each deposit.

The district should require adult education office staff to assign two employees to count the funds received daily and require both employees to verify the amount by signing the deposit slip. Cash, checks and money orders were transported to the district only once per week even though the adult education office sometimes receipted as much as $25,000 in cash in one day. The district Fiscal Services Division issued a memorandum to site personnel dated August 8, 2011 requiring all monies received at sites to be submitted weekly to the business office. This practice satisfies the direction of the Mendocino County Treasurer and removes cash and checks from the site for extended periods of time, reducing the risk of fraud or theft. The district business office did not monitor and enforce the deposit requirement. A dollar threshold specifying when the adult education office is required to transport a deposit to the district office should also be established in addition to the established frequency requirement. The timely deposit of funds reduces the opportunity for fraud.

FCMAT's review of the adult education program focused on all cash collections receipted and deposited for fiscal years 2011-12, 2012-13 and 2013-14. FCMAT's review found the following significant weaknesses in the control environment:

- The adult education office has no written procedures manuals that specify how the accounts receivable function should be carried out. As a result, there is no consistency among office staff on the receipt and/or deposit of funds received for student tuition.
- The adult education office receipted cash and checks for tuition using two separate receipt books that circulated among multiple adult school staff. As a result, when receipted funds were deposited at the district office, they were nonsequential, increasing the potential for fraud.
- The adult school office did not require two employees to count cash and checks before they were transferred to the district office to be deposited. Double-counting of receipts is important in preventing fraud.

- Cash, checks and money orders were transported to the district only once per week even though the adult education office sometimes receipted as much as $25,000 in cash in one day. Timely deposits of cash reduce the opportunity for fraud, misappropriation of funds or other illegal activities.
- The adult education office receipted cash and checks and placed them in a safe; however, all three of the adult education staff had keys to the safe, and at least one employee stored her key in an unsecured location. Having more than one key in circulation increases the potential for fraud.
- The interim assistant principal did not monitor the adult school budget, track program revenue, or review the student fee collections and deposits. As a result, controls were weak and possible theft may have occurred for at least three fiscal years. Regular review of financial transactions by management increases the likelihood of detecting fraud.

Recommendations

The district should:

1. Establish an accounts receivable process to complete the following:
   - Record and recognize revenue related to adult school program transactions at the point of student acceptance to the LVN program.
   - Integrate transactions into the district financial software.
2. Establish procedures for maintaining student accounts that include the tracking of each payment of student fees including the date of payment, amount and receipt number. Outstanding student account balances should be routinely reviewed. A procedure should be established to modify the payment schedule and should include review and approval.
3. Establish procedures to routinely reconcile student accounts and receivable balances.
4. Strengthen procedures for cash collections by establishing and documenting a standardized receipting process districtwide utilizing standard, prenumbered preprinted standard receipt books. Custody and control should be retained by the Business Services Department, and authorization of receipt books should be designated. A detailed receipt book log should be prepared and retained, requiring identification of all receipt books by receipt number range, the department or site issued, the date and signature of employee receiving the books and the date returned.
5. Establish and document procedures for retaining exhausted receipt books by Business Services Department and before issuing new receipt books. A minimum period of four years for disposable records.
6. Establish procedures to verify that all receipts issued are accounted for in district deposits.

7. Require the adult education office staff to use only one receipt book to ensure that the deposits can be tracked by an uninterrupted numerical sequence.

8. Require each school site/department to maintain a cash receipts log as cash is collected and receipts are issued. The cash receipts log should include the date of receipt, the receipt number issued and the amount. A copy of the site cash receipts log should accompany each school site deposit, and the district deposit number and date should be entered once delivered to the district office.

9. Require all school sites and/or departments to follow established procedures for timely deposits.

10. Ensure that all keys are secured and access to the safe is limited to those with assigned keys. A staff member with assigned authority should accompany anyone given access for other purposes, such as an information technology staff member using the safe for system backup storage. The number of keys to the adult education office safe should be reduced from three to one, and the district should require the single key to be stored in a secured location.

11. Establish deposit preparation procedures requiring at least two adult school staff members. One staff member should prepare each deposit, and a second one should review and approve it. Each deposit should include a copy of the cash receipts log, an accounting of all issued receipts in sequential order, ensuring that all receipts issued are accounted for in the prior deposit, current deposit and/or remain unused in issued receipt books.

12. Require adult education funds to be counted jointly by two employees before the funds are transported to the district office for deposit.

13. Segregate the duties of initiating invoices and distributing payments. An accounts receivable process should be established to record and recognize revenue related to adult school agreements with local agencies and to integrate transactions into the district financial system.

14. Establish procedures to maintain local agency accounts, including the tracking of each payment along with the date of payment, the amount and receipt number. Outstanding accounts should be routinely reviewed.

Manuals and Cross-Training

The adult school lacks manuals of policies and procedures. Desk manuals that include policies and procedures help ensure proper internal controls, provide a better understanding of each position's responsibilities, and help staff complete necessary functions when the employee normally assigned to a particular duty is absent.

The interim assistant principal did not monitor the adult education budget or review the receipt of deposits and did not detect a problem until sometime this fiscal year. Regular review of financial transactions by management increases the likelihood that fraud will be detected. The district business office should provide the interim assistant principal with ongoing training on how to read budget printouts from the financial system, including those showing the working budget and financial activity, and require him to monitor budgeted income and expense versus actuals quarterly.

Employees lack cross-training. Although many have been in their positions for a significant amount of time and know their jobs well enough to function without manuals, there are disadvantages to this approach. Employees can become so accustomed to their jobs and level of productivity that change is difficult. Further, if an employee leaves a position or is absent, no documentation or cross-training exists to help another employee perform those duties and maintain organizational continuity. The challenges faced by the new chief business official (CBO) have highlighted the need for documented procedures and references. The district has a unique opportunity to begin developing these documents as the new CBO learns various duties and procedures.

The COE Fiscal Procedural Manual is a free resource designed to help school districts establish procedures. It is financed by FCMAT, produced by the San Diego County Office of Education, and available on the Internet at http://fcmat.org/coe-fiscal-procedural-manual-update-for-2013/. This document can serve as a template to help develop procedures.

Recommendations

The district should:

1. Develop written desk manuals, standard operating procedures and other specific references in the business and adult education offices so that there are written documentation detailing processes and duties.

2. Provide ongoing training to the interim assistant principal on how to read budget print outs from the financial system, including working budget and financial activity print outs, and require him to monitor budgeted income and expense versus actuals on a quarterly basis.

3. Review the Business Services Guide and consider using it as a template as specific procedures are developed.

4. Ensure that cross-training is provided to various district office employees so that functions can be carried out if an employee leaves or unexpected absences occur.

Federal Student Aid (FSA)

Approximately two years ago, the adult school became accredited to administer PELL grant funding as a payee through the Free Application for Federal Student Aid (FAFSA). A payee is an entity designated by the grantee to request and manage federal funds on its behalf. The interim assistant principal of the adult education program retrieves student data from the Instructional Student Information Reports (ISIR) through the FAFSA program. This report identifies if a student qualifies for funding from the data processed through FAFSA or if the student data requires verification by the adult school. If verification is required, the interim assistant principal requests information including, but not limited to, Internal Revenue Service documentation, high school graduation records, assistance for food stamps as well as number of family members. From this information, the interim assistant principal determines which students qualify for PELL funding. An estimated 50% of FAFSA applicants require manual verification. When funding is approved and the award notification is received, the interim assistant principal provides the secretary III with a list of the student names and amount awarded.

Student PELL grant funding is drawn by the district through the Department of Education's G5 Grants Management System, a delivery system that supports program award and payment administration. As part of her responsibilities for categorical programs, the accounting manager provides oversight and monitoring of the Title IV PELL Grant G5 draws. District office and adult school staff acknowledged that the director of fiscal services, accounting manager, adult school secretary III and the former adult school principal attended training on the FAFSA and G5 systems in San Francisco in September 2013.

Once the adult school verifies and qualifies the student to receive the PELL Grant, awards the grant and authorizes payment, the funds go into the G5 system. The accounting manager draws the funds from the G5 system; however, interviews with staff indicated that the interim principal is the only person evaluating and authorizing grants. Although the accounting manager reported that no identifiable concern was evident in the process because the amounts entered in the G5 and related student disbursements always match, a secondary district level review should occur.

The process to distribute awards to students is initiated through the district's purchase-order process. Upon verification and approval, the adult school secretary III sends an e-mail to the accounting tech III in accounts payable requesting the creation of a vendor account for qualifying each student. Each student awarded a PELL grant is issued a unique vendor number in the QCC financial system as well as a unique 4-digit district defined number, which allows the district to query student payments history in the financial system in several ways including by vendor history report and detail general ledger report. While interviews indicated that the accounting coordinator or the accounting manager create student vendor numbers in the system, the accounting tech III in business services reported that she routinely adds all new vendors for purchase orders in the financial system for the entire district. The accounting tech III is also responsible for creating purchase orders, processing all payments to vendors for the district, addressing vendor inquiries, maintaining petty cash and reconciling the district's revolving fund bank statements.

The ability to create vendors, initiate requisitions and issues purchase orders in the financial system and issue accounts payable warrants against purchase orders constitutes a serious breakdown of internal controls. An employee could create a fictitious vendor in the financial system, create a purchase order, and issue a payment or payments against the purchase order to the vendor, resulting in fraud. The functions of establishing vendors and creating purchase orders should be segregated from the accounts payable function where invoices are paid.

Once a vendor number has been established, the accounting tech III notifies the adult school secretary III that she can initiate requisitions for distributing grant funding to each student. The requisitions go through an approval process, and the purchase order is created in the district office for the full awarded amount. Copies of the FAFSA approval for individual student awards are used as documentary support for each purchase requisition and the preparation of each purchase order, which is prepared for the full grant award for each student. Purchase orders are coded to California's Standardized Account Code Structure (SACS) resource code 5890, and students receive the PELL grant award in two separate payments. Once the purchase orders are established, the adult school provides the accounting manager with a spreadsheet identifying the student disbursements for each payment cycle. This spreadsheet is attached with the award letters and forwarded to the accounting tech III as backup when issuing warrants. The first payment is generated when the purchase order is created, and the interim assistant principal determines when the second payment is to be issued based on the hours of instruction completed for each student. The secretary III provides the interim assistant principal with a progress report from the student information system, which determines the second payment, and notifies the accounting tech III about when to distribute the second payment.

The accounting tech III generates a warrant through the district's accounts payable system, which applied against each purchase order established for each student's PELL grant. The administrative assistant verifies each warrant against the invoice and mails them directly to the students. Interviews with district and adult school staff indicated that there are occasions where at the request of adult school staff, the warrants are forwarded to the adult school for direct delivery to students. It is best practice to separate the practices of processes of disseminating warrants from those who request and process payments.

The district business office uses the purchase orders created for student Pell Grant distributions to establish a revenue budget to account for the receipt of student federal funding. Once the funding is drawn from G5 system, the district accounts for it as revenue in the general ledger when the deposit is recorded. The district does not use the accounts receivable module to account for the federal funding draws for purchase orders established to distribute student Pell grants and validate the funding draw from the G5 system.

GASB Statement No 24 as amended provides guidance on the accounting for pass-through grants. School districts administering pass-through grants, including Pell Grants, should report financial transactions as nonoperating revenues and expenses if the LEA has any administrative or direct financial involvement in the program. Direct financial involvement includes determining student eligibility. Although the district accounts for the receipt of Pell Grant funding as revenue, it is recognized as operating revenue using object code 8290 All Other Federal Revenue.

Additionally, the district records the distribution of Pell Grant proceeds as an agency operating expenditure using object code 5800 Professional Services. The district should follow guidance in the California School Accounting Manual, Procedure 750, Pass-Through Grants and Cooperative Projects.

Recommendations

The district should:

1. Establish procedures for a secondary review and approval of the documentation prepared by the interim assistant principal supporting the amounts drawn through the G5 system for student Pell grant funding.
2. Review the duties assigned to the accounting tech III at the district office to ensure that these duties and accounting functions are properly segregated and that the span of control, access and authority do not present control risk.
3. Establish procedures creating new vendors in the database. Access to creating vendors to someone other than accounts payable should be restricted. The ability to create new vendors should be separated from the ability to pay vendors.
4. Establish a procedure for distributing warrants to students at adult school. A log including student name, date warrant received and student signature should be created, and the person responsible for distributing warrants must be someone other than the staff requesting the warrant.
5. Follow Procedure 750, Pass-Through Grants and Cooperative Projects to account for the receipt of funds and distributions of Pell Grants to students.

Fraud Prevention and Detection

Occupational fraud is a global problem in business, including government. A May 2014 report by the Association of Certified Fraud Examiners concluded that organizations lost up to 5% of their annual revenue through fraud, and the sectors most commonly victimized included public administration and government. Given the high cost of occupational fraud, all organizations should have a strong fraud prevention and detection program. District Board Policy 3400 states that employees are expected to act with integrity and due diligence in dealings involving the district's assets and fiscal resources and indicates they should all be alert for any indication of fraud, financial impropriety, or irregularity in their area of responsibility. Board policy instructs an employee who suspects fraud, impropriety, or irregularity to immediately report those suspicions to his/her immediate supervisor and/or the superintendent or designees. In addition, the superintendent or designee is required to establish a method for employees and outside persons to anonymously report any suspected instances of fraud, impropriety, or irregularity. The district participates in a program that provides a hotline to report potential workers compensation fraud; however, this program does not constitute a district fraud prevention and detection program suitable to meet all areas of potential fraud. Additionally, a successful fraud prevention and detection program requires education and training of staff.

Fraud and/or the misuse of physical or cash assets occur when three factors converge: pressure or motive, opportunity, and rationalization or lack of integrity. This is known as "fraud triangle." When two of the three factors exist, the probability that fraud will occur increases, and when all three factors exist, it is almost certain that fraud will occur.

The opportunity for fraud varies throughout the district depending on the responsibilities assigned to an employee. Rationalization and lack of integrity are more likely to be present in organizations that do not implement and promote anti-fraud policies. Ongoing employee education can help prevent and detect occupational fraud. Employees should be repeatedly trained in what constitutes fraud, how it hurts everyone in the organization, widely found fraud schemes, and common behavior signs. Employees should be encouraged not to ignore warning signs and have several avenues for reporting improprieties such as an anonymous employee hotline. The knowledge that someone can anonymously report suspicious behavior can deter fraudulent activity.

Independent auditors should not be the district's only approach of monitoring internal control. A misconception exists that a district's annual independent audit should detect and identify errors, omissions and fraud. The independent auditor's responsibility is to express an opinion on the fair presentation of a district's financial position. Through the audit process, procedures are performed to obtain assurance on whether the financial statements are free of material misstatement. Auditors obtain an understanding of district-established internal controls relevant to the entity's preparation and presentation of the financial statements during the audit; however, this understanding is not to express an opinion on the effectiveness of the entity's internal controls or identify all internal-control deficiencies that might be material weaknesses or significant deficiencies. District management is responsible for designing, implementing, and maintaining internal controls.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The integrity and ethics of leaders set the tone of an organization and are an essential part of the internal control environment. They demonstrate to others that dishonest or unethical behavior will not be tolerated.

An atmosphere in which employees feel safe to communicate concerns is a fundamental component of a strong and effective internal control environment.

Managers are in a position of authority and therefore have a higher standard of care to establish the ethical tone and serve as examples to other employees. Employees with administrative responsibility have a fiduciary duty to the organization to ensure that activities are conducted in compliance with all applicable board policies, laws, regulations, and standards of conduct. Management personnel are entrusted to safeguard the district's assets and ensure that internal controls function as intended.

The district has established board policy BP3400, which addresses management of district assets/accounts and includes segregation of duties. However, the district has not provided continuous training on internal controls and detection and prevention of fraud.

The district should implement fraud detection methods such as random audits for fraud risk assessment. Fraudulent activity is deterred when the district demonstrates that it actively monitors employee activities, investigates all identified concerns and seeks prosecution for wrongdoing.

The following basic concepts and procedures can help ensure an effective internal control structure:

- **System of checks and balances –** Procedures should be implemented to initiate, approve, execute, record and reconcile all transactions. The procedures should identify the employees responsible for each step and the time allowed for completion. Key areas requiring checks and balances include purchasing, accounts payable and accounts receivable/cash receipts, and payroll.
- **Segregation of duties –** Internal accounting procedures must be implemented and necessary changes made to segregate job assignments and protect the district's assets. No single employee should handle a transaction from initiation to reconciliation, and no single employee should have custody of an asset, such as cash, and maintain the records of its activity and transactions.
- **Staff cross- training –** More than one employee should be able to carry out each duty. Each employee should be required to use accrued vacation during which another staff member is assigned to perform those duties. Inadequate cross-training is frequently a problem regardless the size of an organization.
- **Use of prenumbered documents –** Checks, cash receipts, purchase orders, receiving reports and tickets should all be printed by an entity independent the district or automatically assigned in the financial software. Physical controls should be maintained over the check stock, cash receipt books and deposit tickets. It is not adequate to simply use prenumbered documents without an independently reconciled log of numbers.

- **Asset security –** Cash should be deposited daily, and other property of the district such as computers should be secured and protected. Access to supplies should be restricted to designated employees.
- **Timely reconciliations –** An employee who is independent from the individual assigned the original transactions and posting process should reconcile bank statements and account balances monthly. For example, the employee reconciling the checking account should not be the same person processing vendor payments.
- **Comprehensive annual budget** – The annual budget should include sufficient detail for revenue and expenditures by school site, department and resource to identify variances and determine if financial goals were achieved. Material variances in revenues and expenditures should be investigated without delay and thoroughly.
- **Inventory records** – Inventory records should be maintained that identify the items and quantities purchased, sold, or designated surplus. Physical inventory should be taken periodically and reconciled with the inventory records. Inventoried items particularly susceptible to misappropriation include: computer equipment, warehouse supplies, food service commodities, transportation and maintenance parts and student store goods.

Recommendations

The district should:

1. Communicate to every employee the expectation of compliance with all policies and procedures, standards of conduct and code of ethics.
2. Adopt board policies that include measures to prevent fraud.
3. Develop and implement fraud-detection methods.
4. Develop and implement ongoing employee fraud prevention training programs.
5. Ensure employees are cross-trained in all areas of responsibilities.
6. Adopt board policies that include adequate internal controls and segregation of duties for the business and adult education office.
7. Provide continuous training on internal controls and the detection and prevention of fraud.

Employee Bonding

The exposure and risk associated with misappropriation increases in organizations where employees are expected to handle cash. To help mitigate losses associated with this risk, it is best practice for employees to be bonded. This requires the employee or employees to be bonded. This includes employees who perform the following types of responsibilities

- Have physical contact or control over cash, checks or similar property.
- Have the right to transfer or negotiate for value such items as titles to properties or securities.
- Disburse funds.
- Sign or endorse checks or similar instruments individually or as co-signers.
- Supervise individuals who receive, disburse, handle or have access to or control over funds or assets.

Types of Bonding Insurance

Three basic types of fidelity bonds are available to school districts through their property and liability provider to protect themselves from theft:

Name Schedule Fidelity Bond

A school district designates a set amount of coverage for a list of employees provided for the insurance company. Each time a new employee who may handle cash is hired, the school district must contact the insurance company to have that person added to the list. Collection under this coverage depends on absolute proof that an employee stole from the school district.

Blanket Position Bond

Under this type of bond, a school district receives coverage for a position rather than the individual. Each employee in that position is covered, and new employees are added automatically. Coverage is offered for each employee up to the maximum established in the insurance policy. Blanket position bonds don't require proof of the individual responsible for the theft.

Primary Commercial Blanket Bond

Similar to a blanket position bond, a primary commercial blanket bond covers each employee within a class in a school district. This type of coverage does not accommodate each employee, but rather treats the employees as a class. Under a primary commercial blanket bond, it does not matter if one or five people were involved in the crime, the school district will be able to claim the same amount.

Recommendations

The district should:

1. Determine whether the risk is significant to require bonding of staff in the adult education office.
2. Identify the type of coverage (e.g. name schedule fidelity bond, blanket position bond or primary commercial blanket bond) best suits the district.
3. Specify the positions to be bonded under the coverage.

AB 139 Extraordinary Audit Report Summary: Potential Fraud

Based on the findings in this report, sufficient evidence exists to demonstrate that fraud, mismanagement and misappropriation of the district's adult school resources and assets may have occurred. Significant material weaknesses in the district's internal control environment increase the probability of fraud and/or abuse. These findings should be of great concern to the district's governing board and the Mendocino County Office of Education and require immediate intervention to limit the risk of fraud and/or misappropriation of assets in the future.

Based on the findings in this report, sufficient evidence exists to demonstrate that fraud, mismanagement and misappropriation of the district's adult school resources and assets may have occurred.

Judgments Regarding Guilt or Innocence

The existence of fraud is solely the purview of the courts and juries, and FCMAT will not make statements that could be construed as a conclusion that fraud *has* occurred.

In accordance with Education Code Section 42638(b), action by the county superintendent shall include the following:

> If the county superintendent determines that there is evidence that fraud or misappropriation of funds has occurred, the county superintendent shall notify the governing board of the school district, the state controller, the superintendent of public instruction and the local district attorney.

In accordance with Education Code Section 1241.5(b), the county superintendent shall report the findings and recommendations to the governing board of the district at a regularly scheduled board meeting within 45 days of completing the audit. The governing board of the school district shall notify the county superintendent within 15 days after receipt of the report of its proposed actions regarding the county superintendent's recommendations.

Recommendation

The county superintendent should:

1. Notify the governing board of the Ukiah Unified School District, the state controller, the superintendent of public instruction, and the local district attorney that fraud or misappropriation of district funds and/or assets may have occurred.

Appendices

Appendix A - Substantive Testing

Tick Mark Legend

(orange)	**Identifies transactions included in 2011-12 Deposits**
(green)	**Identifies transactions included in 2012-13 Deposits**
(pink)	**Identifies transactions included in 2013-14 Deposits**

1	Receipt voided
2	Receipt was utilized for purposes other than Adult School
3	Other identified matters: a. receipt was issued 1 year prior to deposit (#51597) b. receipt was included in deposit but permanent copy was removed from receipt book c. Adult School deposit was adjusted when remitted to DO
4	Receipt issued - but not included in school site and district deposits
5	Omitted receipt may be mistakenly accounted for subsequent fiscal year deposit(s)
6	District receipt noted that the payment was refunded 6-4-12
7	Deposit included 2 receipts for $50 cash, unable to identify specific cash transaction omitted
8	Receipt combination and series coincides with recorded district deposit. Copies of district backup not reviewed/documented to verify tie.
9	Cash accompanying district deposit was $150 less than receipts included in the deposit. Collections paid by check agreed to deposit.

Procedures

1	Obtained district financial system deposit history report for 2011-12, 2012-13 and 2013-14 from Mendocino COE
2	Requested, reviewed and copied all original receipts from receipt books issued to Ukiah Adult School listed in inventory and/or included in school site/district deposits during 2011-12, 2012-13 & 2013-14
3	Identified all adult school receipts included in deposits completed by adult school and included in district 2011-12, 2012-13 and 2013-14 deposits
4	Reviewed supporting documentation for all district deposits recorded in 2011-12, 2012-13 and 2013-14. Traced all completed receipts to deposits, verified math accuracy of adult school deposit receipt and related receipts, verified the form and total of consideration included in each adult school deposit and its agreement with accompanying adult school receipts, identified all voided receipts; receipts utilized for pre-school and appropriately excluded from AE deposits, and issued receipts not included in school site/district deposits.

Tran #	Receipt #	Date	For	Sig/Title	Cash Amount	Check Amount	Check #	Dist. Dep. #	Deposit Sum	District Receipt #	AE Deposit Total	Amount Missing	Tic Mark
1	49334	Void	VOID					void	void	void	void		1
2	50362	Void	VOID-$10	SD				void	void	void	void		1
3	50371	Void	VOID-$30	JO				void	void	void	void		1
4	51094	Void	VOID					void	void	void	void		1
5	51437	5/21/2012		GED Test(s)	JO		150	2143					6
6	52082	12/5/2012	VOID					void	void	void	void		1
7	52870	6/19/2013	VOID	JO				void	void	void	void		1
8	53456	11/18/2013	GED test (VOIDED - $60)	JO				void	void	void	void		1
9	53482	4/15/2014	new receipt #217590 Small Wonders	Olsen				void	void	void	void		1
10	53594	2/26/2014	LVN IV Therapy (VOID $100)	SD	void			void	void	void	void		1

Tran #	Receipt #	Date	For	Sig/Title	Cash Amount	Check Amount	Check #	Dist. Dep. #	Deposit Sum	District Receipt #	AE Deposit Total	Amount Missing	Tic Mark
1	49376	9/6/2011	Small Wonders - Pre-K										2
2	50365	10/11/2011	Pre-K	Mia M Ker		50.00	1954						2
3	50366	10/13/2011	Pre-K	Mia M Ker		278.00	---						2
4	50367	9/12/2011	Pre-K	Mia M Ker		5.00	---						2
5	50368	10/1/2011	Pre-K	Mia M Ker	40.00								2
6	50369	10/1/2011	Pre-K	Mia M Ker	20.00								2
7	50373	10/27/2011	Pre-K	Mia M Ker	20.00								2
8	50390	11/14/2011	Pre-K	Mia M Ker		250.00							2
9	50493	1/26/2012	Pre-K	Mia M Ker		50.00	X						2
10	51082	2/23/2012	Pre-K	Mia M Ker		50.00	X						2
11	51464	5/31/2012	Small Wonders - Pre K	Mar M Par		50.00	tax id						2
12	51594	9/24/2012	Small Wonders - school materials	Mar M Par	43.00								2
13	51951	8/30/2012	Small Wonders	JO		100.05	4018						2
14	51952	8/31/2012	Small Wonders	JO	32.50								2
15	51953		Small Wonders	JO		76.85	MO						2
16	51954		Small Wonders	JO		36.25	1709						2
17	51955		Small Wonders	JO		88.45	MO						2
18	51956		Small Wonders	JO		35.00	161						2
19	51957		Small Wonders	JO		134.85	1355						2
20	51958		Preschool Village	JO	42.75								2
21	51959		Preschool Village	JO	19.00								2
22	51960	9/27/2012	Preschool Village	JO	23.00								2
23	52056	10/26/2012	Small Wonders - donation	MMR		20.00	tax ID						2
24	52057	10/26/2012	Small Wonders - donation	MMR		100.00	tax ID						2
25	52058	10/26/2012	Small Wonders - donation	MMR		500.00	tax ID						2
26	53477	3/5/2014	Small Wonders Preschool	Olsen	100.00								2
27	53478	3/10/2014	Small Wonders Preschool	Olsen	40.00								2

Tran #	Receipt #	Date	For	Sig/Title	Cash Amount	Check Amount	Check #	Dist. Dep. #	Deposit Sum	District Receipt #	AE Deposit Total	Amount Missing	Tic Mark
1	51597	9/26/2012	GED Test	JO	30.00			140004	103,552.79	53659	1,210.00		3a
2	52103	2/11/2013	GED Test	JO	30.00			130013	83,932.32	52612	10,780.00		3b
3	52104	2/13/2013	LVN Term II Tuition	JO	400.00			130013	83,932.32	52612	10,780.00		3b
4	52105	2/20/2013	LVN Term II Tuition	JO	2,000.00			130013	83,932.32	52612	10,780.00		3b
5	52106	2/20/2013	GED Test	JO	30.00			130013	83,932.32	52612	10,780.00		3b
6	52107	2/20/2013	GED Test	JO	150.00			130013	83,932.32	52612	10,780.00		3b
7	52108	2/20/2013	GED Test	JO	30.00			130013	83,932.32	52612	10,780.00		3b
8	52109	2/20/2013	GED Test	JO	150.00			130013	83,932.32	52612	10,780.00		3b
9	52110	2/20/2013	GED Test	JO	30.00			130013	83,932.32	52612	10,780.00		3b
10	52111	2/21/2013	GED Test	JO	150.00			130013	83,932.32	52612	10,780.00		3b
11	52112	2/21/2013	LVN Term II Tuition	JO	2,000.00			130013	83,932.32	52612	10,780.00		3b
12	52954		GED Test		90.00			140003	547,297.98	53288	890.00		3c

Tran #	Receipt #	Date	For	Sig/Title	Cash Amount	Check Amount	Check #	Dist. Dep. #	Deposit Sum	District Receipt #	AE Deposit Total	Amount Missing	Tic Mark
1	53391	10/28/2013	GED test	JO		30.00	382					30.00	8
2	53392	10/29/2013	GED test	JO	60.00							60.00	8
3	53393	10/31/2013	GED test	JO	30.00							30.00	8
4	53434	10/25/2013	GED test	SD	90.00							90.00	8
5	53435	10/25/2013	LVN Term III Tuition	SD	500.00							500.00	8
6	53436	10/28/2013	GED test	SD	150.00							150.00	8
7	53437	10/29/2013	GED test	SD	30.00							30.00	8
8	53438	10/29/2013	GED test	SD	60.00							60.00	8
9	53439	10/29/2013	GED test	SD	30.00							30.00	8
10	53440	10/30/2013	LVN Term III Tuition	SD	280.00							280.00	8
11	53441	10/30/2013	GED test	SD	60.00							60.00	8
12	53442	10/30/2013	GED test	SD	150.00							150.00	8
13	53443	10/30/2013	LVN Term III Tuition	SD	1,200.00							1,200.00	8
14	53572	2/10/2014	LVN Term I Tuition	SD	1,800.00							1,800.00	8

Tran #	Receipt #	Date	For	Sig/Title	Cash Amount	Check Amount	Check #	Dist. Dep. #	Deposit Sum	District Receipt #	AE Deposit Total	Amount Missing	Tic Mark
1	49353	8/25/2011	Late child pickup	SD	15.00							15.00	4
2	50413	2/6/2012	GED Test(s)	SD	150.00							150.00	4
3	50422	2/9/2012	GED Test(s)	JO	90.00							90.00	4
4	50427	2/13/2012	LVN Term III Tuition	SD	100.00							100.00	4
5	50435	2/14/2012	LVN Application	SD		50.00	1004					50.00	4
6	50478	1/17/2012	LVN Term III Tuition	SD	1,500.00							1,500.00	4
7	50491	1/24/2012	LVN Term III Tuition	SD	1,000.00							1,000.00	4
8	51052	2/24/2012	LVN Application	SD	50.00							50.00	4
9	51057	2/27/2012	LVN Term III Tuition	SD	1,500.00							1,500.00	4
10	51104	4/12/2012	LVN Application	SD	50.00							50.00	4, 5
11	51106	4/12/2012	LVN Application	JO	50.00							50.00	4, 5
12	51107	4/12/2012	LVN Application	SD	50.00							50.00	4, 5
13	51126	4/17/2012	GED Test(s)	SD	30.00							30.00	4, 5
14	51127	4/17/2012	LVN Application	SD	50.00							50.00	4, 5
15	51139	4/19/2012	LVN Application	SD	50.00							50.00	4, 5
16	51145	4/19/2012	LVN Application	SD	50.00							50.00	4, 5
17	51146	4/19/2012	LVN Application	SD	50.00							50.00	4, 5
18	51147	4/20/2012	LVN Application	SD	50.00							50.00	4, 5
19	51148	4/20/2012	LVN Application	SD	50.00							50.00	4, 5
20	51149	4/20/2012	LVN Application	SD	50.00							50.00	4, 5
21	51161	3/22/2012	LVN Application	SD	50.00							50.00	4
22	51162	3/23/2012	LVN Application	SD	50.00							50.00	4
23	51163	3/23/2012	LVN Application	SD	50.00							50.00	4
24	51172	3/27/2012	LVN Term III Tuition	SD	160.00							160.00	4
25	51182	4/9/2012	LVN Application	JO	50.00							50.00	4
26	51185	4/9/2012	GED Test(s)	SD	30.00							30.00	4
27	51402	4/20/2012	LVN Application Fee	JO	50.00							50.00	4
28	51403	4/20/2012	LVN Application Fee	JO	50.00							50.00	4
29	51421	5/8/2012	IV Therapy Cert Class	SD	300.00							300.00	4
30	51424	5/8/2012	IV Therapy Cert Class	SD	200.00							200.00	4
31	51434	5/17/2012	LVN Term III Tuition	SD	100.00							100.00	4
32	51439	5/22/2012	IV Therapy Cert Class	SD	300.00							300.00	4
33	51440	5/22/2012	LVN Term III Tuition	SD	600.00							600.00	4
34	51446	5/22/2012	IV Therapy Cert Class	SD	150.00							150.00	4
35	51447	5/22/2012	IV Therapy Cert Class	SD	100.00							100.00	4
36	51448	5/22/2012	LVN Term II Tuition	SD	60.00							60.00	4
37	51451	5/24/2012	GED Test(s)	SD	30.00							30.00	4
38	51456	5/29/2012	IV Therapy Cert Class	SD	300.00							300.00	4
39	51457	5/29/2012	IV Therapy Cert Class	SD	300.00							300.00	4
40	51468	6/5/2012	GED Test(s)	SD	90.00							90.00	4
41	51459	5/30/2012	IV Therapy Cert Class	SD	300.00			120022	419,509.63	51729	5,465.00	300.00	4

Tran #	Receipt #	Date	For	Sig/Title	Cash Amount	Check Amount	Check #	Dist. Dep. #	Deposit Sum	District Receipt #	AE Deposit Total	Amount Missing	Tic Mark
42	51477	6/11/2012	IV Therapy Cert Class	SD	300.00							300.00	4
43	51478	6/11/2012	IV Therapy Cert Class	SD	150.00							150.00	4
44	51486	7/6/2012	LVN Term I Tuition	JO	2,000.00							2,000.00	4
45	51497	7/20/2012	LVN Term I Tuition	SD	2,000.00							2,000.00	4
46	51499	7/20/2012	LVN Term I Tuition	SD	1,000.00							1,000.00	4
47	51500	7/20/2012	LVN Term I Tuition	SD	2,000.00							2,000.00	4
48	51502	7/20/2012	LVN Term I Tuition	SD	2,000.00							2,000.00	4
49	51517	7/30/2012	LVN Term I Tuition	SD	2,000.00							2,000.00	4
50	51518	7/30/2012	LVN Term I Tuition	SD	2,000.00							2,000.00	4
51	51521	7/30/2012	LVN Term I Tuition	SD	2,000.00							2,000.00	4
52	51580	9/13/2012	LVN Term I Tuition	SD	2,000.00							2,000.00	4
53	51983	12/4/2012	LVN Tuition	JO	2,000.00							2,000.00	4
54	52004	1/28/2013	LVN Term I & II Tuition	SD	1,500.00							1,500.00	4
55	52011	2/12/2013	LVN Term II Tuition	SD	800.00							800.00	4
56	52018	2/14/2013	LVN Term II Tuition	SD	2,000.00							2,000.00	4
57	52019	2/14/2013	LVN Term II Tuition	SD	2,000.00							2,000.00	4
58	52027	3/5/2013	LVN Term III Tuition	SD	2,000.00							2,000.00	4
59	52033	3/7/2013	LVN Term II Tuition	SD	2,000.00							2,000.00	4
60	52039	3/15/2013	GED Test	SD	150.00							150.00	4
61	52040	3/20/2013	GED Test	SD	60.00							60.00	4
62	52045	3/21/2013	LVN Term II Tuition	SD	2,000.00							2,000.00	4
63	52048	3/28/2013	LVN Term II Tuition	SD	300.00							300.00	4
64	52049	4/8/2013	GED Test	SD	60.00							60.00	4
65	52063	11/13/2012	LVN Term II Tuition	SD	2,000.00							2,000.00	4
66	52072	11/27/2012	LVN Term II Tuition	SD	2,000.00							2,000.00	4
67	52085	12/11/2012	LVN Term II Tuition	SD	500.00							500.00	4
68	52098	1/15/2013	LVN Term II Tuition	SD	500.00							500.00	4
69	52120	3/6/2013	GED Test	JO	60.00							60.00	4
70	52123	3/19/2013	GED Test	JO	90.00							90.00	4
71	52131	4/10/2013	LVN Term II Tuition	SD	2,000.00							2,000.00	4
72	52143	4/25/2013	GED Test	JO	60.00							60.00	4
73	52145	5/1/2013	GED Test	JO	60.00							60.00	4
74	52149	5/8/2013	GED Tests	JO	150.00							150.00	4
75	52150	5/8/2013	GED Tests	JO	30.00							30.00	4
76	52801	4/18/2013	GED Test	SD	30.00							30.00	4
77	52802	4/16/2013	GED Test	SD	150.00							150.00	4
78	52804	5/7/2013	GED Test	SD	150.00							150.00	4
79	52805	5/7/2013	GED Test	SD	150.00							150.00	4
80	52806	5/7/2013	GED Test	SD	30.00							30.00	4
81	52809	5/8/2013	GED Test	SD	30.00							30.00	4
82	52815	5/20/2013	LVN Term III Tuition	SD	500.00							500.00	4

Tran #	Receipt #	Date	For	Sig/Title	Cash Amount	Check Amount	Check #	Dist. Dep. #	Deposit Sum	District Receipt #	AE Deposit Total	Amount Missing	Tic Mark
83	52816	5/21/2013	Change of address-GED	SD	35.00							35.00	4
84	52818	5/29/2013	LVN Term II Tuition	SD	500.00							500.00	4
85	52821	6/3/2013	GED Test	SD	60.00							60.00	4
86	52822	6/3/2013	LVN Application Fee	SD	50.00							50.00	4
87	52825	6/4/2013	LVN Application Fee	SD	50.00							50.00	4
88	52827	6/6/2013	LVN Application Fee	SD	50.00							50.00	4
89	52828	6/6/2013	LVN Application Fee	SD	50.00							50.00	4
90	52829	6/6/2013	GED Test	SD	60.00							60.00	4
91	52830	6/7/2013	GED Test	SD	30.00							30.00	4
92	52837	6/13/2013	Application (type not readable)	SD		50.00						50.00	4
93	52839	6/13/2013	GED Test	SD	90.00							90.00	4
94	52842	6/14/2013	GED Test	SD	60.00							60.00	4
95	52848	6/17/2013	GED Test	SD	60.00							60.00	4
96	52849	6/17/2013	GED Test	SD	30.00							30.00	4
97	52852	5/29/2013	CNA Program	JO	206.00							206.00	4
98	52854	6/5/2013	LVN Application	JO	50.00							50.00	4
99	52858	6/11/2013	GED Test	JO	150.00							150.00	4
100	52860	6/14/2013	LVN Application	Tracy CuDan	50.00							50.00	4
101	52862	6/18/2013	GED Test	SD	150.00							150.00	4
102	52865	6/18/2013	GED Test	SD	150.00							150.00	4
103	52877	6/24/2013	CNA Program	JO	1,300.00							1,300.00	4
104	52879	6/26/2013	LVN Term III Tuition	SD	2,000.00							2,000.00	4
105	52880	6/27/2013	LVN Term III Tuition	SD	2,000.00							2,000.00	4
106	52893	7/23/2013	LVN Application	SD	50.00							50.00	4
107	52894	7/24/2013	LVN Application	SD	50.00							50.00	4
108	52895	7/25/2013	Error Form - GED	SD	15.00							15.00	4
109	52900	8/12/2013	LVN Term III Tuition	SD	1,000.00							1,000.00	4
110	52918	7/12/2013	LVN Term III Tuition	JO	1,000.00							1,000.00	4
111	52922	7/25/2013	GED Test	DG	30.00							30.00	4
112	52978	8/27/2013	LVN Application	SD	50.00							50.00	4
113	52979	8/28/2013	LVN Application	SD	50.00							50.00	4
114	52983	9/3/2013	LVN Term III Tuition	SD	300.00							300.00	4
115	52991	9/6/2013	LVN Application	SD	50.00							50.00	4
116	52992	9/9/2013	LVN Application	SD	50.00							50.00	4
117	52993	9/9/2013	GED Test	SD	60.00							60.00	4
118	53352	9/6/2013	LVN Application	JO	50.00							50.00	4
119	53378	10/10/2013	GED test	JO	120.00							120.00	4
120	53404	9/18/2013	LVN Term III	SD	1,000.00							1,000.00	4
121	53411	10/2/2013	LVN Term III Tuition	SD	2,000.00							2,000.00	4
122	53413	10/2/2013	LVN Term III Tuition	SD	2,000.00							2,000.00	4
123	53416	10/11/2013	LVN Term III Tuition	SD	500.00							500.00	4

Tran #	Receipt #	Date	For	Sig/Title	Cash Amount	Check Amount	Check #	Dist. Dep. #	Deposit Sum	District Receipt #	AE Deposit Total	Amount Missing	Tic Mark
124	53425	10/16/2013	LVN Term III	SD	2,000.00							2,000.00	4
125	53426	10/16/2013	LVN Term III Tuition	SD	2,000.00							2,000.00	4
126	53454	11/15/2013	GED test	JO	150.00							150.00	4
127	53457	11/19/2013	GED test	JO	150.00							150.00	4
128	53485	6/23/2014	LVN IV Therapy	JO	120.00	30.00	1059					150.00	4, 7
129	53486	6/23/2014	IV Therapy	JO	150.00							150.00	4, 7
130	53487	6/23/2014	IV Therapy	JO	150.00	150.00	1068					300.00	4, 7
131	53488	6/23/2014	IV Therapy	JO		150.00	110					150.00	4, 7
132	53489	6/23/2014	IV Therapy	JO	300.00							300.00	4, 7
133	53490	6/23/2014	IV Therapy	JO	150.00							150.00	4, 7
134	53491	6/23/2014	IV Therapy	JO	150.00							150.00	4, 7
135	53492	6/24/2014	IV Therapy	JO		150.00	114					150.00	4, 7
136	53493	6/24/2014	IV Therapy	DG		150.00	2572					150.00	4, 7
137	53494	6/24/2014	IV Therapy	JO		100.00	220					100.00	4, 7
138	53495	6/26/2014	ESL Book	JO	10.00							10.00	4, 7
139	53496	6/26/2014	IV Therapy	JO	150.00							150.00	4, 7
140	53497	6/26/2014	IV Therapy	JO	150.00							150.00	4, 7
141	53498	6/27/2014	IV Therapy	JO	150.00							150.00	4, 7
142	53499	6/27/2014	IV Therapy	JO	150.00							150.00	4, 7
143	53500	7/1/2014	IV Therapy	JO	150.00							150.00	4, 7
144	53501	3/7/2014	IV Therapy	SD	300.00							300.00	4, 7
145	53502	3/7/2014	IV Therapy	SD	140.00							140.00	4, 7
146	53509	3/17/2014	LVN Term I Tuition	SD	1,749.00							1,749.00	4
147	53517	4/10/2014	LVN Term III Tuition	SD	800.00							800.00	4
148	53522	4/25/2014	LVN Term II Tuition	SD	1,749.00							1,749.00	4
149	53524	4/28/2014	LVN Term I Tuition	SD	751.00							751.00	4
150	53526	4/28/2014	LVN Term I Tuition	SD	751.00							751.00	4
151	53534	5/8/2014	LVN IV Therapy	SD	300.00							300.00	4
152	53535	5/8/2014	LVN IV Therapy	SD		150.00	118					150.00	4
153	53536	5/8/2014	LVN IV Therapy	SD		150.00	2548					150.00	4
154	53537	5/8/2014	LVN IV Therapy	SD	200.00							200.00	4
155	53560	1/24/2014	LVN Term I Tuition	SD	700.00							700.00	4
156	53566	1/28/2014	LVN IV Therapy	SD	300.00							300.00	4
157	53567	1/29/2014	LVN IV Therapy	SD		300.00	2550					300.00	4
158	53568	1/30/2014	LVN Term I Tuition	SD	751.00							751.00	4
159	53569	1/30/2014	LVN IV Therapy	SD		300.00	1527					300.00	4
160	53571	2/7/2014	LVN IV Therapy	SD		150.00	1470					150.00	4
161	53573	2/11/2014	LVN IV Therapy	SD		300.00	79					300.00	4
162	53574	2/11/2014	LVN IV Therapy	SD	300.00							300.00	4
163	53587	2/20/2014	LVN IV Therapy	SD	150.00							150.00	4
164	53593	2/26/2014	LVN Therapy	SD		150.00	2702					150.00	4

Tran #	Receipt #	Date	For	Sig/Title	Cash Amount	Check Amount	Check #	Dist. Dep. #	Deposit Sum	District Receipt #	AE Deposit Total	Amount Missing	Tic Mark
165	53595	2/26/2014		SD	600.00			140015	127,645.21	54588	9,264.00	150.00	9
166	53616	11/21/2013	LVN Term III Tuition	SD	200.00							200.00	4
167	53617	11/22/2013	LVN Term III Tuition	SD	500.00							500.00	4
168	53622	12/4/2013	LVN Program Term I	SD	2,500.00							2,500.00	4
169	53625	12/6/2013	GED test	SD	60.00							60.00	4
170	53641	1/6/2014	LVN Term I Tuition	SD	2,500.00							2,500.00	4
171	53643	1/9/2014	LVN Term I Tuition	SD	2,500.00							2,500.00	4
172	53649	1/14/2014	LVN Term I Tuition	SD	2,500.00							2,500.00	4
173	54201	5/12/2014	LVN Therapy	SD	300.00							300.00	4
	173		**Included in 2011-12 Deposits**	**8,755.00**		91,302.00	2,330.00					**93,182.00**	
			Included in 2012-13 Deposits	**47,591.00**		160.00	15.00	175.00					
			Included in 2013-14 Deposits	**36,836.00**				Two transactions included cash and checks					
				93,182.00									

49301 - 49330	49330 and prior drawn in 2010-11 FY
54208-54500	Unissued/Deposited as of fieldwork

Noted Exceptions

9	1	Receipt voided
27	2	Receipt was utilized for purposes other than Adult School
3	3	Other identified matters: a. receipt was issued 1 year prior to deposit (#51597) b. receipt was included in deposit but permanent copy was removed from receipt book c. Adult School deposit was adjusted when remitted to DO
173	4	Receipt issued - but not included in school site and district deposits
2	5	Omitted receipt may be mistakenly accounted for subsequent fiscal year deposit(s)
1	6	District receipt noted that the payment was refunded 6-4-12
1	7	Deposit included 2 receipts for $50 cash, unable to identify specific cash transaction omitted
	8	Receipt combination and series coincides with recorded district deposit. Copies of district backup not reviewed/documented to verify tie.
1	9	Cash accompanying district deposit was $150 less than receipts included in the deposit. Collections paid by check agreed to deposit.

Appendix B - Study Agreement

FCMAT
FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM
CSIS California School Information Services

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
AB139 STUDY AGREEMENT
July 21, 2014

The Fiscal Crisis and Management Assistance Team (FCMAT), hereinafter referred to as the team, and the Mendocino County Office of Education, hereinafter referred to as the COE, mutually agree as follows:

1. BASIS OF AGREEMENT

The team provides a variety of services to school districts and county offices of education upon request. Pursuant to the provisions of Education Code Section 1241.5 (b), a county superintendent of schools may review or audit the expenditures and internal controls of any school in his or her county if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. The extraordinary audits conducted by the county superintendent shall be focused on the alleged fraud, misappropriation of funds, or other illegal fiscal practices and shall be conducted in a timely and efficient manner.

All work shall be performed in accordance with the terms and conditions of this agreement.

2. SCOPE OF THE WORK

A. Scope and Objectives of the Study

The COE has requested that the team assign professionals to conduct an extraordinary audit on behalf of the Ukiah Unified School District. Per Education Code Section 1241.5(c), the superintendent has reason to believe that fraud, misappropriation of funds, or other illegal practices may have occurred. In addition to the authority granted under 1241.5 (c) and 47604.3, the county superintendent may conduct an investigation of the district and charter schools based upon written complaints by parents or other information that justifies the review.

The Ukiah Unified School District's adult school provides training and programs such as GED preparation, ESL and vocational nursing. Allegations have been made regarding the misappropriation of student fees and tuition payments that are paid in advance by participating students.

The primary focus of this review is to provide the COE and the Ukiah Unified School District with information to help determine, based on the testing performed, whether adequate internal controls are in place for the district's reporting and monitoring of financial transactions of the district's adult education program(s). Internal controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. Specific audit objectives will include evaluating the policies, procedures, and internal controls and transactions performed by the district.

Overview and Risk Assessment:

At a minimum, the team will provide an overview of procedures performed during the review that will include interviews of department management and key personnel; a review of available financial reports; evaluation of policies and procedures associated with business processes; federal, state or local compliance requirements; and an assessment of the information systems. The overview will seek to obtain a detailed understanding of the management structure, significant financial and operational processes, compliance requirements, and information systems. This will include, but not be limited to, the following:

- Tuition/ program fees collected by category or program (e.g., nursing, GED, ESL or summer session, etc.)
- Tuition/program fees distributed, if applicable
- Total fees or payments collected by fiscal year
- Receivable balances
- Fee collection history
- Write-offs
- Resolution of prior audit observations
- Results of recent internal or external reviews

General Control Environment:

The team will do the following:

1. Interview key management, certificated or classified employees responsible for student tuition and program fees to identify and assess the organizational structure and operating style, written communications, and all internal risk assessment processes.

2. Review the organizational chart, delegations of authority, and management reports of each employee responsible for the various activities related to student tuition and program fees.

3. Interview select staff members to obtain the staff perspective. Interviewees will include, but may not be limited to, the superintendent and district office or other site personnel. During all interviews the team will solicit input on concerns or areas of risk.

4. Evaluate the adequacy of the organizational structure and various reporting processes to help determine whether accountability for financial results is clearly demonstrated.

5. If the organizational structure and various reporting processes do not appear adequate, provide recommended or alternative structures or reporting processes to provide additional assurance. This may include comparisons to similar adult school program operations, or to corresponding departments in the district.

Business Process:

6. Identify all key activities (assessment and billing, fee adjustments or allowances, collection and write-off, and distribution) and gain an understanding of the business processes and the positions responsible for them.

7. Review financial processes and document those positions responsible for initiating, reviewing, approving, and reconciling financial transactions.

8. Evaluate processes for adequate separation of duties and proper authorizations and approvals to help determine whether they are sufficient to provide reasonable assurance that the district's resources are properly safeguarded.

Information Systems:

9. Interview department information systems personnel to identify all relevant information systems, applications, databases, and interfaces (manual or electronic) with other systems. For example, the team will strive to obtain the following information:

   a. Is this an electronic or manual information system?

   b. Does the system interface with core administrative information systems? If yes, is that process manual or electronic?

   c. What type(s) of source documents are used to input the data?

   d. Who has access to the data in the system?

   e. What type of access and editing controls are in place within the automated or manual system?

   f. How are transactions reviewed and approved within the system?

The team will sample test data for the 2013-14 and two prior fiscal years and will include a summary review of the total adult school program fees or tuition payments for each fiscal year. Testing associated with this review will be based on sample selection and may not include all transactions and records for this period. Sample testing and review results are intended to provide reasonable but not absolute assurance regarding the accuracy of the district's transactions and financial activity.

B. Services and Products to be Provided

1. Orientation Meeting - The team will conduct an orientation session at the district to brief management and supervisory personnel on the team's procedures and the purpose and schedule of the study.

2. On-site Review - The team will conduct an on-site review at the district office and at school sites if necessary; and will continue to review pertinent documents off-site.

3. Progress Reports - The team will inform the COE of material issues as the review is performed.

4. Draft Reports – When appropriate, electronic copies of a preliminary draft report will be delivered to the COE's administration for review and comment on a schedule determined by the team.

5. Final Report - Electronic copies of the final report will be delivered to the COE following completion of the review. Printed copies are available from the FCMAT office upon request.

6. Follow-Up Support – If requested, the team will meet with the COE and/or district to discuss the findings and recommendations of the report.

PROJECT PERSONNEL

The study team will be supervised by Anthony L. Bridges, CFE, CICA, Deputy Executive Officer, Fiscal Crisis and Management Assistance Team, Kern County Superintendent of Schools Office. The study team may also include:

A. Marisa Ploog, CPA, CFE, CICA, CGMA
FCMAT Fiscal Intervention Specialist, Project Lead

B. Scott Sexsmith
FCMAT Management Analyst

Other equally qualified staff or consultants may be added to assist with the engagement, or substituted in the event one of the above individuals is unable to participate in the study.

4. **PROJECT COSTS**

The cost for studies requested pursuant to E.C. 42127.8 (d) (1) shall be:

A. $800 per day for each staff team member while on site, conducting fieldwork at other locations, presenting reports, or participating in meetings. The cost of independent FCMAT consultants will be billed at their actual daily rate.

B. All out-of-pocket expenses, including travel, meals and lodging.

Based on the elements noted in Section 2A, the total estimated cost of the study will be $16,000.

C. Any change to the scope will affect the estimate of total cost.

Payments for FCMAT services may be reimbursed from funds pursuant to EC 1241.5 set aside for this purpose. Other payments, when deemed necessary, are payable to Kern County Superintendent of Schools - Administrative Agent.

5. **RESPONSIBILITIES OF THE COE AND/OR DISTRICT**

A. The district will provide office and conference room space during on-site reviews.

B. The district will provide the following if requested:

1. Policies, regulations and prior reports addressing the study request
2. Current or proposed organizational charts
3. Current and two (2) prior years' audit reports
4. Any documents requested on a supplemental list. Documents requested on the supplemental list should be provided to FCMAT only in electronic format; if only hard copies are available, they should be scanned by the district and sent to FCMAT in an electronic format
5. Documents should be provided in advance of field work; any delay in the receipt of the requested documents may affect the start date of the project. Upon approval of the signed study agreement, access will be provided to FCMAT's online SharePoint document repository where the district shall upload all requested documents.

C. The COE 's administration will review a preliminary draft copy of the study. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the team prior to completion of the final report.

Pursuant to EC 45125.1(c), representatives of FCMAT will have limited contact with pupils. The district shall take appropriate steps to comply with EC 45125.1(c).

6. **PROJECT SCHEDULE**

The following schedule outlines the planned completion dates for different phases of study:

Orientation:	***July, 2014***
Staff Interviews:	***To be determined***
Exit Interviews:	***To be determined***
Preliminary Report Submitted	***To be determined***
Final Report Submitted	***To be determined***

7. **CONTACT PERSON**

Contact: Vicki Todd, Associate Superintendent
Telephone: (707) 467-5030
E-mail Address: vtodd@mcoe.us

7/23/14

Paul Tichinin, Superintendent — Date
Mendocino County Office of Education

July 21, 2014

Anthony L. Bridges, CFE, CICA — Date
Deputy Executive Officer
Fiscal Crisis & Management Assistance Team