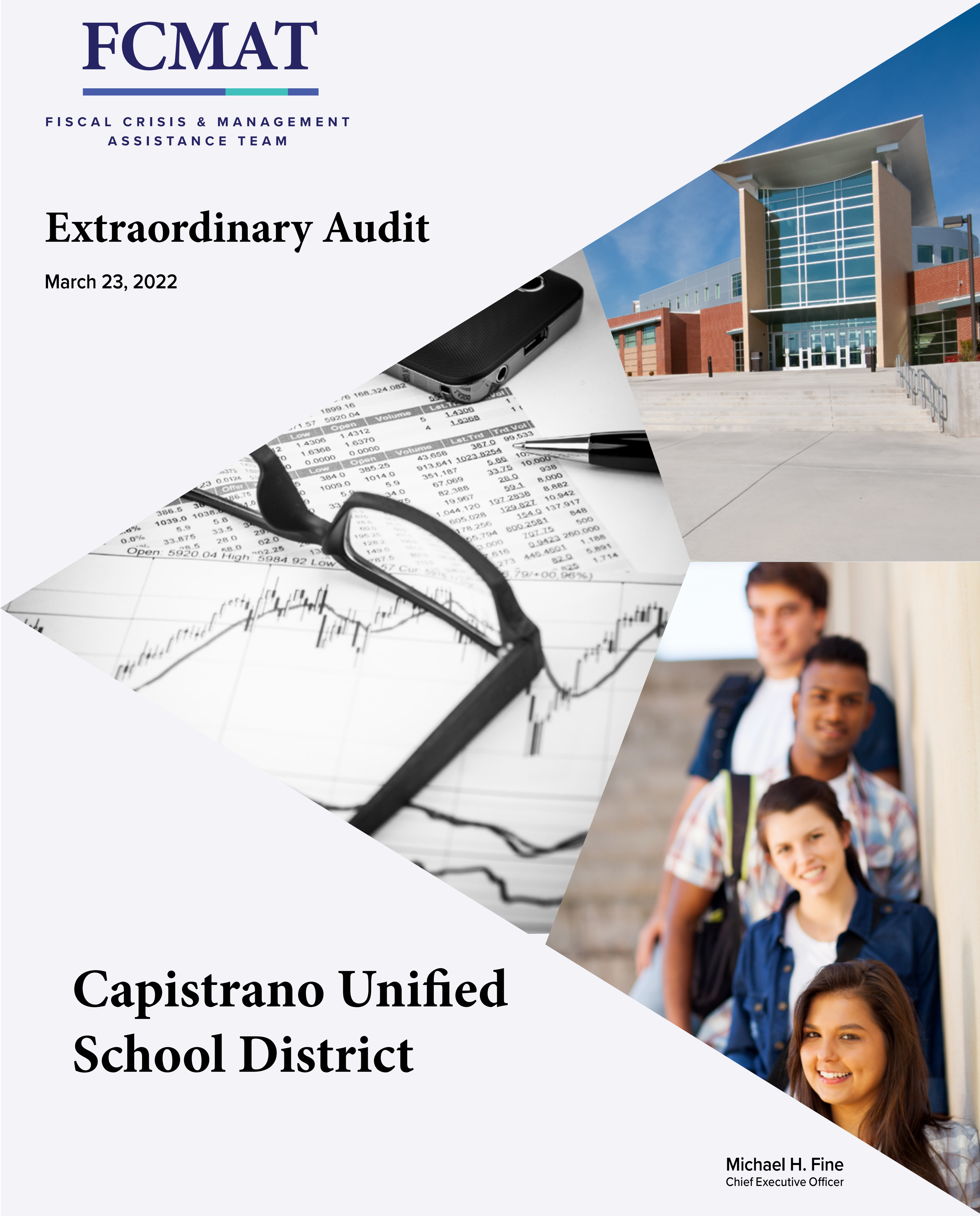
FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

Extraordinary Audit

March 23, 2022



Capistrano Unified School District

Michael H. Fine
Chief Executive Officer

FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

March 23, 2022

Al Mijares, Ph.D., Superintendent
Orange County Department of Education
200 Kalmus Drive
Costa Mesa, CA 92626

Dear Superintendent Mijares:

In May 2020, the Orange County Department of Education and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for FCMAT to conduct an Assembly Bill (AB) 139 extraordinary audit pursuant to Education Code Section 1241.5(b) to determine if fraud, misappropriation of funds or other illegal fiscal practices may have occurred at Capistrano Unified School District.

The agreement states that FCMAT will perform the following:

1. Review and test the Aliso Niguel High School (ANHS) Associated Student Body (ASB) recorded transactions for fiscal years 2016-17 through December 2019-20 to determine if fraud, misappropriation of funds or other illegal activities may have occurred.
2. Testing for this review will be based on the auditor's judgement and a sample of transactions and records for this period. Testing and review results are intended to provide reasonable, but not absolute certainty about whether the ASB's financial transactions and activities were sufficiently accurate.
3. The primary focus of this review is to determine, based on the sample testing performed and auditor's judgement, (1) whether any district personnel used ASB funds for non-ASB reasons at ANHS; (2), the extent of any possible fraud, misappropriation of funds or other illegal practice isolated to the testing period, and (3) based on that assessment, whether fraud, misappropriation of funds or other illegal fiscal practices may have occurred.

This final 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 county office and the Capistrano Unified School District for their cooperation and assistance during this review.

Sincerely,

Michael H. Fine
Chief Executive Officer

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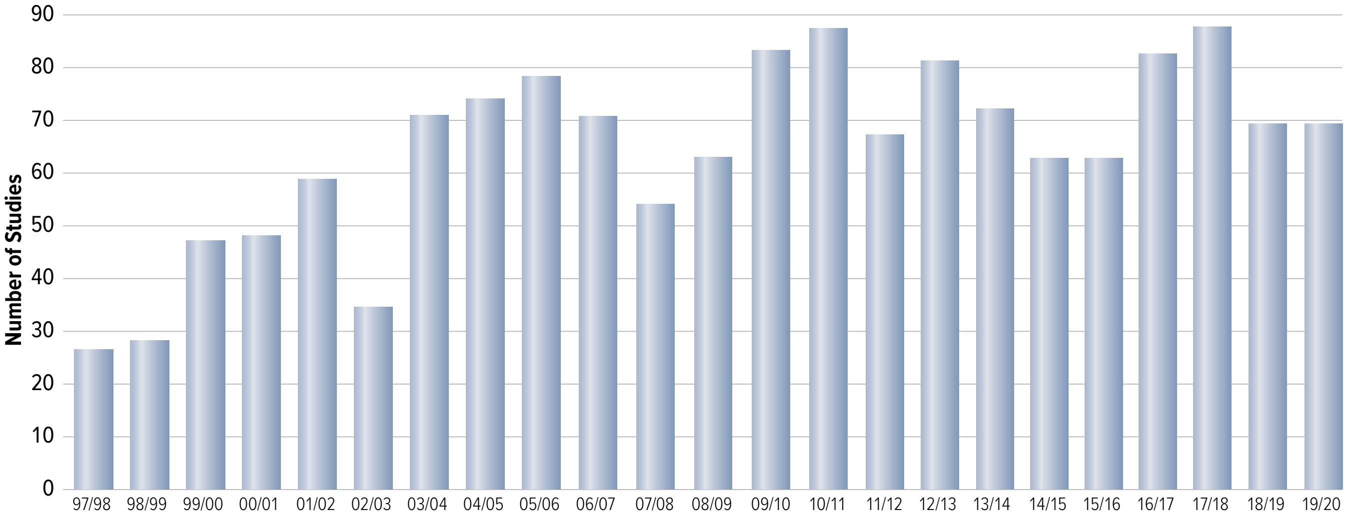
About FCMAT

FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial, human resources 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, support the training and development of chief business officials and help to create efficient organizational operations. FCMAT's data management services are used to help local educational agencies (LEAs) meet state reporting responsibilities, improve data quality, and inform instructional program decisions.

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 LEA 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 has continued to make adjustments in the types of support provided based on the changing dynamics of K-14 LEAs and the implementation of major educational reforms. FCMAT also develops and provides numerous publications, software tools, workshops and professional learning opportunities to help LEAs operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) division of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS). CSIS also hosts and maintains the Ed-Data website (www.ed-data.org) and provides technical expertise to the Ed-Data partnership: the California Department of Education, EdSource and FCMAT.

FCMAT was created by Assembly Bill (AB) 1200 in 1992 to assist LEAs to meet and sustain their financial obligations. AB 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide data management work. AB 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. AB 2756 (2004) provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans.

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

On September 17, 2018 AB 1840 was signed into law. This legislation changed how fiscally insolvent districts are administered once an emergency appropriation has been made, shifting the former state-centric system to be more consistent with the principles of local control, and providing new responsibilities to FCMAT associated with the process.

Since 1992, FCMAT has been engaged to perform more than 1,400 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 Michael H. Fine, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

Study and Report Guidelines (AB 139 Audit Authority)

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 the county if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. This is known as an AB 139 extraordinary audit or review.

The purpose of an extraordinary audit is to determine if sufficient evidence exists that fraud, misappropriation of funds, or other illegal fiscal practices may have occurred, and to document the findings for referral to the local district attorney's office and further investigation by law enforcement if needed.

In writing its reports, FCMAT uses the Associated Press Stylebook, a comprehensive guide to usage and accepted style that emphasizes conciseness and clarity. In addition, this guide emphasizes plain language, discourages the use of jargon, and capitalizes relatively few terms.

Extraordinary Audit Procedures

An extraordinary audit is conducted based on the study team's experience and judgment. These audits have many components including: obtaining and examining available original source documents; corroborating documents and information through third-party sources when possible; interviewing potential witnesses; gaining an understanding of internal controls applicable to the scope of the work; and assessing factors such as intent, capability, opportunity, and possible pressures or motives.

The audit consists of gathering adequate information about specific allegations, establishing an audit plan, and performing audit test procedures, often based on sampling of transactions, using the team's judgment and experience to determine whether fraud, misappropriation of funds, or other illegal fiscal practices may have occurred; evaluating the loss that resulted from the inappropriate activity; and determining who was involved and how it may have occurred.

Study Team

The study team was composed of the following members:

Michael W. Ammermon
CPA, CFE, CRFAC, DABFA
FCMAT Intervention Specialist

Jeff Potter
CFE
FCMAT Intervention Specialist

Paul Horvat
CPA, CFE, MBA
FCMAT Consultant

John Lotze
FCMAT Technical Writer

Those members of this study team who are otherwise employed were not representing their respective employers but were working solely as independent contractors for FCMAT.

Each team member reviewed the draft report to confirm its accuracy and to achieve consensus on the final recommendation.

Introduction

Background

The Capistrano Unified School District serves more than 47,000 students in San Juan Capistrano, its six surrounding cities, and some unincorporated areas of Orange County. The district includes all or part of the cities of San Clemente, Dana Point, San Juan Capistrano, Laguna Niguel, Aliso Viejo, Mission Viejo, and Rancho Santa Margarita, and the communities of Los Flores, Coto de Caza, Dove Canyon, Ladera Ranch, Sendero/Rancho Mission Viejo, and Wagon Wheel. The district has nine high schools, 14 middle schools, 37 elementary schools, and seven charter schools within its boundaries.

Overview of District ASB

FCMAT visited the district between May 2020 and June 2021 to conduct interviews, collect data and review documents. Following fieldwork, FCMAT continued its review and analysis offsite.

The former Aliso Niguel High School (ANHS) bookkeeper retired in August 2019. Working with the successor or new bookkeeper, who took over in August 2019 at ANHS, and a bookkeeper from another school assigned by the district's business office, FCMAT reviewed numerous documents and transactions, and met with the former ANHS bookkeeper on two separate occasions. The team examined available district and ASB books and records as follows:

- Bank-provided canceled checks
- Bank statement deposits, deposit slip receipts, and other available, related supporting documentation
- District payroll ASB time sheet forms, used to pay district employees for performing extra work related to ASB activities
- Nonsufficient funds (NSF) check returns (i.e., bounced checks) and subsequent repayments, where available
- Bank statements and related journal entry adjustments
- Payments to specific sampled vendors and other payees
- General ledger detail and journal entry reports
- Credit card transaction reports
- Purchase order reports
- Account balance comparisons
- Payroll records and time sheets
- District board policies and administrative regulations
- Job descriptions
- 32 banker's boxes of various ASB records

As with all high schools in the Capistrano Unified School District, ANHS operates a large associated student body (ASB) program. Within the ASB are many student-run clubs that vary widely in their approved purpose and objectives. Each club consists of enrolled students who spend the funds they raise on a broad spectrum of purchases, activities and events.

The district's Board Policy 3452(a) allows the operation of student organizations and allows those student organizations to do the following:

> . . . raise and spend money in order to promote the general welfare, morale and educational experiences of the students. Student funds shall finance worthwhile activities which go beyond those provided by the District . . . Student funds shall be managed in accordance with sound business procedures designed to encourage the largest possible educational return to students without sacrificing the safety of the funds.

According to the district, it uses the FCMAT *Associated Student Body Accounting Manual, Fraud Prevention Guide and Desk Reference* (ASB Manual) as its primary authority for administering ASB operations.

Chapter 1 of the ASB Manual states:

> California law allows students in California's public schools to raise money and make decisions about how they will spend this money. Student organizations established to raise and spend money on behalf of students are called Associated Student Body organizations, or ASBs. ASBs must be made up of current students and be located at the school where the funds are maintained. The funds raised and spent by student organizations are called associated student body funds or ASB funds. In the minds of public school officials, parents and the general public, ASB funds may be thought of as small proceeds from a few bake sales, magazine sales, dances or car washes a year. However, in many cases ASB funds have become big business for student organizations and fund much more than people realize. An ASB at a large high school or a community college may raise millions of dollars a year.

Comprehensive high school ASBs such as the one at ANHS are considered organized. Chapter 4 of the ASB Manual describes organized ASB organizations as follows:

> Organized ASBs normally have individual clubs under the primary student body organization, each with its own focus and organizational requirements. Students in organized ASBs are primarily responsible for their organizations; the student council and student club leaders hold formal meetings, develop budgets, plan fundraisers, decide how the funds will be spent, and approve payments. The students make the decisions and have primary authority over the funds; the school administrators, ASB bookkeeper and club advisor(s) assist, advise and co-approve student decisions.

Student clubs are known as trust accounts because funds are raised by students and are held in trust for the students' use, with advisors coapproving expenditures. Clubs must be composed of students located at that school; must be formed as outlined in the student council ASB constitution and bylaws, and the district's governing board's requirements; and students must play a major role in all clubs.

Associated student body operations typically have their own separate local bank checking account that is authorized by the district's business office and uses the same federal employer identification number as the district. Every district high school, including ANHS, has its own independent bank checking account, and ANHS uses an electronic accounting software system to process checks and deposits as well as to account for the transactions of the ASB and all individual clubs. When an ASB includes athletics, a school store and numerous clubs as the ASB at ANHS does, the amount of cash and other revenue transacted through the

ASB may exceed $1 million annually. For example, in 2017-18, ANHS's total ASB revenue was more than $2 million.

The ASB bookkeeper is the individual typically responsible for keeping the books and records of the ASB. Many districts have differing titles for this position. The district's title for the ASB bookkeeper is activities account clerk. This report will use the term bookkeeper for this position to differentiate it from other similar titles. The bookkeeper's duties are specific to ASB operations. One of the bookkeeper's main responsibilities is to uphold laws and district policies and procedures related to ASB funds. The bookkeeper processes checks and deposits, reconciles accounts, tracks account activity, and is generally perceived as among the most knowledgeable about ASB operations, policies and procedures.

As stated in the approved job description for the bookkeeper position, the fundamental purpose of the position is as follows:

> Under general supervision, maintain a complete set of books of Associated Student Body funds, clubs, and classes; perform duties as required for Activities Director and/or Athletic Director; perform other related work as required.

The approved duties and selected qualifications as numbered and described in the bookkeepers' job description are as follows:

1. Independently maintains records and accounts and makes adjustments; verifies and balances daily, monthly, yearly financial records.
2. Provides information and assistance pertaining to accounting procedures and controls, operating guidelines and District policies and regulations.
3. Opens and closes accounts; monitors account balances.
4. Maintains fund balances; makes journal entries/transfers to maintain integrity of funds.
5. Submits monthly, year-end reports to the District, and to certified public accountants.
6. Maintains records of all paid assignments, dates, amounts, etc.
7. Receives student body account monies for deposit.
8. Reconciles bank statements and monthly reports.
9. Prepares monthly trial balance of all accounts; prepares financial statements.
10. Maintains records of accounts payable and accounts receivable funds for student body, club and class monies; prints accounts receivable checks and registers.
11. Interacts effectively with club advisors.
12. Maintains the integrity of ASB and class elections.
13. Maintains payroll records and submit time sheets for ASB workers.
14. Assists in the sale of tickets and other fundraising activities.
15. Collects transportation fees; submit transportation fee waivers.
16. Compiles 1099 information for District office.
17. Matches invoices and receiving documents to purchase orders.

> 18. May assist in other routine clerical functions of assigned work station, such as typing, making appointments and answering personal and telephone inquiries.
>
> 19. Performs other related functions as needed.
>
> Qualifications – Knowledge of: Methods, practices and terminology of financial record keeping…principles and practices of filing and record keeping; methods of preparing financial summaries and reports.

The bookkeeper is not alone in the responsibility to safeguard and manage ASB funds. Although the bookkeeper may often be perceived as the most knowledgeable about ASB matters, Several levels of management above the bookkeeper are more responsible for the safeguarding of student funds. The bookkeeper is supervised by a certificated instructor who, in the case of ANHS, is the high school activities director. The activities director job description defines this position as follows:

> Under direction of the Principal, High School, the High School Activities Director supports the educational programs of the District by coordinating, administering and supervising all student activities, student government and student organizations at an assigned school site.

Selected duties and qualifications of the activities director listed in the job description are as follows:

> 1. Oversee and participate in the development of campus, class, and club activities.
>
> 4. Coordinate all extra-curricular activities and related student events.
>
> 12. Develop and implement the student activities budget; monitor and approve expenditures for ASB student activities.
>
> 14. Oversee ticket sales, collections, and accounting for all athletic and co-curricular events.
>
> 15. Supervise, observe, assess and evaluate certificated and classified performance ensuring all levels of staff adhere to District, state, and federal educational and professional standards.
>
> Qualifications – Knowledge of: Applicable sections of the State Education Code and other applicable laws . . . principles of school based management . . . basic accounting (accounts payable, accounts receivable and computer systems) principles; procedures and techniques related to management of secondary school operations.

The activities director works with a school administrator, typically the principal or principal's designee (often but not always the assistant principal). However, the principal is ultimately responsible for all activities at the school, including ASB.

The bookkeeper also reports to and works with the district's business department's accounting technician to provide reports and answer inquiries. District Board Policy 3452(a) states:

> The principal or designee shall be responsible for the proper conduct of all student organization financial activities. The Superintendent or designee shall periodically review the organizations' general financial structures and accounting procedures.

Ideally, multiple layers of oversight are designed to prevent material ASB operational breakdowns and internal control deficiencies. Although the principal or principal's designee and activities director are part of the school's day-to-day oversight of ASB, the superintendent or superintendent's designee are integral to oversight of all schools' ASB operations. The superintendent-level of oversight at the district is part of the district's business office, whose staff member responsible for districtwide ASB oversight is the accounting technician I position. At the district office level, the accounting technician should ideally be one of the most knowledgeable regarding ASB policies, procedures and operations. However, even if this employee lacks knowledge of certain things, the employee has access to layers of management above their position that can also help answer questions, provide direction and participate in oversight.

In the district's business office, the accounting technician's main duties include district budgeting, income and expenditures. The accounting technician job description states that the individual in this position should have knowledge of "Methods, practices, principles, trends and procedures of school District budget and financial records management systems . . ." Even though the job description is not specific to ASB operations and finance, this position requires higher levels of education and has more complex financial and record management functions than a bookkeeper, and it is the position that the district's business office has assigned to oversee ASB. For all of the schools' ASB bookkeepers, the accounting technician is the primary contact at the district's business office for review of their records, acceptance of their monthly financial reports, and other information requested by the district's business office. This position, along with the principal and activities director, serves as one of the checks and balances on ASB operations.

Chapter 2 of the ASB Manual, Roles and Responsibilities – Administration of an ASB, describes in detail the responsibilities of administering a successful ASB. Responsibilities are defined for the superintendent, business office staff, principal/school administrator, advisor, and bookkeeper. Chapter 5 of the ASB Manual, General Business Practices and Internal Controls, includes checklists by job responsibility for the business office staff, principal/school administrator, advisor, and bookkeeper. The ASB Manual also has many other checklists to help assess and evaluate the overall effectiveness of ASB operations.

As detailed later in this report, the district's internal control system, policies and procedures, and oversight at all levels failed. When an ASB's books, records, and documentation results in the types of deficiencies FCMAT found at ANHS, it typically means managerial oversight was not properly occurring and there was a breakdown of the internal control system.

Although failures such as these are not uncommon in school districts and community colleges statewide, they should not occur and can be prevented through proper oversight and attention.

In FCMAT's experience, inadequate oversight of ASB funds often occurs because no one is monitoring the school site account, or because the person performing the oversight lacks sufficient experience or training to recognize deficiencies. This results in ASB bookkeepers being inadequately trained, unsupervised, and without the guidance needed to properly resolve issues.

Most ASB bookkeepers are not trained accountants, and often those who should provide training and guidance to the bookkeepers and club advisors are too busy with other tasks or are also untrained and lack sufficient knowledge to properly supervise those who are handling tens of thousands, or even millions, of dollars students have raised. When this happens, often an ASB bookkeeper is left trying to explain how he or she devised some system or accounted for transactions, or even chose to ignore transactions, to get work done. And when the administrators and those charged with supervision mistakenly believe the bookkeeper is doing something right, months or years may pass before anyone notices something is wrong.

This array of inadequacies results in the bookkeeper having to defend a system of recordkeeping and accounting transactions that nobody has evaluated and that was allowed to continue as if the practice was acceptable. More important, the poor supervision, inadequate internal controls, poor documentation, and a lack of detailed written procedures may result in the appearance of fraud when there is none, or prevent actual fraud from being proven.

All school districts must establish and maintain properly functioning ASB internal controls, policies, procedures and administrative regulations to aide in preventing fraud, and to protect employees from being falsely accused of fraud. Furthermore, internal controls are needed to provide appropriate oversight, to demonstrate that transactions and activities are well documented, and to maintain the public's trust.

During an interview on July 10, 2020, the ANHS principal explained to the team that the former activities director of ANHS was not skilled as an activities director and that during that time the school was transitioning from older ASB accounting software to a new software. The team was informed later that the software transition occurred between January and July 2016. The overall impression the principal had about ASB was that the former bookkeeper was the most knowledgeable about ASB and that the former bookkeeper always indicated that everything was in order and there was plenty of money.

According to the district, it originally hired the former ANHS bookkeeper in May 1989. The bookkeeper worked at other schools, transferred to ANHS in July 2004, and retired from the district as the ANHS ASB bookkeeper in August 2019. After the former bookkeeper retired, the new bookkeeper discovered that the ASB books and records appeared to be in disarray and reported this to the district's business office. To determine the extent to which the ANHS ASB books and records might be in disarray, the district's business office temporarily assigned a bookkeeper from another high school to organize, review and attempt to reconcile the ANHS ASB financial records. This review process occurred, with the temporary and new bookkeepers working on their own from January to April of 2020, and continued into June 2021 with the bookkeepers assisting FCMAT.

The new and temporary bookkeepers spent several months evaluating ASB transactions at ANHS. According to the bookkeepers, supporting documentation for many transactions was insufficient or missing, club records had not been maintained, and various invoices were unpaid, primarily those for payments to the district itself. Numerous club accounts, which track the revenue and expenditures for each individual club, had negative balances, which are an indicator that funds may have been transferred improperly out of the accounts. Numerous ASB club transactions lacked documentation, did not have the necessary approvals, and/or appeared to lack the necessary review and oversight in accordance with the required functions of the bookkeeper position and those charged with oversight.

During the bookkeepers' review of records and attempted reconciliation, a clearer picture emerged of the extent to which ANHS ASB's books and records were in disarray. Based on the bookkeepers' work from January through April of 2020 to analyze available books and records, the district determined there may be a possibility of fraud.

Shortly thereafter, in May 2020, the county superintendent contacted FCMAT for an AB 139 extraordinary audit. FCMAT's findings and recommendation are presented in this report.

Occupational Fraud and Internal Controls

Fraud can include an array of irregularities and illegal acts characterized by intentional deception and misrepresentations of material facts. 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 includes asset misappropriation, corruption, and fraudulent financial statements. Occupational fraud occurs when an organization's owners, executives, managers or employees use their position within the organization to deliberately misuse or misapply the employer's resources or assets for personal benefit.

Asset misappropriation includes the theft or misuse of local educational agency (LEA) assets and may include taking cash, inventory, or other assets, and/or fraudulent disbursements. Asset misappropriation is the largest category of occupational fraud and includes numerous fraudulent disbursement schemes. Corruption schemes involve one or more employees or board members using their influence in business transactions to obtain a personal benefit that violates an employee's duty to the employer or the organization; conflicts of interest fall into this category. Financial statement fraud includes intentionally misstating or omitting material information in financial reports.

Many different types of fraud exist; however, occupational fraud, including asset misappropriation and corruption, is more likely to occur 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 or intentional false and willful representation(s) of a material fact.
- Reliance on weaknesses in the internal control structure, including when an individual relies on the fraudulent information.
- Concealment to hide the act or facts.
- Damages, loss or injury by the deceived party.

Identifying potential perpetrators of alleged fraud, misappropriation of funds, or other illegal fiscal practices as part of this audit is difficult. Intent is an important factor in determining if fraud has occurred. An individual's actions may appear potentially fraudulent but may have been caused by a lack of training, oversight and supervision. Identifying fraud is also complicated when records are limited and when the credibility of available records is questionable.

Determining whether fraud or misappropriation of funds may have occurred is difficult when the internal control environment and monitoring of activities is deficient. In such cases it is difficult to determine whether individuals were acting deliberately against an organization's best interest or whether the deficiencies were simply the result of a lack of oversight and knowledge.

Internal Controls

The accounting industry defines the term "internal controls" as it applies to organizations, including school agencies. Internal controls are "a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance." [The Committee of Sponsoring Organizations of the Treadway Commission – May 2013] The reference to achievement of objectives refers to an organization's work of planning, organizing, directing and performing routine tasks related to operations, and monitoring performance.

An organization establishes control over its operations by setting goals, objectives, budgets and performance expectations. Several factors influence the effectiveness of internal controls, including the social environment and how it affects employees' behavior, the availability and quality of information used to monitor the organization's operations, and the policies and procedures that guide the organization. Internal controls help an organization obtain timely feedback on its progress in meeting operational goals and guiding principles, producing reliable financial reports, and ensuring compliance with applicable laws and regulations.

Internal control is 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 provides reasonable assurance that operations are effective and efficient, that the financial information produced is reliable, and that the organization complies with all applicable laws and regulations.

Internal controls provide the framework for an effective fraud prevention program. An effective internal control structure includes the policies and administrative regulations established by the board and operational procedures used by staff, adequate accounting and information systems, the work environment, and the professionalism of employees. The five integrated components of internal controls and their summarized characteristics are included in the following table.

Internal Control Component	Characteristics
Control Environment	The set of standards, processes and structures that provide the basis for carrying out internal control across an organization. Comprises the integrity and ethical values of the organization. Commonly referred to as the moral tone of the organization, the control environment includes a code of ethical conduct; policies for ethics, hiring and promotion guidelines; proper assignment of authority and responsibility; oversight by management, the board or an audit committee; investigation of reported concerns; and effective disciplinary action for violations.
Risk Assessment	Identification and assessment of potential events that adversely affect the achievement of the organization's objectives, and the development of strategies to react in a timely manner.
Control Activities	Actions established by policies and procedures to enforce the governing board's directives. These include actions by management to prevent and identify misuse of the LEA's assets, including preventing employees from overriding controls in the system.
Information and Communication	Ensures that employees receive information regarding policies and procedures and understand their responsibility for internal control. Provides opportunity to discuss ethical dilemmas. Establishes clear means of communication within an organization to report suspected violations.
Monitoring Activities	Ongoing monitoring to ascertain that all components of internal control are present and functioning; ensures deficiencies are evaluated and corrective actions are implemented.

The five components of internal controls are supported by numerous underlying principles that help ensure an entity achieves effective internal control. Each of the five components listed above and their related principles must be present and functioning in an integrated manner to be effective. An effective system of internal controls can provide reasonable but not absolute assurance that the organization will achieve its objectives.

Although the board and all employees in an LEA have some responsibility for internal controls, the superintendent, board and other key management personnel have a higher ethical standard, fiduciary duty and responsibility to safeguard the assets of the LEA. Associated student body funds are assets of the LEA.

Control Environment

The internal control environment establishes an organization's moral tone. 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 controls to be effective in achieving the goals and objectives 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. According to individuals FCMAT interviewed, they did not believe or perceive that those responsible for oversight had the knowledge or experience to answer their ASB related questions or to know what to look for if they were to perform any monitoring activities.

Monitoring Activities

Monitoring activities include oversight, review and questioning of transactions and processes. Monitoring contributes to the control environment; a lack of monitoring allows errors and transaction inconsistencies to become accepted as normal. If uncorrected, errors and transaction inconsistencies become accepted and may continue for years, indicative of a deficient internal control environment.

According to individuals FCMAT interviewed, the district's business office rarely visited and reviewed ASB records, and when it did so the review was not in-depth. Some individuals interviewed believe that those responsible for oversight, such as school and district administrators, lacked sufficient knowledge and background in ASB operations and transactions. The lack of district oversight therefore contributed to the inability of school administrators to proactively recognize and correct the various ASB issues identified at ANHS.

Transaction Sampling

FCMAT developed and conducted audit procedures to analyze and evaluate allegations and identify potential outcomes. The audit scope, objectives, and substantive transaction testing were based on the FCMAT study team's experience and professional judgment and did not include the testing or evaluation of all available transactions and records. An important distinction in FCMAT sampling and records review is made by the phrase "available transactions and records." Many important records at ANHS were unavailable, missing or discarded. Available transactions sampled were those selected randomly and/or selected specifically based on the team's judgment. Neither all transactions nor all potential issues were examined. Transactions and audit scope items are determined and pursued based on the condition of the books and records and the team's judgement.

Transactions selected, when applicable, are analyzed and compared to board policies, administrative regulations, operational procedures, and industry standards or best practices, and are evaluated for proper authorizations and reasonableness based on the team's judgment and technical expertise in school business operations, internal controls, and accounting best practices.

Sample testing and examination results are intended to provide reasonable but not absolute assurance of the accuracy of the transactions and financial activity and/or to identify whether fraud, misappropriation of funds or other illegal fiscal practices may have taken place during the period under review.

When a complete set of records may not be available, and there is the possibility of fraud, sampling a large number and variety of transactions is one of many methods that can help identify trends or anomalies. This process also helps provide an understanding of the control environment and whether transactions and activities are properly monitored. Larger sample sizes may also identify transactions that were thought to be concealed.

The district provided FCMAT with data files of accounting transactions specific to ANHS for four fiscal years: 2016-17, 2017-18 2018-19, and 2019-20. This data was compared with ANHS ASB documents, including canceled checks received from banks, bank statements, deposit slips, journal entry reports, monthly bank reconciliations, purchase order reports, policies, regulations, organizational charts, and audit reports.

The bookkeepers identified categories of transactions of concern. FCMAT identified which areas of concern the team thought were more susceptible to errors or misstatements, including theft or fraud, then examined and expanded or reduced audit testing as considered necessary.

Canceled checks, NSF checks, journal entries, purchases, credit card transactions, account balances, and time sheets were examined. To better understand how the ANHS ASB books and records were in the condition observed, FCMAT met with ASB bookkeepers from other district schools and compared procedures between ANHS and those schools. Although review and discussion of procedures at other schools was not conducted in depth, it was sufficient to gain an understanding of how ASB operations were functioning at other schools compared to ANHS. The team also compiled four years of district independent audit report findings specific to ASB. The compiled independent district auditor's ASB findings for all schools, including ANHS, are shown later in this report.

FCMAT also interviewed the former ANHS bookkeeper for two hours at the county office on Friday, June 4, 2021 and for two and a half hours on Thursday, June 17, 2021.

The table below summarizes the results of sample transaction testing for the four fiscal years ending June 30, 2017, 2018, 2019, and 2020.

Transaction Testing Results, Fiscal Years 2016-17 through 2019-20

(Dollar amounts are rounded)

		Dollars	Deviations	Transactions	Deviations
Item	**Accounting Process**	**Tested**	**(Dollars)**	**Tested**	**(Numbers)**
1	Canceled Checks	$ 338,430	$ -	400	0
2	NSF Checks	32,353	4,140	89	23
3	Deposits	272,875	-	313	0
4	Irregular Journal Entries	29,335	10,295	8	1
5	Purchase Orders	114,977	-	199	0
	Totals	**$ 787,970**	**$ 14,435**	**1,009**	**24**

Transaction testing identified several types of deviations. A deviation is a transaction that does not meet the criteria of a reasonable transaction. For example, if a transaction is performed in such a way that it is missing supporting documentation or is different than other similar transactions, it is considered a deviation. A deviation by itself does not mean the transaction may be fraudulent; rather, it means further inquiry and analysis of the deviation is needed. The results of transaction testing and other audit testing are discussed in the findings section below.

Findings

Quality, Reliability, and State of Records

When working to determine the condition of the ASB books, FCMAT encountered a number of setbacks. For example, when FCMAT could not locate documents in the ANHS ASB bookkeeper's office or storage, the study team used an alternative audit procedure, which was to obtain copies of club records from the club advisor. In one instance, a club was thought to have retained copies of financial documents that might be helpful to the audit. FCMAT sought assistance from the current bookkeeper to request those documents from the club advisor. The club advisor responded in an email, stating:

> I gave you all the POs that I had, but didn't keep my deposit slips or anything else. I used to keep everything, but never needed them, so I discarded everything (except the POs) when school ended last year.

On November 19, 2020, FCMAT examined the available archived boxes of documents in the ASB storage area and discovered that many records were incomplete or were copies; original documents were often unavailable. There were numerous boxes of documents, many of which were copies, or printed reports from the ASB accounting software. Credit card transaction reports were incomplete or missing. To audit credit card transactions, FCMAT and the bookkeepers gained access to the credit card account and recreated reports.

In other instances, the necessary paperwork was limited, unavailable, or did not exist. Working with the bookkeepers, FCMAT reconstructed how certain transactions occurred. Without the original supporting documentation, the study team's analysis could only confirm the information as recorded in the accounting software. If a sale or deposit was not processed in the accounting system and no documents were available supporting an unrecorded transaction, the purpose of the transaction, whether fraudulent or otherwise, remains unknown.

Without proper paperwork and oversight confirming that procedures were followed, the accounting of transactions becomes difficult to follow. For example, a student may have paid $100 in cash for an ASB item, with the only evidence of the transaction being a $20 payment for the purchase recorded in the accounting software and a corresponding reduction in the ASB inventory of one item. If no paper receipt or other sales record is created for the full $100 purchase, there is no audit trail accounting for the remaining $80 in sales. Such a scenario produces a gap in understanding the disposition of the remaining $80, suggesting that the sale was somehow incomplete or improperly recorded, or that the lack of documentation was intentional and could be used as a method to cover fraudulent activity.

To determine whether any original documents for journal entry transactions were available, FCMAT asked the new ANHS ASB bookkeeper via email if she knew of any supporting documentation. Her response was, "I do not believe there is any supporting documentation," and asserted that the former bookkeeper "did not keep any records for journal entries that I have seen."

In addition to insufficient or missing supporting documentation for many transactions, club records had also not been maintained, and various invoices were unpaid, primarily for payments to the district itself. Numerous club accounts that track the revenue and expenditures for each individual club showed negative balances, which are indicators that funds had been improperly transferred out of the accounts. In addition, club transactions were missing documentation, did not have the necessary approvals, and/or appeared to lack the necessary review and oversight by the school bookkeeper, activities director, principal, and district office accounting technician.

These issues ultimately prompted the district to begin the lengthy process of reviewing and understanding all available ASB documentation and financial records at ANHS. Generally, oversight of the ASB from the district office should be circular. This means that if district office oversight and monitoring occur regularly and effectively, it is more likely that a school's ASB books and records will remain accurate, and that proper procedures and internal controls will be followed. The more skilled and regular the monitoring, the greater the likelihood that errors will be corrected quickly and that books and records remain in sound financial condition.

As FCMAT reviewed ANHS ASB books and records, the new bookkeeper and temporary bookkeeper concurred that the ASB books and records were in disarray. This included the following discoveries:

- Numerous financial and approval documents were missing or incomplete.
- Various club and account balances were negative.
- The ASB had unpaid or missing invoices and supporting documentation, largely attributed to payments for payroll, transportation, and other costs billed by the district's business office.
- Club records were either not created or had been discarded.
- Incomplete or unpaid transactions had not been reviewed or questioned.

These types of activities and transactions allegedly went without notice or follow-up each month for many years.

When FCMAT requested that the former ANHS ASB activities director review checks and transactions to help identify discrepancies, the team learned more about the level of quality, oversight, and knowledge of ASB operations at ANHS. Selected information that the former activities director included in an October 6, 2020 email, and the activities director's general observations after reviewing three years of ASB payments, is as follows:

> I just wanted to let you know that I have reviewed the fronts and backs of all of the checks for the past three years. Would you like to have them, or shall I get them back to ANHS?
>
> I examined the checks with the idea that I might see a check that the former bookkeeper may have written to herself--or another entity-- and, perhaps endorsed. I saw very few checks to her, and most, if not all, were for reimbursement for expenses related to CADA conferences.
>
> Some general observations...
>
> 1. After examining each check, I'm sort of shocked that we paid huge sums of money to pay "past debt" with "current funds." In some cases, we held invoices for up to a year. I did see this pattern previously, but it kind of sticks out when you see it on a check for tens of thousands of dollars.
> 2. Activities spent a lot of money. My sense is that when it came to spirit wear and the ASB banquet, the students enjoyed significant discounts on their ASB gear and end of year festivities. From what I understand, Activities might decide to offset the cost of tickets for students with money from the general fund, but we clearly didn't have the money to have been doing that.
> 3. We made money on spirit wear sales this year--abysmal as they were under Covid--why did we have a loss every other year?

> What *did* surprise me is the number of checks made payable to Jane Doe. I have not carefully reviewed her account activity in the club trust, and she does have some deposits that she was likely writing against. However, I'm not sure why we had a *club* trust to begin with. In my year there, there was no governance over the funds that were held in trust (i.e., no club). I don't understand why that program was funded under ASB. I *think* that her budget comes from our other program. Interestingly, she had a fundraiser in the fall, and had $750ish dollars stolen from her desk. It doesn't appear as though the program ever profited from those sales, and I can't help but wonder about the fundraising monies from last spring.
>
> I actually found this an interesting exercise. I feel as though it took me a year to "get it." After looking over all of the checks, I have a better understanding of who ASB funds and where our budget is allocated.

(FCMAT has removed names and other terms that identify individuals or specific clubs or programs and replaced them with the terms “former bookkeeper,” “Jane Doe,” “club,” and “other.” The name of a specific fundraiser was also changed to “fundraiser.”)

FCMAT ASB AB 139 extraordinary audits commonly find deficiencies in training, oversight, documentation, and policies and procedures. The audit process typically helps districts identify and improve internal control weaknesses, but it is often difficult to adequately review and resolve all allegations when the quality of the recordkeeping, accounting practices and oversight is poor. When this is the case, more opportunities exist for fraud. Such a scenario can also lead to the appearance of fraud when no fraud has actually occurred.

In many instances, the mere appearance of fraud can be just as damaging to an organization, because innocent, untrained, and well-intentioned staff can be wrongfully suspected or accused, often with an inability to prove otherwise. The public’s trust can be damaged and student fundraising efforts can be adversely impacted.

Accounting Processes

Canceled Checks

A common fraud scheme is to write checks to a specific payee but record the check to a legitimate vendor in the ASB books. At FCMAT’s request, the district obtained three years of canceled checks from the bank used by the ASB. FCMAT performed an audit of the canceled checks, and requested that the former activities director at ANHS conduct a similar review because this individual is more familiar with the appropriate vendor names and check signatures related to the ANHS ASB. FCMAT tested 400 checks totaling $338,430, comparing the canceled check information (e.g., payee, issuance date and amount) with the information recorded in the ASB accounting records.

Third-party canceled bank check information received directly from the bank was compared with each check number recorded in the accounting records to determine if the information matched. If the payee on the check differed from the accounting records, it was deemed a mismatch; if the payee on the check was the same as in the accounting records, it was deemed a match. A match is acceptable and a mismatch is considered irregular. FCMAT’s testing of canceled check transactions at ANHS ASB identified 400 check payee matches and no mismatches. In other words, testing did not identify any check payee alterations.

The former activities director’s review of canceled checks as reported in the October 2, 2020 email above did identify one issue regarding an employee paid through the ASB via a district time sheet; this is discussed later in this report. Based on the combined sample testing of the team and review of canceled checks by the district, FCMAT concludes there is insufficient evidence to demonstrate that fraud, misappropriation of funds and/or assets, or other illegal fiscal practices may have occurred in this specific area reviewed.

Nonsufficient Funds (NSF) Checks

Nonsufficient funds checks are commonly known as bounced checks and are typically encountered when a person or vendor who issues a check does not have enough money in their bank account for the bank to honor the check.

FCMAT examined NSF checks at ANHS because the team identified several bounced check transactions that were not accounted for using the prescribed procedure in the ASB accounting software.

Incorrect Process to Record an NSF Check Transaction

In several instances, rather than using the accounting software procedure for reversing a sales receipt when a check bounced, a journal entry was used to reduce cash and increase the returned check expense. This is not the proper procedure to correct an NSF transaction.

When a journal entry is used to record an NSF check, cash is reduced but the actual sale is not reversed, indicating that money should have been received but was not. The use of a journal entry to reduce cash allows for an accurate reconciliation with the bank statement; however, the sales receipt remains unchanged and indicates that payment was received successfully, while the cash remains uncollected by the ASB.

FCMAT's testing of NSF transactions at ANHS identified 23 NSF irregularities totaling $4,140 from a sample of 89 transactions totaling $32,353. The following T-account fictitious sale example demonstrates the incorrect accounting steps the former bookkeeper occasionally used. The examples below illustrate a fictitious sale that FCMAT has created to demonstrate one incorrect and one correct method of performing a sale of a yearbook for $90.

Example Yearbook Sale — Incorrect Process to Record NSF Check Transaction

No Cash and no NSF Fee is recorded in books, cash could be taken by a person who receives the payment to remedy the bounced check

Account Statement Report for Yearbook shows item as paid and student can pick up the yearbook.

Step 1 - Record Sale of Yearbook $90

Step 2 - Incorrectly record NSF check via Journal Entry (not using accounting system NSF Feature)

Cash - Acct 1025		Yearbook - Acct 2210		Returned Check Exp -Acct 2002	
① 90			90 ①		
	90 ②			② 90	
	0		**90**	**90**	

Note: The net effect is zero cash recorded in the books; however, the books continue to show the sale of a yearbook item as occurred for $90 and the journal entry is washed through account 2002, Returned Check Expense, which is not the correct account used by the accounting system.

Using a journal entry in this incorrect manner to account for NSF checks results in the following:

1. The net impact to cash is zero, because cash is both increased and decreased on the books for a sale.
2. The books continue to show the sale of the yearbook item as completed.
3. The student can obtain his or her purchase without knowing that the ASB was not paid.

4. Because the journal entry fails to reverse the original sale, anyone reviewing the books cannot easily determine which sale was affected and whether a yearbook was issued that was not paid for.

As in the example yearbook sale shown above, the former bookkeeper's creation of a journal entry to adjust a sale conceals the details of the transaction itself, making it both difficult to identify and creating the appearance that $90 may have been diverted or taken. The journal entry debits (increases) the returned check expense and credits (decreases) cash, resulting in a net impact to cash of zero. However, the yearbook sales record indicates the yearbook has been paid for, with no amount outstanding on the Account Statement Report for the Yearbook Trust Account 2210. The student's individual account also indicates a successful sale occurred. This means the student obtains a yearbook that has not been paid for.

Using this journal entry method gives the appearance that the transaction has been properly paid for when it has not. In short, the purchase is completed as if the student has paid for the yearbook and cash is increased even though the check bounced. Then, the $90 yearbook sale journal entry removes the cash from the bank account reducing cash and debiting (increasing) the returned check expense account. Therefore, cash is increased, and subsequently decreased, thereby netting to zero. However, the sale remains on the books, which is incorrect because the sale was not actually paid for. This method is flawed because, when the student or parent returns to remedy the bounced check by paying with cash, the cash received can be taken without being recorded in the books, because the sale was not reversed. A review of the Yearbook Trust Account 2210 revealed there were no adjustments or reversals showing the NSF fees were accounted for.

An NSF fee is a fee the school may charge for having to reprocess a bounced check. At ANHS, the school does not typically charge a bounced check fee. Regardless of whether a fee is charged or not, a journal entry should not be used to record the NSF check transaction; the automated accounting software should be used instead.

Correct Process to Record an NSF Check Transaction

The correct procedure for recording an NSF check is to reverse the original sale receipt using the accounting software's predetermined settings. This means the charge for an ASB item (e.g., yearbook, ASB card, t-shirt, water bottle, event ticket) should be processed as a reversal, or a negative sale. This removes the sale of the item, removes the cash received, and accounts for any NSF charges in an NSF clearing account that the accounting software is set up to use.

Later, when the student or parent pays for their charges, the total amount due becomes a new sale with its own separate identifiable receipt number. If an NSF fee is charged, it may be added to the total amount to be collected from the parent or student. At that point, the full sales price plus the NSF fee is charged and a new receipt number is generated that completes the audit trail documentation. The charge and payment complete the transaction, showing it has been paid, and the student can receive their purchased item.

The following fictitious sale example demonstrates one possible way of following correct accounting steps for the same $90 yearbook sale.

Example Yearbook Sale —Correct Process to Record NSF Transaction

Step 1 - Record Sale of Yearbook $90

Step 2 - Record bounced check (using accounting system NSF feature)

Step 3 - Re-record Sale of Yearbook $90 (cash receipt is collected at the same time)

Step 4 - Record Receipt of $25 NSF Fee collected (cash receipt is collected at same time)

Cash - Acct 1025

①	90		
		90	②
③	90		
④	25		
	115		

Yearbook - Acct 2210

		90	①
②	90		
		90	③
		90	

NSF Clearing Account -Acct 1001

		25	④
		25	

Note: At step 3 a new receipt number is generated in the ASB accounting system.

The accounting software's general ledger system has an NSF button, which is an automated feature that allows the user to process NSF checks correctly. The former bookkeeper used the NSF button correctly with other past transactions. When the NSF button is used, the accounting system removes the items purchased out of the purchased items list and allows the user to add a fine or an NSF fee. Later, when the student or parent attempts to purchase another item online or at the ASB window, the accounting software prompts a message screen indicating that the student owes a payment for a prior purchase. The prior purchase amount remains an outstanding balance due in the student's account until it has been paid.

According to the former bookkeeper, the sale of an item was written off if the following occurred:

- Repeated attempts to obtain payment for bounced check sale items were unsuccessful.
- The club advisor directed the account not to be pursued.

The former bookkeeper also explained that when a sale was no longer pursued and considered uncollectible, those items were considered to be donations to the students who received them. If this occurred, it would have created an inequitable benefit to an individual and, as such, could be considered an illegal gift of public funds. Gifts of public funds occur when an individual receives a benefit from public monies; such gifts are prohibited by the California Constitution.

The primary determining factor for a legitimate expenditure of public funds is whether the funds expended have a direct and substantial public purpose, with only an incidental benefit to the individual. To justify the expenditure of public funds, the governing board must determine that the expenditure will benefit the education of the LEA's students. Expenditures that most directly and tangibly benefit students' education are more likely justified, but expenditures driven by personal motives are not, even if they have been a long-standing local custom or are based on benevolent intentions.

ASB funds are public funds held in trust and administered by the school district employees who are responsible for oversight of those funds.

However, FCMAT has determined that the alleged donations of NSF sales items to individual students are not a gift of public funds because of the following:

- No documentation is available from club advisors instructing a sale to be written off and donated to a student.

- FCMAT found no documents such as logs, emails, or inventory short counts with reconciling lists corresponding to alleged donated items that would confirm that students actually received items without paying for them.
- The only evidence that a sale may have been donated is an NSF transaction with an associated accounting entry, recorded by an allegedly insufficiently trained and insufficiently supervised former bookkeeper.
- There is insufficient evidence that funds were written off with the express intent of donating sale items to individual students.

A total of 25 of 89 NSF transactions examined were found to have been entered incorrectly as journal entries. However, as explained further below, two transactions were resolved as cash received and recorded, thereby reducing the total deviations from 25 to 23. The total potential lost revenue attributed to the 23 incorrectly entered NSF journal entries is $4,140.

The $4,140 does not represent NSF fee charges; it is the potential uncollected sales. FCMAT explained to the former bookkeeper that using the journal entry method creates the appearance that she may have taken money that a student or parent paid when repaying the bounced check with cash. The team explained to the former bookkeeper that, as part of the testing of the NSF transactions, the parents were contacted by the district and asked if they repaid in cash and were charged an NSF fee. The 25 NSF transactions were from 14 parents. The parents contacted indicated they did pay in cash when they returned to the school to remedy the bounced check purchase, and that they were charged a fee.

During the team's interviews of the former bookkeeper about the NSF check discrepancies, she provided the following explanation, which is summarized below:

- An actual NSF fee was never charged because the bank did not charge the ASB a fee. (FCMAT reviewed bank statements and ASB transactions for April 2016 through June 2020 and found no NSF fees in the sample that were charged by the bank to the school or by the school to any parent or student).
- Parents were contacted but many did not return to pay.
- When a payment was received either in cash or another payment method, a receipt was issued through the accounting system.
- The parents often stated they would give the funds to the student to deliver to the ASB (FCMAT could not confirm whether parents or students paid cash to the former bookkeeper for the transactions questioned and did not ask that students be contacted).

  If a transaction resulting in a bounced check was related to a donation, the former bookkeeper would not contact the parent or student but would instead contact the coach to request assistance on how to proceed. Depending on the circumstances, the coach may determine not to pursue the payment, in which case the payment would subsequently be written off. The team found that these types of transactions occurred in approximately 70% of the returned payments (If this were occurring, it would be illegal; therefore, FCMAT searched for evidence that coaches were directing the former bookkeeper not to pursue payments. FCMAT could not locate any logs, written directives, lists of student purchases, or other evidence that coaches allegedly instructed the former bookkeeper not to pursue bounced check purchases. Nor were there any logs or other documents presented or available to FCMAT identifying items students allegedly received as a donation because of a bounced check. Based on the lack of sufficient documentation, FCMAT cannot make a determination that students' bounced check purchases were illegally converted to donations).

- Parents would claim they paid when they did not. Therefore, the transaction was written off, resulting in a lack of transactions showing cash received.
- Parents may not recall which transactions they paid via cash or check, whether they paid an NSF fee, or whether the payments were for ASB or some other program or payment to the school site.

After the first meeting with the former bookkeeper, FCMAT determined that if the former bookkeeper had indeed issued a receipt for a bounced check sale, a repayment may not have happened in the same month that the check bounced. The team searched for cash payments specific to the journal entry bounced check transactions in the month following a transaction but found none. To further expand the search, the scope was expanded to four months from the date of sale.

After considerable effort and searching through numerous transactions, the team found two receipted cash transactions, both of which were dated just over three months following the original sale. The payments both originated on July 29, 2019, for $255 and $260 and were subsequently repaid and recorded as cash on November 4, 2019, and November 6, 2019, respectively.

During the team's second interview of the former bookkeeper, FCMAT explained these findings. The former bookkeeper was visibly relieved that some transactions were found. She then stated that she had "made a lot of mistakes" but did not take any money.

Based on FCMAT's sample testing and assistance from the district, the team was able to confirm that at least two of 25 transactions were eventually receipted in cash, providing a small measure of evidence that not all NSF journal entry transactions were missing. This finding provides a small measure of proof that prior NSF cash transactions were receipted. As such, the team determined any remaining evidence was not sufficiently reliable to pursue this issue further for possible fraud, misappropriation of funds and/or assets, or other illegal fiscal practices, because of the following:

- The completeness of the books and records is considered lacking.
- There is insufficient evidence of supervision, oversight, and monitoring of NSF transactions, and the insufficiencies represent the norm rather than the exception.
- A strong pattern of intent to purposely divert funds cannot be determined.
- There is insufficient evidence of any logs compiled by the coaches or administrators instructing the bookkeeper not to pursue repayments, or of similar logs identifying donations to nonpaying students.
- There is inherent unreliability of the parents' memories regarding when and what they may have purchased with cash in previous years.

FCMAT concludes there is insufficient evidence to demonstrate that fraud, misappropriation of funds and/or assets, or other illegal fiscal practices may have occurred in this specific area reviewed. However, the findings demonstrate a lack of supervision by the certificated employee assigned and the principal responsible for the ASB financial operations and record keeping.

Deposits

Reviewing deposits typically involves obtaining source documents (e.g., cash count and ticket control forms) and comparing cash receipts to deposits entered in the accounting records and bank. Cash collected at a club fundraising activity is the beginning of the audit documentation trail. When money is collected at an event, two people should count the cash, sign the cash count form, place the funds in a plastic tamperproof bank bag, retain one copy of the cash count form for the club's records, and transport the funds together to the ASB safe. Next, the bookkeeper should recount the funds with a witness; sign the count form along with the witness, attesting to the accuracy of the amount counted; enter the cash receipt amount in the accounting records; prepare a deposit slip for the bank; and reseal the funds in a new plastic tamperproof bank bag for deposit. If students are supervised by adults, they may assist in counting money if the district allows it. The final step is to transport the funds to the bank with a witness and receive from the bank a deposit receipt for the funds placed in the bank's custody.

When key required documents such as cash count forms are not retained in the club records or bookkeeper's files, an audit can confirm only that the amount counted by the bookkeeper matches the bank deposit shown on the bank statement. FCMAT was not provided with, nor could FCMAT locate, any cash count forms because many of the form copies were neither kept nor did district practices require these forms to be kept by the clubs or the bookkeeper. Certain clubs may have cash count forms, but none were found in the areas FCMAT audited. Only deposit slips and bank receipts were available that matched the bank statements.

Records retention requirements apply to all school site ASBs. Those responsible for oversight should have been performing their oversight responsibilities but were not. The district's business office, school site administrator or principal, and certificated instructors responsible for oversight should have ensured that all ASB general and club records, communications, directives and other documents were retained and archived, but did not do so. Part of oversight responsibility is knowing that records are retained as backup support for student transactions.

Without original source documents to provide proof that all of the funds collected at the event were actually deposited in the bank, the audit process becomes difficult. Cash count form source documents are essential evidence that protects those who count money at the event. Without complete source documents, if the funds deposited in the bank are questioned, neither those who counted money at the event nor the bookkeeper can demonstrate that the amount deposited was the amount receipted at the event. This means that if these individuals were to be accused of theft, they would have no documented trail of proof to demonstrate that the amount deposited in the bank matched what was collected.

As described earlier in this report, club advisors have not kept adequate records, and FCMAT's review found the bookkeeper's records to be missing, misplaced or in disarray. This limited FCMAT's transaction testing to a comparison of deposit slips from bank deposits with the accounting records. The team's expectation is that these amounts should match.

FCMAT tested 313 deposit slip transactions totaling $272,875 and compared them with each deposit recorded in the accounting records to determine if the information matched. If the deposit amount on the deposit slip differed from the accounting records, it was deemed a mismatch; if the amount on the deposit was the same as the accounting records, it was deemed a match. FCMAT's testing of ANHS's ASB deposit transactions did not identify any mismatches. Because no mismatches or irregularities were identified, no further testing was considered necessary.

FCMAT concludes there is insufficient evidence to demonstrate that fraud, misappropriation of funds and/or assets, or other illegal fiscal practices may have occurred in this specific area reviewed. However, the findings demonstrate a lack of supervision by the certificated employee assigned and the principal responsible for the ASB financial operations and record keeping.

Irregular Journal Entries

Journal entry sampling was performed by scanning journal entries over three years to identify other types of entries that may be inconsistent with accounting best practices. The FCMAT team identified eight journal entries totaling $29,335. One of the journal entries was number 885 for $10,295, recorded in May 2019. This entry stood out because it directly reduced cash and was written off to bad debt expense. Writing off a transaction to bad debt expense implies the $10,295 was originally recorded as a sale but was uncollectable.

The FCMAT study team could not locate any transaction for a previous sale or cash collected in the bank that was for $10,295, either in May 2019 or for two months before and after. More important, the registration credit card transactions were written off as uncollectable to bad debt expense, not cash received. The journal entry implies that cash was received and now must be written off by reducing cash. If cash were received, it would not be written off but returned as a refund and reversal of a sale. Further, the memo written in the journal entry explaining why it was needed did not support the entry, nor was there any supporting documentation attached to the journal entry explaining and substantiating that the entry was necessary, reviewed or approved. Journal entry number 885 is reproduced below as recorded in the ANHS ASB accounting records.

Journal Entry 885

<table>
<tr><td colspan="6">To Write Off Credit Card Sales not Collected</td></tr>
<tr><td colspan="6">Credit Cards Not Approved or Processed from Registration 2018</td></tr>
<tr><th>DATE</th><th>JOURNAL ENTRY</th><th>GL ACCOUNT</th><th>GL ACCOUNT DESCRIPTION</th><th>DEBIT</th><th>CREDIT</th></tr>
<tr><td>5/1/19</td><td>885</td><td>5056</td><td>Bad Debt Expense</td><td>10,295.00</td><td></td></tr>
<tr><td colspan="2" rowspan="2"></td><td>1030</td><td>1-Farmer's and Merchant Checking</td><td></td><td>10,295.00</td></tr>
<tr><td>Totals</td><td></td><td>10,295.00</td><td>$10,295.00</td></tr>
</table>

(FCMAT bolded the wording Journal Entry 885, the header information, and totals, and reproduced how journal entry 885 is shown in the accounting records after being exported into a spreadsheet.)

The memo implies that a reduction of cash was necessary because $10,295 was uncollectable due to credit cards not being approved or processed for student registrations in 2018. The FCMAT study team eventually traced the journal entry back to July 2018, 10 months earlier than the journal entry in May 2019. When seeking to determine the legitimacy of the entry, FCMAT could not identify any oversight, review or questioning regarding why such an entry was reducing cash without any supporting documentation or why it occurred approximately 10 months after the alleged credit card transactions. The team eventually determined the entry is tied to credit card sales that occurred in July and August of 2018.

Based on FCMAT's experience, most credit card sales use a terminal that is directly connected to the accounting software. When a card is swiped, tapped or inserted into a terminal, the transaction is automatically recorded in the accounting software and the ASB bank account. Such a process raised the question of why there was a need for a journal entry to adjust cash in an otherwise automated process. To understand the need for and purpose of the entry, FCMAT applied various audit procedures focused on deposits, bank statements, credit card statements, and detail reports.

FCMAT theorized that if a credit card transaction failed to process, the money would not have proceeded through credit card merchant processing and into the bank account of the ASB. When this occurs, there is no transfer or money received for the sale and no entry into the accounting system. Therefore, the purpose of journal entry number 885 to write off credit card sales as uncollectable was questioned. Because the journal entry is crediting or reducing Farmers and Merchants checking, which is reducing cash, the journal entry implies that $10,295 from credit card transactions was initially received in the checking account and is now being returned or reversed. According to the current bookkeeper and consistent with FCMAT's own experience, a failed credit card transaction would not result in a sale; instead, it would simply not process and therefore would not exist in the accounting system.

The credit card journal entry description is misleading because it is describing that credit card sales were written off. FCMAT could not initially confirm whether the credit card transactions described as, "To Write Off Credit Card Sales not Collected" were actually collected. No documentation was found to support this atypical journal entry. The entry was also not reviewed or approved, despite the large reduction to cash. As a result, the entry could be perceived as a method to remove money from the ASB.

Journal entry fraud schemes often reduce cash in one area to cover for the possible removal of cash in other areas and from other sources (e.g., school dances or athletic game ticket sales) for which larger amounts of cash are collected that can absorb the loss. For example, if athletic events and other club fundraisers collected $30,000 in one month, the $30,000 would normally be recorded in the accounting records and distributed to each applicable club. At that point, the accounting records show a deposit of $30,000. However, in a fraud scheme, $10,295 of cash from the $30,000 could be fraudulently removed, leaving only $19,705 to be deposited in the bank. The books may still show $30,000 across all clubs, and the clubs may be unaware that actual funds in the bank do not support the club records. Even so, the books and the bank will be out of balance by $10,295.

If oversight is insufficient and journal entries are not reviewed, questioned, and approved or disapproved, the books can then be reduced by $10,295 via a journal entry, thereby aligning the books with the bank. In the case of a large ASB that has many fundraisers and thus produces significant revenue, the removal of cash in this amount could easily go unnoticed. When unapproved and unreviewed journal entries are reducing cash, it is common and reasonable that a transaction may be perceived as irregular.

When FCMAT discussed the credit card journal entry with the former bookkeeper during both interviews, she explained the operation of the credit card system. FCMAT learned that the ASB had been using a portable point-of-sale terminal known as Square. The discussion with the former bookkeeper is summarized below:

- A "major meltdown" occurred with the Square credit card system and it "crashed" in July-August 2018. Transactions related to student registration did not process as expected.
- The Square credit card system is operated using mobile devices, such as an iPad. It transmits wirelessly using Wi-Fi.
- ANHS uses Square because it is less expensive than regular credit card terminal systems.
- The Square system operates by summarizing the credit card transactions as a batch and will not post to the bank account until 24 to 48 hours after the point-of-sale transaction.
- When the Square batch report is printed, the total of the batch can be compared to the bank statement deposit, and individual transactions processed by Square can be compared to the accounting software system.

- Each Square credit card transaction must be entered manually into the accounting software.
- Traditional credit card terminals link directly with the accounting software, meaning the transactions transfer automatically.
- Because Square transactions must be entered manually into the accounting system, there may be manual entry coding errors.
- Square operates using Wi-Fi and mobile devices, so connectivity issues may interrupt transactions before they are completed.
- Students were assisting with registration by processing Square transactions using iPads.
- When the issues occurred, Square was not contacted or notified because the former bookkeeper assumed the issues were related to school Wi-Fi connectivity problems rather than Square.
- The activities director was allegedly notified of the loss of sales through Square.
- Parents were allegedly contacted to return to the school for a successful processing of their credit card.

The former bookkeeper stated that during July and August 2018 the school lost connectivity, and numerous Square transactions could not process during registration. As outlined in the above process, FCMAT learned from the interviews with the former bookkeeper that Square transactions do not automatically post into the ASB accounting system but must be entered manually. As a result, when the Square system Wi-Fi connectivity was allegedly down, the former bookkeeper and students were unaware of the disruption and continued to process Square transactions. The bookkeeper continued to enter each sale manually, so each transaction showed as a sale in the accounting system, with the assumption the corresponding funds would be deposited into the bank account. However, because of the service disruption, no funds were deposited in the bank for any transactions during this outage.

Because the former bookkeeper was recording the Square sales as if they processed correctly, cash was increased in the accounting records by the amount of these transactions even though they had been disrupted and did not process. To correct the books for recording sales that did not process through Square, the former bookkeeper created the aforementioned journal entry, thus reducing cash for the sales entered in the accounting system.

Further complicating things was that students were said to be assisting with registration sales, each using an iPad connected to Square while the former bookkeeper recorded transactions in the accounting system. Students may, when allowed by a district, help with receipting cash and processing credit card sales when supervised by adults. However, when students or adults are involved with cash transactions and subsequently a large journal entry is discovered reducing cash, one possible explanation is that fraud may have occurred. Accordingly, audit procedures typically become more complicated because they now include the possibility that there may have been collusion among students or adults, or that one individual may be acting alone to hide fraudulent activities.

The fact that the journal entry was made in May 2019, 10 months after the failed Square transactions, seemed inconceivable when the entry was initially discovered, despite the entry notation referencing 2018 registrations. Any deposits or pending transactions recorded in the accounting system that are not yet reflected in the bank account are considered outstanding deposits. These reconciling items are typically resolved within three or four days, not 10 months, so the timing of the journal entry was unusual and atypical.

The transactions that occurred during the alleged connectivity outage remained outstanding from August 2018 to April 2019. FCMAT neither found nor was provided with documentation or evidence of oversight to indicate that the outstanding deposits/receipts were known to, allowed by, or of concern to individuals who had oversight responsibility.

The ASB accounting software produces a monthly automated reconciliation of the ASB and the bank account. The term used by the ASB accounting software for outstanding deposits is, "Uncleared Deposits and Other Credits." A review of bank reconciliations from August 2018 to April 2019 clearly show the same outstanding deposits each month attributable to the $10,295. Then, according to the former bookkeeper, on May 1, 2019, the outstanding deposit was finally corrected using the aforementioned journal entry, thereby writing off $10,295. This amount was easily identifiable on the May 2019 ASB bank reconciliation; however, neither the bank reconciliation report nor the journal entry offered any indication they had been questioned, reviewed or approved.

The $10,295 comprised 59 separate transactions that were not easily apparent to FCMAT. The transactions included two dated July 31, 2018, 56 dated in August 2018, and one dated October 11, 2018. The former bookkeeper explained that the $10,295 remained uncleared on the bank reconciliation for many months for the following reasons:

- More Square transactions in addition to those amounting to the $10,295 had failed, but parents came in and repaid these. This left only the transactions associated with the $10,295 as unresolved.
- There was hope that somehow the transactions would work their way through the Square system and eventually be processed, or that the remaining parents would return and repay.

New sales could have been created from parents returning and reprocessing their credit card transactions, meaning the funds may not have ultimately been lost. However, the bookkeeper's decision to write off sales should not have occurred unilaterally and without formal written review and approval by an ASB student representative, activities director/club advisor, and principal/administrator. The decision should also have been recorded and approved in student meeting minutes.

Education Code Section 48933(b) establishes that all ASB expenditures are required to be preapproved by three individuals before any work, services or purchasing occurs. This provision states the following:

> The funds shall be expended subject to such procedure as may be established by the student body organization subject to the approval of each of the following three persons, which shall be obtained each time before any of the funds may be expended: an employee or official of the school district designated by the governing board, the certificated employee who is the designated adviser of the particular student body organization, and a representative of the particular student body organization.

The three individuals referenced in the above Education Code section are explained as follows:

- "An employee or official of the school district designated by the governing board," which is typically the school site principal.
- "The certificated employee who is the designated adviser of the particular student body organization," which is typically a teacher because this individual must be a certificated employee (also known as a credentialed employee). This teacher is typically referred to as the activities director or club advisor.
- "A representative of the particular student body organization," who is the student representative of the ASB leadership or student council, or of an individual club.

In other words, Education Code 48933(b) states that all ASB purchases require preapproval before any reimbursement, check request or other expenditure occurs. Because of this, ASB purchases usually are made using the purchase order process or similar means so that the three individuals identified above must provide preapproval in a documented, traceable audit trail.

Failure to properly document an actual expenditure or cash reduction of ASB funds typically constitutes an illegal act because it violates California state law as stated above. However, because these funds were not actually received by the ASB due to the alleged credit card transmission failure, the reduction of cash was not an actual ASB expenditure and thus is not subject to the restrictions outlined above for proper preapproval of all ASB expenditures. Nevertheless, such a journal entry should have been reviewed, documented in detail, and approved by individuals with oversight responsibilities.

FCMAT did not contact parents, students, the former activities director, or district Information Technology departmental staff regarding the Square issue. Rather than rely on any individual recollections regarding this issue, FCMAT expanded the scope of testing to review individual accounting system transactions in the books and the absence of Square batch detail transactions. The expanded testing was able to confirm that Square transactions and the books matched.

The remaining seven irregular journal entries FCMAT found in its sample were also undocumented and lacked authorization; however, these entries all either increased cash or were considered insignificant. Because FCMAT was able to resolve the $10,295 Square transaction made in July through October 2018, as described above, no further examination of the remaining irregular journal entries was considered necessary.

Because of these findings, FCMAT concludes there is insufficient evidence to demonstrate that fraud, misappropriation of funds and/or assets, or other illegal fiscal practices may have occurred in this specific area reviewed. However, the findings demonstrate a lack of supervision by the certificated employee assigned and the principal responsible for the ASB financial operations and record keeping.

Purchase Order/Check Payee Comparison

FCMAT reviewed various ASB purchase orders because these are the source documents that show what has been properly approved for purchase using ASB funds, as required in Education Code 48933(b), and to whom each payment was to be issued. Purchases are often correlated with the testing of canceled checks. Sample testing compared payee names listed on each purchase order with check information recorded in the ASB accounting records.

A total of 199 purchase order payees were compared to payee check names on payments totaling $114,977. All payee names on the purchase orders tested matched those of the payees in the corresponding checks. Because no mismatches or irregularities were identified, no further testing was considered necessary.

Because of these findings, FCMAT concludes there is insufficient evidence to demonstrate that fraud, misappropriation of funds and/or assets, or other illegal fiscal practices may have occurred in this specific area reviewed.

Negative Accounts and Fund Balances

Negative account balances should normally not exist in an ASB. If a negative balance occurs temporarily, a valid explanation should accompany it to justify such an occurrence.

The table below shows numerous negative balances for ANHS's ASB for fiscal years 2016-17 through 2019-20. The numbers in parentheses indicate negative account balances.

Aliso Niguel High School Balance Sheet Trends

Description			6/30/17	6/30/18	6/30/19	6/30/20
Assets						
1030	1-Farmer's and Merchant Checking	Bank	$ 557,848.20	$ 675,609.58	$ 259,259.54	$ 365,988.71
1011	CREDIT CARD CLEARING ACCT	Other Asset	(3,223.76)	(3,223.76)	(3,223.76)	(258.85)
1031	Farmer's and Merchant RESERVE	Bank	324,203.03	325,067.83	325,828.33	326,531.11
1010	TEMP CLEARING	Other Asset	(197.26)	(197.26)	(197.26)	(197.26)
1000	US BANK	Bank	1,066.45	706.98	343.11	95.60
9000	Web Store Clear for Remittance	Other Asset	(46,643.56)	(46,643.56)	(46,643.56)	(46,643.56)
	Total Assets		$ 833,053.10	$ 951,319.81	535,366.40	$ 645,515.75
Liabilities						
Summarized Totals for all Positive Account Balances (128 Accounts)			726,001.15	1,115,887.34	697,090.86	918,603.72
2030	BAND TRUST	Trust	17,214.66	(37,268.58)	(16,511.81)	(50,987.22)
2194	WATER POLO-GIRLS	Trust	4,651.58	(22,845.11)	(16,432.23)	(22,928.78)
2035	BASEBALL TRUST	Trust	36,171.68	7,452.27	13,539.60	(20,575.32)
2116	GOLF TRUST (GIRLS)	Trust	4,408.62	(0.96)	(2,081.73)	(6,725.00)
2182	GUIDANCE TRUST	Trust	6,703.39	(1,389.28)	(5,465.53)	(5,926.53)
2064	CLASS OF 2022	Trust	0.00	0.00	(285.47)	(5,539.83)
2062	CLASS OF 2021	Trust	0.00	(473.36)	(795.64)	(5,480.28)
2000	ACADEMIC Decathlon	Trust	(1,835.61)	(3,490.61)	(2,920.61)	(5,355.61)
9005	Web Store Fees	Trust	9,073.81	3,630.79	(3,788.04)	(3,812.24)
2100	BASKETBALL, GIRLS	Trust	1,714.50	4,508.10	10,446.14	(2,761.60)
2530	CULINARY ARTS ACADEMY	Trust	2,058.29	(353.03)	(5,224.86)	(2,405.27)
2900	REGISTRATION CLEARING ACCT	Trust	(1,662.15)	(1,662.15)	(1,662.15)	(1,662.15)
2065	CLASS OF 2023	Trust	0.00	0.00	0.00	(479.07)
2173	Second Harvest Food Bank	Trust	0.00	0.00	(326.00)	(326.00)
2016	LEAP Club	Trust	0.00	(196.75)	(196.75)	(196.75)
2518	Asian Culture Club	Trust	0.00	(73.25)	(102.86)	(102.86)
1001	NSF Clearing Acct	Trust	0.00	0.00	0.00	(80.00)
2599	DISTRICT TRANSPORTATION	Trust	4,380.21	1,010.21	1,010.21	(48.54)
	Total Liabilities		$ 808,880.13	$ 1,064,735.63	$ 666,293.13	$ 783,210.67
Fund Balance						
3001	Fund Balance	Fund Balance	41,241.41	24,172.97	(113,415.82)	(130,926.73)
	Change in Fund Balance		(17,068.44)	(137,588.79)	(17,510.91)	(6,768.19)
	Total Fund Balance		$ 24,172.97	$ (113,415.82)	$ (130,926.73)	$ (137,694.92)
Total Liabilities and Fund Balance			$ 833,053.10	$ 951,319.81	$ 535,366.40	$ 645,515.75

(Note, the above balance sheet accounts numbered 1000, 2000, and 3000 are assigned by the ASB accounting software, which is acceptable. These account numbers should not be confused with account object codes referenced in the California School Accounting Manual used by school districts.)

Many of these accounts have remained negative each year without being corrected. This is an additional indicator that administrators responsible for oversight are not reviewing these accounts or do not understand what a negative account means. Typically, a negative account occurs either when an ASB or club account is overspent, or when an accounting transaction is made in error.

FCMAT determined that negative club/trust and other balances were present in all four years examined, and the number of occurrences and/or the dollar amounts increased each year. Excluding account 3001 — Fund Balance, there were five negative accounts in 2017, 13 in 2018, 16 in 2019, and 21 in 2020. Several of the account balances remained unchanged year after year, most notably for account 9000 — Web Store Clear for Remittance, which was shown as ($46,643.56) in each of the four years examined.

All ANHS ASB clubs and accounts are contained in one bank account, known as the Farmers and Merchant Checking Account, 1030. This means each ASB club and account has a share of the total cash in the bank. As a result, if one account is negative, it deprives other clubs and accounts of resources. For example, as shown above, Band Trust — 2030 is negative in three of the four years shown, at ($37,268.58), ($16,511.81) and ($50,987.22) in 2018, 2019 and 2020, respectively. This means that other clubs and accounts that had positive balances were effectively subsidizing Band Trust activities. It also means, according to the accounting records, that Band Trust is not earning sufficient revenue through its fundraising efforts to support its own activities. When a club cannot support its activities during a school year, students in the next year will need to fundraise to support activities that occurred in the prior school year. In many cases, these may not be the same students who overspent club funds in the prior year.

Negative year-end balances are easy for the district to identify and should always raise concerns during the oversight process, especially when they persist because this often indicates fundamental problems in an ASB's overall financial health. If proper oversight by the school site activities director, principal and/or district office had raised concerns and implemented corrective action in 2017, it is probable the accounting errors and practices that caused the negative balances to persist could have been corrected before the problem worsened.

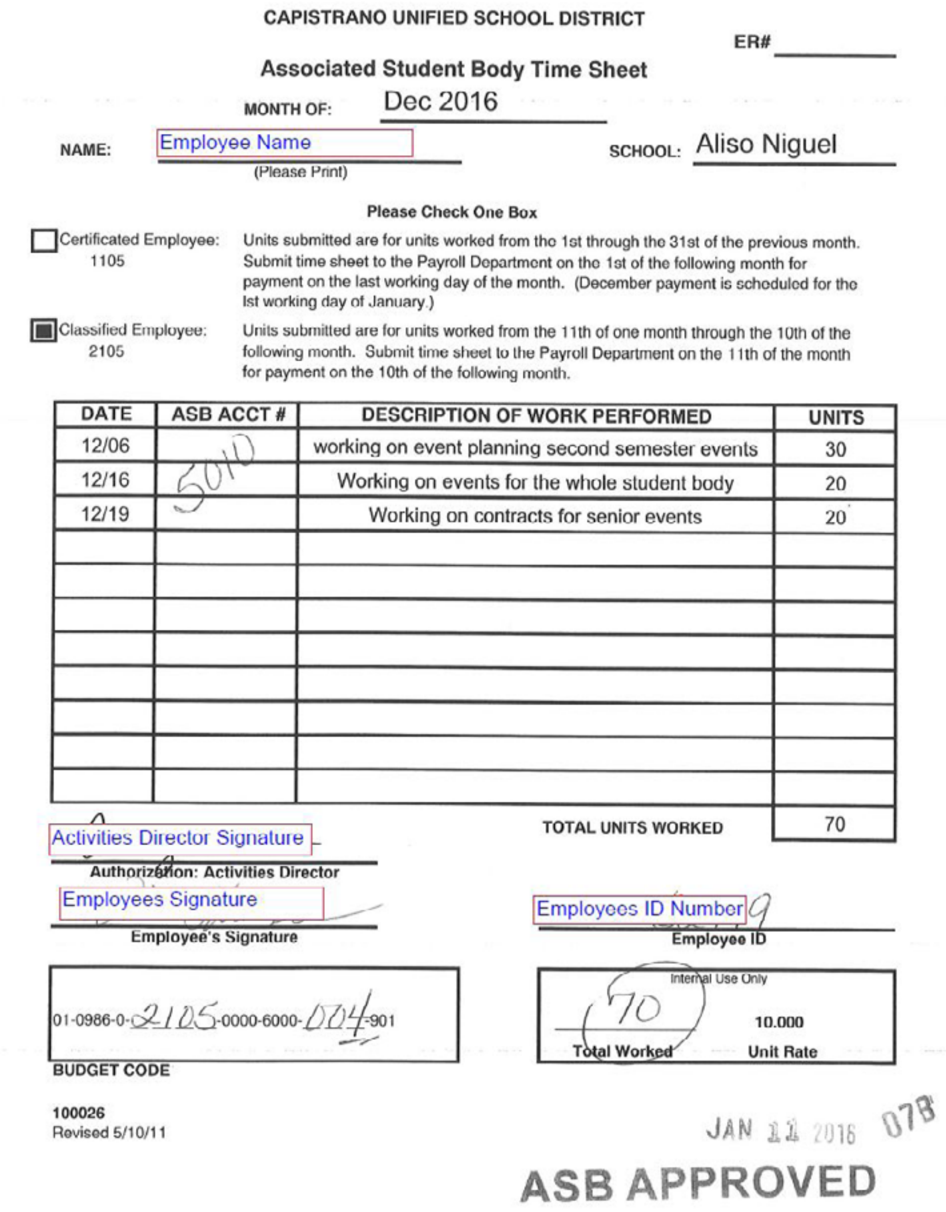
Because the ANHS ASB financial records were in disarray for an extended time and basic internal controls and oversight were lacking, identifying the cause and intent of certain improper fiscal practices is made difficult. Because of this and because of the findings in this section, FCMAT concludes there is insufficient evidence to demonstrate that fraud, misappropriation of funds and/or assets, or other illegal fiscal practices may have occurred in this specific area reviewed. However, the findings demonstrate a lack of supervision by the certificated employee assigned and the principal responsible for the ASB financial operations and record keeping.

ASB Time Sheets

The ANHS ASB used its funds to pay school employees to work for the ASB at various extracurricular events such as homecoming preparation, ticket sales at sporting events, field trip planning, graduation assistance, acting as an event chaperone, and technical assistance with the annual ASB audit. Testing and documents provided by district staff show that ANHS uses a form titled Associated Student Body Time Sheet to approve and record staff being paid for these extra work assignments. FCMAT examined time sheets to determine whether employees may have been paid incorrectly by the ASB for work that was not properly authorized or performed.

At ANHS, the activities director typically selects employees to perform extra work assignments based on availability, willingness to participate, and past experience with certain ASB events. These assignments are in addition to the normal duties and work hours of the employee, so the employee may receive a supplemental stipend that is paid through the normal district payroll process pursuant to the collective bargaining agreement and charged to the applicable ASB account. Purchase orders for any anticipated extra work assignments are usually approved by the ASB at the beginning of each year for events in the upcoming year.

The ASB time sheet was created by the district's payroll department and is used specifically to record ASB extra work assignments rather than regular overtime hours. This time sheet form is shown below and includes the name and work location of the assigned employee, a date and brief description of the work performed, and a signature authorization by both the employee and the activities director. The form also indicates the number of "units" for which the employee qualifies for each event worked. Although a dollar amount is not shown on the form, the district confirmed that employees are paid $10.00 per unit.



CAPISTRANO UNIFIED SCHOOL DISTRICT

ER# ____________

Associated Student Body Time Sheet

MONTH OF: Dec 2016

NAME: Employee Name (Please Print)

SCHOOL: Aliso Niguel

Please Check One Box

☐ Certificated Employee: 1105 — Units submitted are for units worked from the 1st through the 31st of the previous month. Submit time sheet to the Payroll Department on the 1st of the following month for payment on the last working day of the month. (December payment is scheduled for the Ist working day of January.)

■ Classified Employee: 2105 — Units submitted are for units worked from the 11th of one month through the 10th of the following month. Submit time sheet to the Payroll Department on the 11th of the month for payment on the 10th of the following month.

DATE	ASB ACCT #	DESCRIPTION OF WORK PERFORMED	UNITS
12/06	5010	working on event planning second semester events	30
12/16		Working on events for the whole student body	20
12/19		Working on contracts for senior events	20
		TOTAL UNITS WORKED	70

Activities Director Signature
Authorization: Activities Director

Employees Signature
Employee's Signature

Employees ID Number
Employee ID

01-0986-0-2105-0000-6000-004-901
BUDGET CODE

Internal Use Only
70 — **Total Worked**
10.000 — **Unit Rate**

100026
Revised 5/10/11

JAN 11 2016 078

ASB APPROVED

(Typed descriptions and red boxes covering personal information have been added by FCMAT.)

The number of units for each work assignment, multiplied by the unit rate, determines the stipend amount paid to the employee. According to the district's payroll department, the number of units for a work assignment is determined before the work is performed. District employees did not know why a unit rate is used rather than a dollar amount other than saying that is the way it has always been done.

FCMAT reviewed the use of the time sheet form by three randomly selected employees who had performed multiple extra work assignments between July 2016 and December 2019. FCMAT's review indicated the work was properly approved by the activities director before submission to the payroll department for payment.

Because ANHS's records were either not available or were in disarray, FCMAT could not determine if the services performed on the sampled time sheets were also preapproved by the students and principal using an ASB purchase order (or alternative form of preapproval). In addition, FCMAT was unable to determine if the students discussed, voted on, and approved the expenditures in the student club minutes, which, as outlined in the FCMAT ASB Manual, should include "details of proceedings, including financial matters pertaining to the budget, approval of fundraising ventures, and expenditure authorizations . . ." As noted earlier, Education Code Section 48933(b) states that for K-12 school districts, all ASB expenditures are required to be preapproved by the three individuals specified in the code before any work, services, or purchasing occurs.

To further analyze the ASB time sheets, FCMAT requested a schedule of the various extra work assignments and the number of approved units for each assignment. Neither ANHS nor the district was able to produce any such schedules to further corroborate the effectiveness of the time sheet form. As a result, FCMAT concluded that no such schedules exist, and that the number of units for each extra work assignment is based on past practices or a determination by the activities director.

Based on documents provided by the district, some ASB stipends are approved by the governing board as "co-curricular assignments," with a position and payment schedule included in a document titled Personnel Activity List. However, the district confirmed that only some of the ASB extra work assignments are formally approved by the board. During testing, FCMAT could not determine whether any of the assignments included on the forms were approved by the board, because a detailed description of the work performed is not included on the Personnel Activity List.

These extra work assignments should be approved by the board, but this alone is not sufficient; approval from the three signatories defined in Education Code 48933(b) is still required for every ASB expenditure, including time sheets when no other preapproval form or purchase order is used.

An expanded review of the ASB time sheet process determined that the form is also in use at other high schools throughout the district, including Capistrano Valley, Dana Hills, and Tesoro. At each high school, FCMAT requested an approved schedule of the number of units allowable for each extra work assignment. No formal or approved schedule was provided from any of the schools. In addition, there are discrepancies between school sites on the amounts paid for certain work assignments. For example, at Tesoro High School, based on the documents the team reviewed, ticket sellers and ticket takers at sporting events are paid a stipend of $20 per hour. At Capistrano Valley High School, the rates vary depending on the sport, and are paid an hourly rate of $40 to $60 for a ticket seller, and $40 to $45 for a ticket taker.

The district's payroll department confirmed that neither the number of units claimed for an identical work assignment, nor the stipend paid based on the units claimed, is consistent across the district. FCMAT also confirmed that the number of units claimed for a work assignment may vary depending on the employee's position, base salary or base hourly rate.

At ANHS, the ASB time sheet contains no indication of how much time was worked by the assigned employee. Rather, the form states only the number of units worked for each assignment. As a result, FCMAT could not determine whether any consistencies exist in the recording and payment of units worked for comparable assignments at ANHS. Inconsistent pay schedules throughout the district indicate that some ASB clubs at certain schools pay more of their fundraising dollars for similar services than other clubs. Further, because the district's time sheets are inconsistent, are not tied to an approved pay rate schedule, and use an arbitrary unit rate scale, student clubs cannot accurately determine in advance the cost of the services provided for their activities.

Once completed and approved ASB time sheets are submitted to the payroll department, where the unit rate is multiplied by the number of units worked and the resulting amount is paid to the employee as a stipend during the subsequent payroll cycle. Assuming the form contains the appropriate approvals, the payroll department does not request additional documents or support for the payment. Once payroll determines the amount to be paid, the ASB club is billed for the services. As previously stated, preapproval of all ASB expenditures, including time sheets, is required by Education Code Section 48933(b). Failure to preapprove such expenditures violates state law.

The district indicated that the stipends paid for the ASB extra work assignments were not collectively bargained; however, because of the irregularities identified during FCMAT's fieldwork, FCMAT reviewed the collective bargaining agreements to determine if any guidance was included for the stipend amounts. Although the current collective bargaining agreement between Capistrano USD and the Capistrano Unified Education Association does not specify how much should be paid to a certificated employee for the specific extra work assignments indicated on the ASB time sheets, the contract does include an extended contract hourly rate of "$30.00 per hour for Unit Members who perform duties that do not include direct instruction to students; and $50.00 per hour for Unit Members who provide direct instruction to students" (Section 14.7). Although this provision can be applied to work not otherwise specified in the agreement, as stated above, the ASB time sheet contains no indication of how much time was worked by the assigned employee. Without this information, a calculation using the aforementioned hourly service rate, if applicable, is not possible. The district should consider whether the terms of the collective bargaining agreement as outlined are applicable to these stipends.

Because of the inconsistencies in applying units to each extra work assignment, missing or unavailable approved payment schedules, and the lack of available documents to show these expenditures are preapproved by all three required signatories, the Education Code is not being followed, and therefore this is considered an illegal fiscal practice.

Based on these findings, FCMAT concludes there is insufficient evidence to demonstrate that fraud, misappropriation of funds and/or assets, or other illegal fiscal practices may have occurred. However, there is sufficient evidence that proper written approvals for ASB time sheet expenditures are not occurring as required by Education Code 48933(b).

Independent Auditor's Report — Management Recommendations

The district's independent auditor issues an annual financial and audit report that includes findings and recommendations. Along with the annual report, most auditors also include a supplemental report or letter sometimes called an "interim report" or "management recommendation" letter. The district provided FCMAT with audit reports and management recommendation letters for the prior four fiscal years. These letters describe, among other things, ASB internal control weaknesses identified during the annual audit. FCMAT compiled the auditor's identified weaknesses into several tables. The tables presented below shows weaknesses identified at ANHS, as well as ASB internal control weaknesses identified at all other district high schools for comparison. Middle schools and other schools at which ASB internal control weaknesses may have been identified have been excluded.

Compiled Auditor's Reports for Years Ending June 30, 2017 through June 30, 2020

Aliso Niguel High School				
Category / Weakness Description	**2017**	**2018**	**2019**	**2020**
Account Balances				
Negative club balances at year end [1]			x	x
Trust accounts for graduated classes have balances or remain on the books even though no longer active	x			
Reserve account reconciled balance does not match balance sheet				x
Bank Reconciliations				
Bank reconciliations not prepared timely - up to two months behind	x		x	
Third party review, i.e., principal or advisor, of bank reconciliation not performed	x			
Cash Receipts & Deposits				
Missing cash receipts deposit supporting documentation [2]	8 of 10 = 80%		1 of 10 = 10%	
Cash receipts not deposited timely				
Outstanding deposits and stale dated checks greater than six months				x
Disbursements/Purchases				
Unallowed or questionable disbursements [3]	x		x	
Disbursements missing supporting documentation, proper approvals[4], or evidence of receipt of goods and services[5]	x			
Purchased items shipped directly to purchasers home address	x		x	
Other				
School safe not secured		x		
Food services not consulted for food sales on campus during school hours				

Table References

1. Auditor's 2019 report, dated April 4, 2019, did not discuss negative balances; however, the auditor's follow-up letter dated October 11, 2019 did identify negative club balances as an issue.

2. The auditor could not verify whether all cash collected had been deposited intact and into the correct ASB account. (Example: At ANHS, eight of 10 deposit samples tested could not be verified).

3. The auditor identified unallowed or questionable disbursements/purchases in areas including staff barbeque, classroom supplies, food for faculty/adults, and gift card purchases.

4. In 2018 and 2019 the auditor identified that a lack of proper approvals was common at most schools sampled.

5. For 2017 the auditor indicated that a lack of evidence of receipt of goods was common at most schools sampled.

The auditor's findings and recommendations over the four years shown for ANHS are similar to what is described in this FCMAT report. Auditors do not always examine the same categories of ASB transactions each year, nor do they always audit the same schools every year. The auditor's findings demonstrate that, from 2017 through 2020, a pattern of uncorrected internal control weaknesses existed similar to those identified by FCMAT. In 2017, at ANHS, the auditor determined that eight of 10 deposit samples tested were missing documentation. In 2019, one of 10 deposits tested was missing documentation.

The types of findings issued both by the auditor and by this report can be corrected by training; improvements in districtwide board policies, administrative regulations and procedures; manuals; handbooks; and a tone among leadership that places a high value on appropriate approvals, documentation and oversight.

For comparison purposes, the table below illustrates the compiled results of the auditor's findings for five additional high schools in the district. The findings are similar to those identified at ANHS.

Compiled Auditor's Reports for Years Ending June 30, 2017 through June 30, 2020

	HIGH SCHOOLS																			
	Capistrano Valley				Dana Hills				San Clemente				San Juan Hills				Tesoro			
Category / Weakness Description	**2017**	**2018**	**2019**	**2020**	**2017**	**2018**	**2019**	**2020**	**2017**	**2018**	**2019**	**2020**	**2017**	**2018**	**2019**	**2020**	**2017**	**2018**	**2019**	**2020**
Account Balances																				
Negative club balances at year end[1]				x								x				x				x
Trust accounts for graduated classes have balances or remain on the books even though no longer active				**x**																
Reserve account reconciled balance does not match balance sheet																				
Bank Reconciliations																				
Bank reconciliations not prepared timely - up to two months behind													**x**							
Third party review, i.e., principal or advisor, of bank reconciliation not performed					**x**															
Cash Receipts & Deposits																				
Missing cash receipts deposit supporting documentation [2]		1 of 10 = 10%					**2 of 10 = 20%**		**1 of 10 = 10%**											
Cash receipts not deposited timely																	**x**			
Outstanding deposits and stale dated checks greater than six months				**x**								**x**								
Disbursements/Purchases																				
Unallowed or questionable disbursements [3]					**x**		**x**		**x**						**x**					
Disbursements missing supporting documentation, proper approvals[4], or evidence of receipt of goods and services[5]									**x**			**x**			**x**				**x**	
Purchased items shipped directly to purchasers home address									**x**			**x**	**x**		**x**		**x**			
Other																				
School safe not secured																				
Food services not consulted for food sales on campus during school hours					**x**															

Table References

1. Auditor's 2019 report, dated April 4, 2019, did not discuss negative balances; however, auditors follow up letter dated October 11, 2019 did identify negative club balances as an issue.

2. Auditor could not verify whether all cash collected had been deposited intact and into the correct ASB account (Example: At Aliso Niguel HS, 80%, or eight of 10 of the auditor's sampled testing of deposits, could not be verified).

3. Examples of unallowable or questionable disbursements/purchases include staff barbeque, classroom supplies, food for faculty/adults, and gift card purchases.

4. Auditor indicated that for 2018 and 2019 lack of proper approval was common at most of the schools sampled.

5. Auditor indicated that for 2017, lack of evidence of receipt of goods was common at most of the schools sampled.

The final table, shown below, combines audit findings for all high schools over the past four years.

Compiled Auditor's Reports for Years Ending June 30, 2017 through June 30, 2020

	HIGH SCHOOLS																							
	Aliso Niguel				Capistrano Valley				Dana Hills				San Clemente				San Juan Hills				Tesoro			
Category / Weakness Description	2017	2018	2019	2020	2017	2018	2019	2020	2017	2018	2019	2020	2017	2018	2019	2020	2017	2018	2019	2020	2017	2018	2019	2020
Account Balances																								
Negative club balances at year end1			x	x				x								x				x				x
Trust accounts for graduated classes have balances or remain on the books even though no longer active	x							x																
Reserve account reconciled balance does not match balance sheet				x																				
Bank Reconciliations																								
Bank reconciliations not prepared timely - up to two months behind	x		x														x							
Third party review, i.e., principal or advisor, of bank reconciliation not performed	x								x															
Cash Receipts & Deposits																								
Missing cash receipts deposit supporting documentation 2	8 of 10 = 80%		1 of 10 = 10%			1 of 10 = 10%					2 of 10 = 20%		1 of 10 = 10%											
Cash receipts not deposited timely																					x			
Outstanding deposits and stale dated checks greater than six months				x				x								x								
Disbursements/Purchases																								
Unallowed or questionable disbursements 3	x		x						x		x		x						x					
Disbursements missing supporting documentation, proper approvals4, or evidence of receipt of goods and services5	x												x			x			x				x	
Purchased items shipped directly to purchasers home address	x		x										x			x	x		x		x			
Other																								
School safe not secured		x																						
Food services not consulted for food sales on campus during school hours									x															

Table References

1. Auditor's 2019 report, dated April 4, 2019, did not discuss negative balances; however, auditors follow-up letter dated October 11, 2019 did identify negative club balances as an issue

2. Auditor could not verify whether all cash collected had been deposited intact and into the correct ASB account (Example: At Aliso Niguel HS, 80%, or eight of 10 of the auditors sampled testing of deposits, could not be verified).

3. Unallowed or questionable disbursements/purchases examples included staff barbeque, classroom supplies, food for faculty/adults, and gift card purchases.

4. Auditor indicated that for 2018 and 2019, lack of proper approval was common at most of the schools sampled.

5. Auditor indicated that for 2017, lack of evidence of receipt of goods was common at most of the schools sampled.

All other district schools, including middle schools, are not shown in the tables above but had similar audit findings in the categories of cash receipts and deposits and disbursements/purchases. One school also had a finding in the bank reconciliations category, while another school had a finding in a category listed as other.

The independent auditor's reports clearly identified ongoing significant weaknesses in the district's handling of financial transactions and reporting at school sites. There was ample evidence and notice to the district's governing board, superintendent, business official, and principals of serious internal control weaknesses.

Improvements to Internal Controls

Throughout FCMAT's audit, the district has worked collaboratively with FCMAT to identify and understand the various ASB processes and procedures in which improvements should be made to strengthen internal controls. The collaborative review of ANHS ASB transactions and processes has created a heightened awareness of the importance of effective internal controls at all district sites. With this knowledge, the district has indicated it is making improvements and changes in ASB operations.

According to the district, the functional areas where improvements are ongoing include the following:

- Improved board policies related to ASB have been drafted and will be submitted to the governing board for review and approval at the conclusion of FCMAT's review.
- School staff are finalizing an internal ASB manual as a supplement to the published FCMAT ASB Manual, which the district is also following. Staff are reviewing the internal manual with the expectation that it will be adopted along with the revised board policies. A desk manual for the ASB accounting clerk is also being compiled. These manuals will outline district office and school site procedures, and include the following:
  - A verification process that ensures all district invoices are paid in a timely manner.
  - Requirements for the review and approval of all school site financial documents on a predetermined timeline.
  - Guidelines for proper documentation and records retention.
  - An established audit process that includes a sampling of payment transactions and a review of canceled checks compared to the information in the accounting software's vendor record. The audit will review canceled check dates, the payee, the amount of

  each payment, and the endorser to identify any discrepancies (sampling frequency and sample size remained undetermined at the time of this report).

  - A review of monthly journal entries to ensure the descriptions, purpose and supporting documents are properly approved and documented.
  - Procedures for creating and maintaining documents at school sites of all NSF checks, including all relevant details, as well as any subsequent resolution. Documents will also include any uncollectible transactions that were later written off, bank deposit differences, and other atypical transactions.
  - Revised approval and other processes for the ASB Student Body Time Sheet, including the following adjustments:
    - Obtaining preapproval of the expenditure from a student representative, ASB advisor, and the principal/administrator (or other board designee). The form has been changed to include signature and date lines for all required approvers, as well as the approval date recorded in the ASB, student council or club meeting minutes.
    - A standardizing of stipend pay rates among all schools, replacing the per-unit calculation with the actual amount of each stipend to be paid.
  - Other relevant oversight procedures and requirements.
- Internal control checklists have been given to all principals, ASB advisors and ASB clerks, as well as to the district's business office. The checklists were developed based on the FCMAT ASB Manual and will continue to be distributed annually.
- Standardized accounting methods and account codes will be used by all schools.
- Any negative trust account balances will be monitored monthly.
- ASB staff will work closely with educational services and the business office to proactively address any concerns at schools that could lead to financial issues.
- Documents will be created and maintained that detail any reviews conducted during each ASB annual school visit.
- Annual ASB training of all management and staff involved in ASB oversight and operations was anticipated to begin in January 2022.

On Monday, November 15, 2021, FCMAT presented an ASB workshop at the Orange County Department of Education, which was attended by the new ANHS ASB bookkeeper, the district office accounting clerk, and other school site ASB bookkeepers from Dana Hills High School, San Juan Hills High School and Capistrano Valley High School.

Judgments Regarding Guilt or Innocence

The existence of fraud, misappropriation of funds and/or assets, or other illegal fiscal practices is solely the purview of the courts. FCMAT is not making statements that could be construed as a conclusion that fraud, misappropriation of funds and/or assets, or other illegal fiscal practices have occurred. These terms are a broad legal concept, and auditors do not make legal determinations regarding whether illegal activity has occurred.

In accordance with Education Code Section 42638(b), action by the county superintendent of schools 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 is required to report the findings and recommendations to the district's governing board at a regularly scheduled board meeting within 45 days of completing the audit. Within 15 days of receipt of the report, the governing board is required to notify the county superintendent of its proposed actions regarding the county superintendent's recommendations.

Conclusion

Potential for Fraud, Misappropriation of Funds or Other Illegal Fiscal Practices

Based on the findings in this report, FCMAT concludes there is insufficient evidence to demonstrate that fraud. misappropriation of funds and/or assets, or other illegal fiscal practices may have occurred. However, there is sufficient evidence that proper written approvals for ASB time sheet expenditures are not occurring as required by Education Code 48933(b).

Deficiencies and exceptions noted during FCMAT's review of the Capistrano Unified School District's Aliso Niguel High School ASB financial records and internal control environment increase the probability of fraud, mismanagement and/or misappropriation of the district's assets.

These findings should be of immediate concern to the Capistrano Unified School District and the Orange County Department of Education and require immediate intervention to limit the risk of fraud, mismanagement and/or misappropriation of assets, or other illegal fiscal practices in the future.

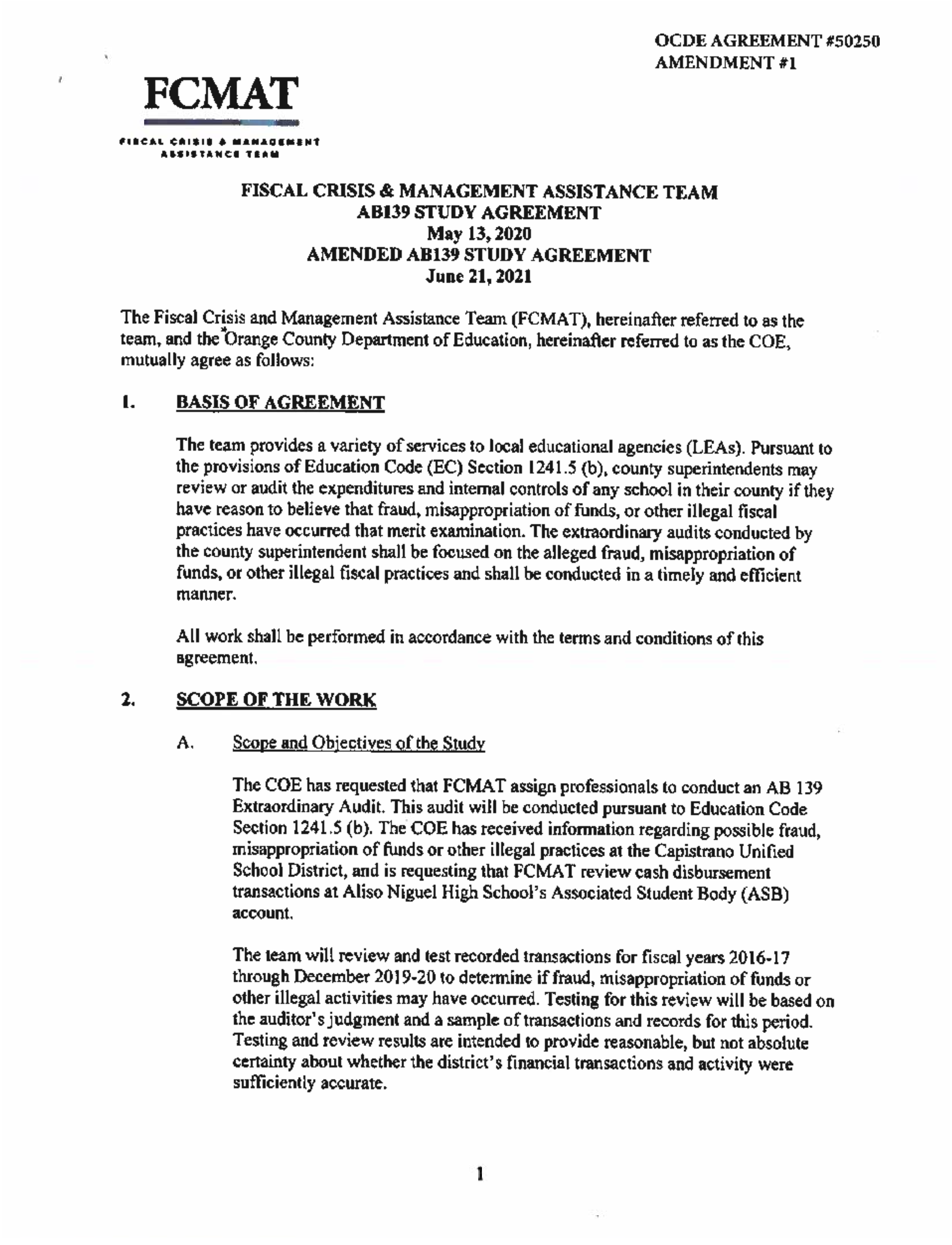
Recommendations

The county superintendent should:

1. Notify the governing board of the Capistrano Unified School District that the Orange County Department of Education has concluded its review.
2. Report the findings and recommendations of the review to the governing board of the Capistrano Unified School Distrct at a regularly scheduled school district board meeting within 45 days of the completion of the review. The governing board of the school district shall, no later than 15 calendar days after receipt of the report, notify the county superintendent of its proposed actions on the county superintendent's recommendations.

Appendix

Study Agreement



OCDE AGREEMENT #50250
AMENDMENT #1

FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
AB139 STUDY AGREEMENT
May 13, 2020
AMENDED AB139 STUDY AGREEMENT
June 21, 2021

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

1. BASIS OF AGREEMENT

The team provides a variety of services to local educational agencies (LEAs). Pursuant to the provisions of Education Code (EC) Section 1241.5 (b), county superintendents may review or audit the expenditures and internal controls of any school in their county if they have 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.

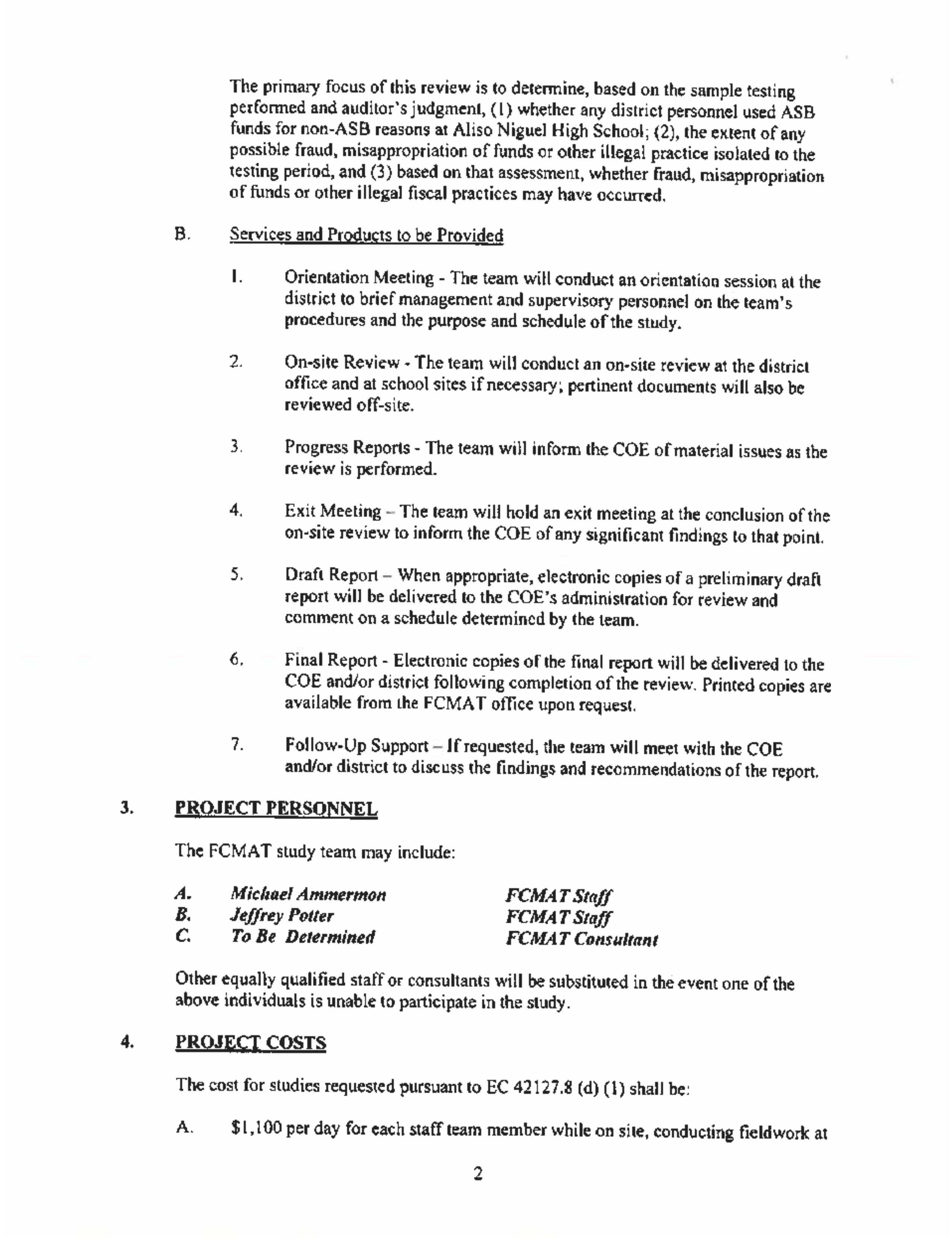
All work shall be performed in accordance with the terms and conditions of this agreement.

2. SCOPE OF THE WORK

A. Scope and Objectives of the Study

The COE has requested that FCMAT assign professionals to conduct an AB 139 Extraordinary Audit. This audit will be conducted pursuant to Education Code Section 1241.5 (b). The COE has received information regarding possible fraud, misappropriation of funds or other illegal practices at the Capistrano Unified School District, and is requesting that FCMAT review cash disbursement transactions at Aliso Niguel High School's Associated Student Body (ASB) account.

The team will review and test recorded transactions for fiscal years 2016-17 through December 2019-20 to determine if fraud, misappropriation of funds or other illegal activities may have occurred. Testing for this review will be based on the auditor's judgment and a sample of transactions and records for this period. Testing and review results are intended to provide reasonable, but not absolute certainty about whether the district's financial transactions and activity were sufficiently accurate.



The primary focus of this review is to determine, based on the sample testing performed and auditor's judgment, (1) whether any district personnel used ASB funds for non-ASB reasons at Aliso Niguel High School; (2), the extent of any possible fraud, misappropriation of funds or other illegal practice isolated to the testing period, and (3) based on that assessment, whether fraud, misappropriation of funds or other illegal fiscal practices may have occurred.

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; pertinent documents will also be reviewed off-site.

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

4. Exit Meeting – The team will hold an exit meeting at the conclusion of the on-site review to inform the COE of any significant findings to that point.

5. Draft Report – 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.

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

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

3. PROJECT PERSONNEL

The FCMAT study team may include:

A.	*Michael Ammermon*	*FCMAT Staff*
B.	*Jeffrey Potter*	*FCMAT Staff*
C.	*To Be Determined*	*FCMAT Consultant*

Other equally qualified staff or consultants will be 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 EC 42127.8 (d) (1) shall be:

A. $1,100 per day for each staff team member while on site, conducting fieldwork at

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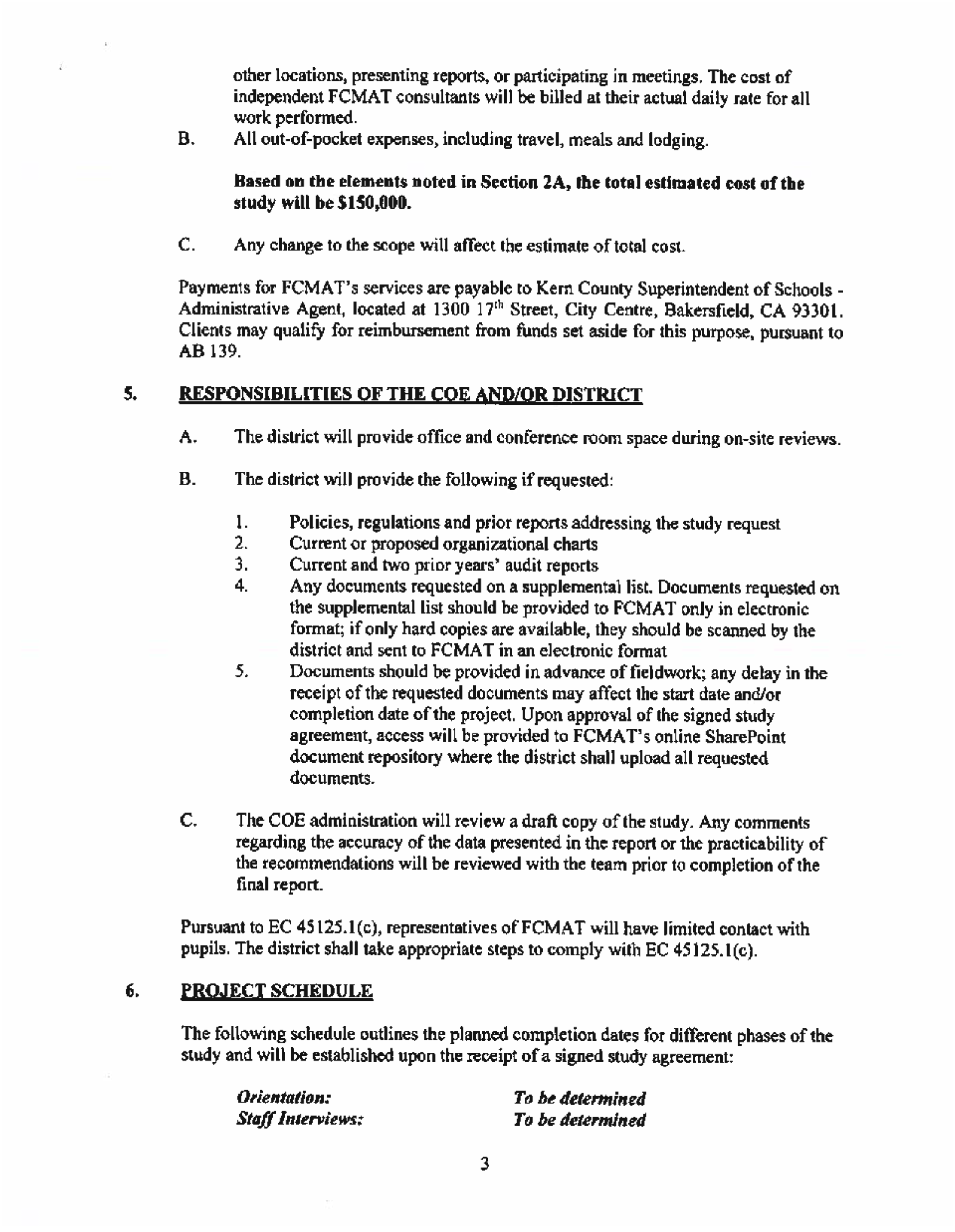


other locations, presenting reports, or participating in meetings. The cost of independent FCMAT consultants will be billed at their actual daily rate for all work performed.

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 $150,000.

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

Payments for FCMAT's services are payable to Kern County Superintendent of Schools - Administrative Agent, located at 1300 17th Street, City Centre, Bakersfield, CA 93301. Clients may qualify for reimbursement from funds set aside for this purpose, pursuant to AB 139.

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 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 fieldwork; any delay in the receipt of the requested documents may affect the start date and/or completion 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.

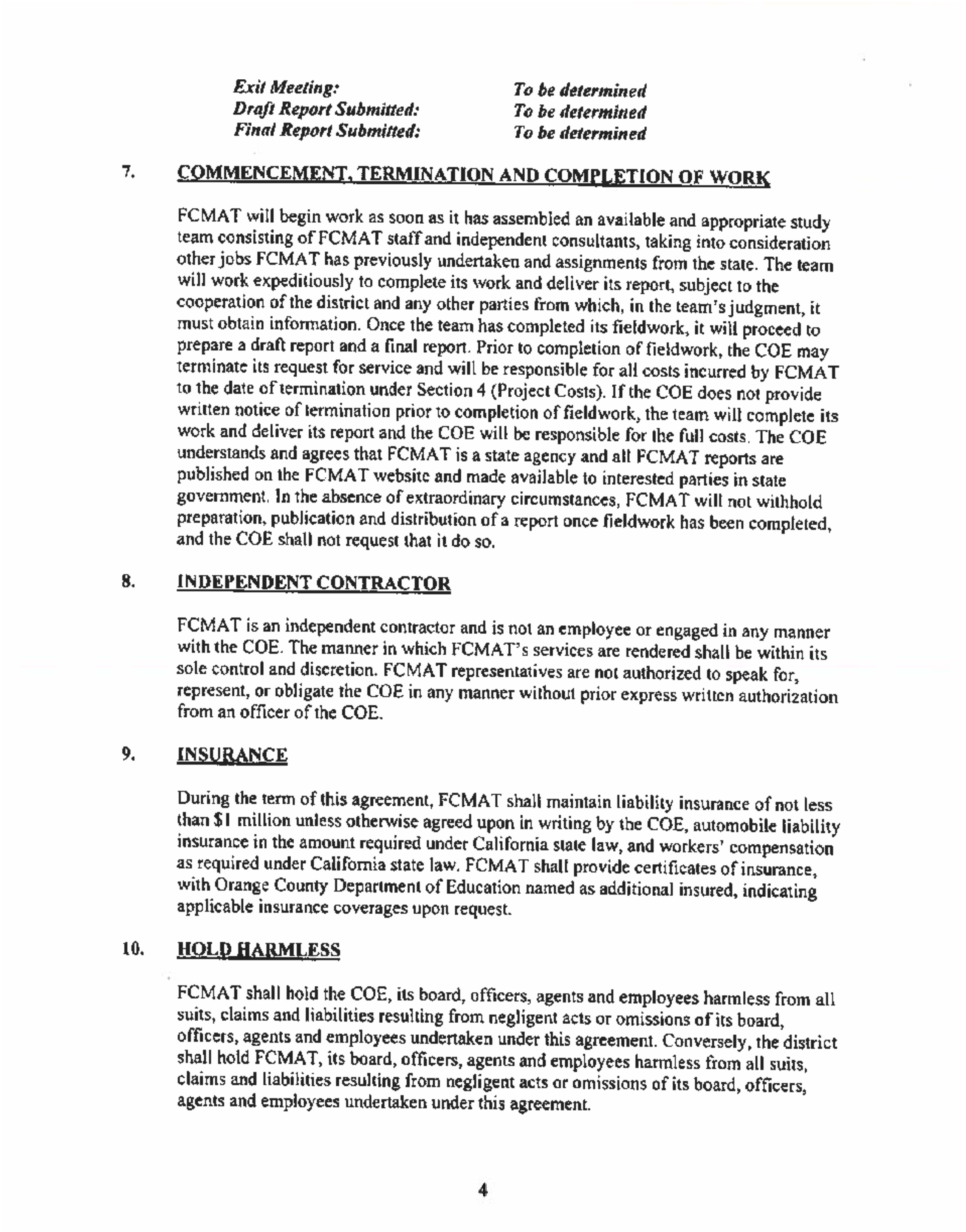
C. The COE administration will review a draft copy of the study. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the team prior to completion of the final report.

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 the study and will be established upon the receipt of a signed study agreement:

Orientation:	***To be determined***
Staff Interviews:	***To be determined***



Exit Meeting: *To be determined*
Draft Report Submitted: *To be determined*
Final Report Submitted: *To be determined*

7. COMMENCEMENT, TERMINATION AND COMPLETION OF WORK

FCMAT will begin work as soon as it has assembled an available and appropriate study team consisting of FCMAT staff and independent consultants, taking into consideration other jobs FCMAT has previously undertaken and assignments from the state. The team will work expeditiously to complete its work and deliver its report, subject to the cooperation of the district and any other parties from which, in the team's judgment, it must obtain information. Once the team has completed its fieldwork, it will proceed to prepare a draft report and a final report. Prior to completion of fieldwork, the COE may terminate its request for service and will be responsible for all costs incurred by FCMAT to the date of termination under Section 4 (Project Costs). If the COE does not provide written notice of termination prior to completion of fieldwork, the team will complete its work and deliver its report and the COE will be responsible for the full costs. The COE understands and agrees that FCMAT is a state agency and all FCMAT reports are published on the FCMAT website and made available to interested parties in state government. In the absence of extraordinary circumstances, FCMAT will not withhold preparation, publication and distribution of a report once fieldwork has been completed, and the COE shall not request that it do so.

8. INDEPENDENT CONTRACTOR

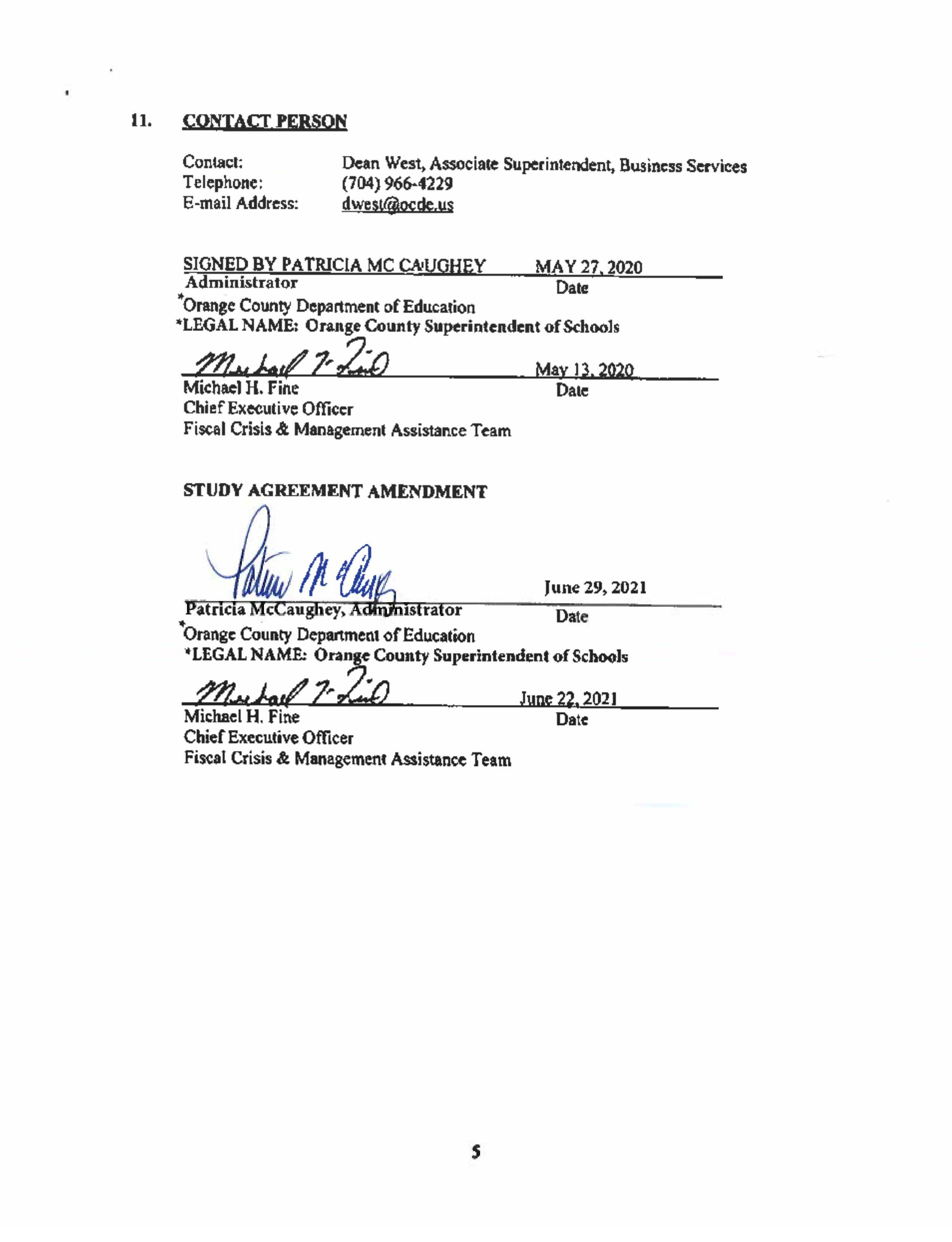
FCMAT is an independent contractor and is not an employee or engaged in any manner with the COE. The manner in which FCMAT's services are rendered shall be within its sole control and discretion. FCMAT representatives are not authorized to speak for, represent, or obligate the COE in any manner without prior express written authorization from an officer of the COE.

9. INSURANCE

During the term of this agreement, FCMAT shall maintain liability insurance of not less than $1 million unless otherwise agreed upon in writing by the COE, automobile liability insurance in the amount required under California state law, and workers' compensation as required under California state law. FCMAT shall provide certificates of insurance, with Orange County Department of Education named as additional insured, indicating applicable insurance coverages upon request.

10. HOLD HARMLESS

FCMAT shall hold the COE, its board, officers, agents and employees harmless from all suits, claims and liabilities resulting from negligent acts or omissions of its board, officers, agents and employees undertaken under this agreement. Conversely, the district shall hold FCMAT, its board, officers, agents and employees harmless from all suits, claims and liabilities resulting from negligent acts or omissions of its board, officers, agents and employees undertaken under this agreement.



11. CONTACT PERSON

Contact: Dean West, Associate Superintendent, Business Services
Telephone: (704) 966-4229
E-mail Address: dwest@ocde.us

SIGNED BY PATRICIA MC CAUGHEY MAY 27, 2020
Administrator Date
*Orange County Department of Education
*LEGAL NAME: Orange County Superintendent of Schools

May 13, 2020
Michael H. Fine Date
Chief Executive Officer
Fiscal Crisis & Management Assistance Team

STUDY AGREEMENT AMENDMENT

June 29, 2021
Patricia McCaughey, Administrator Date
*Orange County Department of Education
*LEGAL NAME: Orange County Superintendent of Schools

June 22, 2021
Michael H. Fine Date
Chief Executive Officer
Fiscal Crisis & Management Assistance Team