FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

Management Letter

Patterson Unified School District

ASB Technical Assistance

February 10, 2020

Philip M. Alfano, Ed.D., Superintendent
Patterson Unified School District
510 Keystone Blvd.
Patterson, CA 95363

Dear Superintendent Alfano:

In May 2019, the Patterson Unified School District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for FCMAT to conduct a review of the district's associated student body (ASB) operations. The district is working to improve its operations and procedures for ASB funds. As a result of self-evaluation, the district recognized more work is needed in this area and contracted with FCMAT to review its ASB operations. The agreement stated that FCMAT would perform the following:

1. Conduct on-site technical assistance for the Patterson Unified School District, evaluating the district's associated study body operations, to include policies, processes and procedures, such as forms, required at the district office. At the conclusion of fieldwork, provide a management letter with written findings and recommendations.

2. Conduct a 3.5-hour ASB workshop for the district during the visit. Attendees should include district office staff providing oversight to ASB, site principals, vice principals, activity directors, athletic directors, bookkeepers, and members of the student council.

To meet the objectives of the agreement's scope of work, FCMAT visited the district office and two school sites on December 2-6, 2019 to conduct interviews with district and school staff, collect data, review documents, and conduct an ASB workshop.

Based on fieldwork conducted, FCMAT determined that the findings and recommendations presented in this management letter are applicable to all school sites and that each school would benefit from implementing these recommendations. This management letter details the study team's finding and recommendations.

Michael H. Fine • Chief Executive Officer
1300 17th Street – City Centre, Bakersfield, CA 93301-4533 • Tel. 661-636-4611 • Fax 661-636-4647
www.fcmat.org

Findings and Recommendations the District Should Consider

1. **Board Policies, Administrative Regulations, Manuals**

   Three of the most important items needed for any district's ASB operations are board policies, administrative regulations, and detailed operating manuals.

   Page five of the FCMAT "Associated Student Body Accounting Manual, Fraud Prevention Guide and Desk Reference" states the following:

   - The governing board of the school district, charter school or community college is ultimately responsible for everything that happens in the district, including the activities of student organizations. Under Education Code section 48930 for K-12, and section 76060 for community colleges, the governing board has the authority to approve the formation of a student body organization within the district. This means that governing boards are not required to allow student body organizations to exist. Many districts have chosen to stop student fundraising and organizations as a last resort because of continual and severe noncompliance issues, including fraud.
   - **In assuming the authority the Education Code gives them, governing boards establishes parameters for district operations through board policies and regulations. These policies and regulations must specify how the student body organization will be established, how the organization's activities will be supervised, and how the organization's finances will be operated and managed. The district's administration is responsible for establishing and monitoring the procedures to carry out the policies and regulations adopted by the governing board.**
   - Students are raising funds for their own benefit and are able to make decisions about the funds (with co-approval from an administrator); however, when there is a conflict, governing board policies and regulations override ASB decisions because ultimately the funds are under the governing board's authority.
   - A comprehensive board policy is the cornerstone of sound practices in student organizations. **This is most effectively achieved by establishing a comprehensive district ASB manual for all student organizations to follow, and referencing it in board policy that requires all staff to follow the manual's guidance**...

     [emphasis added]

   In its discussion of governing board policy and administrative regulations, Page 15 of the FCMAT ASB Manual states the following:

   - Because most ASB operations relate directly to business management functions, the district's chief business official should take a lead role in ensuring that the district has appropriate board policies and administrative regulations regarding the operation and management of the organization's finances. In addition, all individuals involved with the ASB should receive training at least every two years on ASB laws, policies, regulations, internal controls and good business practices. The district's business office should take the lead in ensuring that this training is provided. **ASBs must be made aware that district policy applies to them, and people involved in ASB must understand that district board policies and regulations are an additional set of laws that ASB organizations must follow. All district board policies that apply to general district operations apply to ASB as well, unless there is a policy stating otherwise**.

     [emphasis added]

In addition to board policies that apply to ASB operations, districts must ensure that each ASB club, including student council, has a constitution and bylaws that are followed.

Board policies and administrative regulations should be amended to identify a board designee or designees for approving ASB fundraisers and activities, or board policy should stipulate that the board will approve all fundraisers. If the board selects a designee or designees to approve fundraisers and activities, board policy should identify each designee by title, such as school principal.

Board policies or administrative regulations should also be amended to include the most recent FCMAT "Associated Student Body Accounting Manual, Fraud Prevention Guide and Desk Reference *and the* Patterson Unified School District ASB Manual (and/or equivalent local document)" as additional governing board-approved policies and procedures.

In addition to the FCMAT ASB Manual, the district should develop a supplemental districtwide ASB manual, guide, handbook, or list of allowable and prohibited ASB activities. This supplemental document should include additional allowable or prohibited ASB transactions, fundraisers, expenditures, etc., that are different or unique from those in the FCMAT ASB Manual. The district should compile in the supplemental document all other existing district board policies and administrative regulations that apply to ASB such as purchasing, travel, donations, awards, etc.

2. **Training and ASB Accounting Transaction Error Corrections**

The district should continue to provide staff with annual training regarding ASB procedures. Each ASB should obtain from the FCMAT website a PDF copy of the FCMAT ASB Manual.

- Ensure that new staff members and student council members are provided with ASB training throughout the year and copies of the district's and FCMAT's ASB manuals.
- An ASB Works accounting software professional should train each ASB bookkeeper at his or her respective school.
- As part of the training for ASB bookkeepers, have the ASB Works professional help the bookkeepers correct the ASB chart of accounts, customer and vendor accounts and all other potential errors and account balance issues to ensure proper accounting of ASB club trust funds and proper recording of all transactions.
- Ensure that the correction of the ASB records and the individual training for ASB bookkeepers are scheduled at times that cause the least possible disruption to ASB operations.

3. **Standardized Forms and Proper Authorizing Signatures**

Districtwide standardized ASB forms should be created for all forms the district plans to use. Some district forms are missing signature lines, and the number of forms used at each school varies. Verbal approval of activities, transactions, purchases, or fundraisers must be supported by formal written authorization.

The forms can be different for organized and unorganized ASBs. Ideally, these forms could be added to the district website and staff informed that they are the only district-approved documents. Another option is the district business office print and distribute them as multicopy forms to all sites. All forms should be filled out completely and where something in the form is not applicable, identified as such instead of being left blank.

All forms should contain the correct authorizing signatures. Most forms should have signature lines for the student representative, club advisor, student council member, and principal/administrator/board designee. *For purposes of this management letter, when the title of principal is used, it means principal/administrator/board designee.* Comparing district-created forms and signature lines with FCMAT ASB Manual forms is effective in determining which signatures are needed.

The district would benefit from standardizing and requiring the use of at least the following ASB forms: (multi-copy forms would be the best practice)

- Cash count form, which includes startup cash
- Fundraiser approval form Revenue projection form
- Ticket control form, also called the report on ticket sales form
- Purchase order (multicopy form, or print two copies from the accounting software, or at copy the PO after the signatures are obtained)
- Tally sheets

4. **What Belongs in ASB - ASB Accounts and Athletics**

ASB Accounts

Students are the primary decision-makers for organized ASBs (high school and middle school), with advisors coapproving and providing direction, while the principal makes decisions for unorganized ASBs (elementary school, K-8 school, and continuation school).

All ASB clubs, class accounts (e.g., senior class or class of 2021, etc.), and scholarship accounts should be re-evaluated to ensure that each club, class, and account meets the required elements. One method to evaluate which accounts belong in ASB is to review each school's trial balance. Accounts that are not club trusts, student council, class accounts, or scholarship accounts, do not belong in the ASB unless board policy or administrative regulations have specific provisions allowing it.

Examples of non-ASB accounts that should be accounted for outside of the ASB are as follows:

- Chrome Book fees or repair cost assessments
- ELAC or parent/teacher-controlled accounts
- Band class
- Yearbook class
- PE clothing funds not under student control such as those managed by teachers
- Academic booster club
- Athletics (If not meeting all of the requirements to be a club)
- AG shop, AP chemistry, AVID

To determine what belongs in ASB, what is needed for a club to part of the ASB, and what to do with non-ASB accounts, the following should be considered:

- Ensure that every ASB club has a formally approved application and a constitution approved by student representative of the club, club advisor, school council, and principal before it begins any activities.
- Ensure that each club has a set of approved bylaws to provide additional rules the club will follow.
- Safeguard that all fundraisers and expenditures are approved in writing and in advance by students in each club or class before any shopping/spending takes place.

- Transfer all non-ASB club accounts (Chrome Book fees/repair costs, parent/teacher controlled accounts such as ELAC, band class, yearbook class, PE clothes, etc.), including but not limited to pass-through or clearing type accounts, into another district business office designated account such as a school site donation account. Discontinue accounting for non-ASB activities in the ASB financial records.
- Ensure that non-ASB donations from parents, students, or community members or groups are deposited in the appropriate school's district donation account, not accounted for within ASB.

Athletics – ASB or Not ASB

Determining if athletics should be part of ASB is based on how it is operated and whether it qualifies as a club. If athletics does not meet the elements as a club, it should be removed from ASB and establish its own operating details, policies and procedures. If athletics will remain part of ASB, the district should ensure that it has all the elements required to be part of ASB. (See chapter 4 of the FCMAT ASB Manual.)

For athletics or sports trust accounts to be part of ASB, they must have the following:

- ASB-approved constitutions and budgets
- Minutes
- A certificated instructor as the club advisor who is present at all games, practices and events
- Students making the decisions for all activities, purchases and fundraising
- Preapproved purchase orders for all expenditures, signed by the student representative of the club, the club advisor (a teacher within the district holding a valid teaching credential – a certificated instructor), and the principal.

Athletics – Options

All funds deposited into the ASB accounts are under the control and direction of the ASB; adult administrators coadvise, but students make the decisions. If all the rules for trust fund accounting of ASB funds cannot be followed, the funds, including those for payments to referees, should be moved to another district approved non-ASB account. There are three options to consider for athletics in ASB:

Option 1

Remove athletics from ASB and operate it from a district-operated school budget account such as a school site donation account. This means the deposits for gate receipts and other revenue should be taken to the district office, and checks should be written through the district's warrant system. Requisitions and purchase orders could still be processed by the ASB bookkeeper but would use the district's accounting system.

If this option is selected, a best practice is to develop an athletics manual or guide that specifies how funds will be accounted for, the approval processes, and all other procedures that athletics should follow. For example, purchases should always be preapproved, a budget should be prepared and approved, and funds should be counted only with a witness present. If revenue is to be shared between athletics and ASB, develop agreements, contracts or memoranda of understanding that describe in detail all arrangements, and ensure that these are approved by the district's business office and agreed to and signed by both athletics and ASB representatives. These measures help provide good business practices and internal controls that are essential to effective management of funds and accounts.

Option 2

Remove athletics from ASB and operate it from its own district-approved school bank account, separate from ASB, and with its own separate accounting books. The accounting could still be done by the ASB bookkeeper using the same ASB accounting software, but athletics would have its own company file and chart of accounts. Deposits for gate receipts would be placed in this new bank checking account, which could be considered a separate trust account but not an ASB club account, and which would be subject to audit by the district's auditor.

If Option 2 is selected, the district should follow the same best practices specified in the second paragraph under Option 1 above.

Option 3

Leave athletics in ASB, follow all the rules and criteria for ASB clubs, and determine how athletics should be organized. Athletics in ASB may be organized as one athletics club for all sports or as multiple clubs, one for each individual sport.

5. **Inactive Clubs, Negative Balances, and Saving Accounts**

ASB club account balances should be monitored by advisors to ensure they do not have a deficit or negative balance or become so large that the students are not spending the money they raise.

Inactive Clubs

Club and class accounts inactive longer than 18 months should be closed. The balance should be transferred to the ASB general account unless the club or account bylaws have special provisions specifying where the money should be sent. Because the account is inactive, the student council, advisor, and principal can make the decision to approve the transfer.

Negative Balances

When an account is negative, club accounts, ASB general, or other accounts may have to subsidize it. The monthly financial reporting review process should identify negative balances, and immediate research and reconciliation should be performed to correct any negative accounts.

Chapter 6 of the FCMAT ASB Manual states the following regarding negative balances:

> A budget should never be approved with a negative ending fund balance. The student council or club (depending on whose budget it is) should vote on the budget and include that vote in their meeting minutes before submitting the budget to the student council/leadership class. The student council/leadership class should approve all submitted budgets for each club.

Interest accounts that are negative or positive should be reconciled and either allocated among the clubs and accounts or made part of the ASB general account. Negative interest accounts typically contain bank fees recorded in the account causing it to become negative. Regardless of the balance, interest accounts should not be trust accounts.

Savings Accounts

Club and class accounts with savings account balances should be closed, and the extra funds budgeted for use by the students. Savings account or certificate of deposit balances mean students have been fundraising and not spending those funds on activities.

6. **Purchase Process – Preapproval of Expenditures**

Education Code Section 48933(b) requires all ASB purchases to be reviewed and approved before any spending/shopping/purchase. Preapproval in organized ASBs requires the signatures of the student representative, club advisor, and principal. Only the principal needs to preapprove for unorganized ASBs. Regardless of the form used for preapproval of an expenditure (e.g., purchase order or check request), only a form that includes all the required signatures meets the requirements for authorizing an ASB purchase.

Chapter 6 of the FCMAT ASB Manual describes the Education Code requirement for preapproval of ASB purchases as follows:

> All club members, teachers, advisors and other staff must understand that they cannot obligate ASB funds until a purchase order is prepared and approved by the student club representative, a certificated employee of the district (who is the advisor), and a school principal or other administrator or other board designee before the purchase is made. These three required signatures are listed in Education Code section 48933(b) for K-12 and section 76063 for community colleges, and they must be obtained for an expenditure to be considered preapproved. The only way to prove that this Education Code is followed is by having a purchase order or other expenditure approval form containing all three signatures.

The simplest way for the district to improve its purchasing process is to use a single purchase order form for preapproval of purchases. This form can be modeled after the FCMAT ASB Manual example purchase order, which contains all of the correct fields for authorizing signatures and other necessary information.

If an ASB purchase order has been preapproved and the district prefers to require additional authorization to issue a check, a check request form or other additional forms are allowable. However, a check request or similar form should never be used without first approving an ASB purchase order.

A check request is used as the preapproval form in many examples reviewed by FCMAT. However, the check request form identifies the exact amount of the check, not a preapproved amount. This means the check amount was unknown until after the shopping took place, and therefore the purchase was not preapproved. A purchase order process identifies an estimate that should be preapproved by the students. After shopping is completed, the receipts are added, and the exact amount determined.

All ASB purchases should be as follows:

- Preapproved with a purchase order signed by the actual club/class student representative, the club advisor and the school principal.
- Identification in the purchase order of the estimated quantity, amounts, descriptions, and expense category types when applicable to show what the students are preapproving.
- Open/blanket purchase orders may be allowable if allowed in district policy.
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7. **Fundraisers and Revenue Projection**

Fundraising generates most revenue for ASB clubs. California Education Code Section 48932 allows a school district's governing board to authorize K-12 student body organizations to conduct fundraising activities. All fundraising activities need to be approved by the governing board or the board's administrative designee and should have revenue and expense projections <u>in advance of the event</u>. The fundraiser approval form and revenue projection form document the purpose and estimated revenue and expenses of the fundraiser.

- A fundraiser approval form should describe the fundraiser, its purpose and any necessary background information, and will have the proper signature approvals.

- The revenue projection form is a financial document that is used from the beginning to the end of a fundraiser. The revenue projection document should have three columns — budget, actual, and difference — and therefore helps compare the estimated or budgeted revenue and expenses to the actual results of the fundraiser. This form also documents the proposed costs of the fundraiser and how the funds will be spent.

Completing ASB fundraiser approval forms and revenue projection forms with estimated revenue and expense information helps student organizations improve internal controls over their fundraising events and evaluate cost effectiveness of the events. A revenue projection form that shows only total expenses is incomplete and should present individual cost/expenditure categories or even specific costs when necessary.

The fundraiser approval form describes the event, and the revenue projection form is an estimate that serves as a sales plan and includes expected sales levels, sale prices per unit, expected cost and net income. This is compared to the actual results of the fundraiser. These forms help ASB club and class accounts plan, budget, and compare the expected results to the actual results of the fundraiser to learn how it performed.

Because the Education Code requires a district's governing board to approve fundraising events, a fundraiser approval form and revenue projection form should also be submitted to the board or the board's designee for approval.

A revenue projection form may also serve as an internal control standard for revenue reconciliation because many external auditing firms will indicate audit findings if some form of revenue reconciliation is not performed for each fundraiser. This form can also be used to ensure that the school principal is informed of and has approved a fundraising activity at the school.

The fundraiser approval form and revenue projection form should both be signed by the following:

- The student representative (organized ASBs)
- Club advisor (organized ASBs)
- Student council representative. The student council approves club/class fundraising events. (organized ASBs)
- Principal (both organized and unorganized ASBs)

8. **Budgets**

Unorganized ASBs are not required to prepare budgets. Budgets are required for all organized ASB clubs and student council. For organized ASBs, the student council and each individual club should develop a budget for each fiscal year. The budget document should include the club's or council's annual goals and a plan for achieving them by deciding the following:

- Estimated revenues: The fundraisers the club or council have and how much revenue are they expected to produce.
- Estimated expenses: The cost and cost categories for the purpose of the fundraisers.
- Estimated ending balance and club carryover: Whether enough is left over to accomplish the goals outlined.

A budget allows students to estimate whether they will raise enough funds during the year to cover their anticipated expenses. Financial decisions, including the budget, should be recorded in the club minutes. Using the minutes to discuss the budget without having an actual budget is not acceptable; a budget must be prepared. One of the benefits of an ASB organization is that it gives students an opportunity to learn about business operations, including preparing a budget.

During budget development, the club or class advisor should ensure that the students prepare a balanced budget. If the club had significant carryover of funds from the prior fiscal year, expenses can exceed revenues by that carryover amount. Funds should be carried over only when there is a defined plan and purpose for their use, such as long-term projects or events that span multiple years or occur early in the next fiscal year.

The budget for the next year's activities may be prepared before the end of the current fiscal year or at the beginning of the new fiscal year. Budgeting can be as simple as the students deciding on projects for next year and developing estimated revenues and costs for each. In this way, the club members know how much money they need to raise to cover their estimated costs.

The students should prepare the budget with the guidance of the club advisor and activities director. Basing a budget for the subsequent year on the previous year's actual accounting information is also an effective way for students to learn budgeting. The budget process does not have to be perfect; students should prepare each club's budget and learn from their budget estimates. The guiding principle is that students perform these tasks, not adults.

After the budget is adopted and the year begins, more accurate information will become available. Because budgets change, they need to be monitored continually throughout the year. Monitoring involves comparing the budget to the actual revenues and expenses at a point in time to determine whether revenues are coming in as projected and whether expenses are within the amounts authorized in the budget. The students and the advisor should monitor the budget at least monthly. This will provide enough time to adjust plans if the budget is not realistic or if the planned goals will not be met because of lower-than-projected revenue or higher-than-projected expenses.

If monitoring detects variances in revenues or expenses, the students can revise the budget to include more accurate estimates. Students should revise the budget whenever the estimated revenues or expenses change significantly. The advisor and/or school principal should review and approve all revisions to the budget.

Many school districts formally prohibit a club from spending any funds until an approved budget is in place. This helps ensure all clubs have established budgets. The district would benefit from adopting such a policy.

Effective budget monitoring can help clubs ensure that balances are not excessively high or low, avoiding a large carryover balance or a negative balance. ASB club balances can sometimes be negative for a short amount of time because of the timing of planned fundraisers, deposits and check disbursements; however, this should not occur often if a budget is monitored regularly and revised as needed.

The budget form should be signed by the following:

- The student representative
- The club advisor
- The student council representative (The student council approves club/class budgets.)
- The principal

9. **Cash Internal Controls – Witness Signatures, Start-Up Change, and Cash Boxes**

All funds should be counted in the presence of least one witness who also counts the funds and signs and dates the cash count form. This process documents the chain of custody of cash from beginning to end. All funds need to be counted at the event and again when delivered to the bookkeeper. Consistently used and fully completed cash count forms should include multiple signature lines to document dual cash counting at all phases of cash handling. Cash handling begins at issuing start-up cash, continues through the fundraising process, extends to when funds are taken to the bookkeeper and counted again, and ends when funds are presented to the bank for deposit.

Without having at least two people sign and date cash count forms at the beginning when start-up cash is issued, during and at the end of the fundraiser, and when funds are taken to the bookkeeper, there is no proof that the funds were confirmed and not altered. Neither the ASB bookkeeper nor anyone else should ever count funds alone. At least one witness is always needed to sign and date the cash count form. The cash counting process also includes the following:

- Start-up change funds should be counted, witnessed, and documented in the cash count form or change fund form.
- Plastic tamper-proof bank bags should always be consistently used at fundraisers, when the bookkeeper counts the funds, and in transporting funds to the bank.
- Cash boxes should include a ticket control form or cash count form along with a plastic tamper-proof bank bag. Since cash boxes can be reopened while in transit, a plastic tamper-proof bank bag should be used even when utilizing a cash box.

10. **School Connected Organizations**

The district's parent teacher organization (PTO) is responsible for housing or collecting the money for the Washington DC trip organized at certain school sites. The school site promotes the trip, and the PTO handles the money. This can be construed as a district/school site activity. The PTO reportedly restricts attendance to students who helped fundraise or whose parents helped. This is a potential issue because the PTO is highly intertwined with the school. Therefore, the PTO should include students that want to attend the activity but cannot or do not want to fundraise. The district should research the Washington DC trips and other similar activities and seek a legal counsel's opinion on this matter.

11. **Other**

Whistleblower Hotline

The district does not have an independent third-party whistleblower hotline or web-based fraud reporting service. Having such a hotline or service can benefit any ASB and is essential to detecting fraud and establishing the perception that it will likely be detected. Fraud prevention experts believe that people are less likely to commit fraud when they perceive a greater probability of detection.

Spreadsheet Accounting

When a spreadsheet is used as the check register, it should include columns for the name of the payee and a description of the purchase or activity.

School-Connected Organization Fundraising

PTOs and booster clubs are examples of school-connected organizations that often fundraise to assist the school. For example, PTO fundraisers are typically book fairs and pizza sales. These organizations should also submit a fundraiser approval form to the principal. This helps the school avoid having these events on the same day as an ASB fundraiser.

FCMAT thanks the district office and school site staff for their cooperation and assistance during this study. Should you have questions or require additional information, please contact me at (949) 887-2283 or email me at mammermon@fcmat.org.

Sincerely,

Michael Ammermon

Intervention Specialist