



CSIS California School Information Services

Shasta County Office of Education

**Extraordinary Audit
of the**

**Cascade Union Elementary
School District**

August 7, 2019

Michael H. Fine
Chief Executive Officer







CSIS California School Information Services

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Judy Flores, Superintendent
Shasta County Office of Education
1644 Magnolia Ave.
Redding, CA 96001

Dear Superintendent Flores:

In November 2018, the Shasta County Office of Education and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement to conduct an AB 139 Extraordinary Audit of the Cascade Union Elementary School District to determine if fraud, misappropriation of funds or other illegal fiscal practices may have occurred. Specifically, the agreement stated that FCMAT would perform the following:

The primary focus of this review is to determine, based on the sample testing and the auditor's judgment, whether (1) there was proper authorization of salary increases, (2) proper approval of overtime for exempt employees, and (3) based on that assessment, determine whether fraud, misappropriation of funds or other illegal fiscal practices may have occurred. Specific review objectives will include evaluation of policies, procedures, internal controls and transactions performed by the District.

The team will review and test recorded transactions for fiscal years 2015-16 through 2017-18 using the available records as well as information gathered from personnel interviews. Testing and review results are intended to provide reasonable, but not absolute assurance regarding the possibility that fraud, misappropriation of funds or other illegal activities may have occurred.

This final report contains the study team's findings and recommendations in the above areas of review. FCMAT appreciates the opportunity to serve the Shasta County Office of Education and the Cascade Union Elementary School District, and extends thanks to all the staff for their assistance during fieldwork.

Sincerely,

Michael H. Fine
Chief Executive Officer

FCMAT

Michael H. Fine, Chief Executive Officer

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About FCMAT

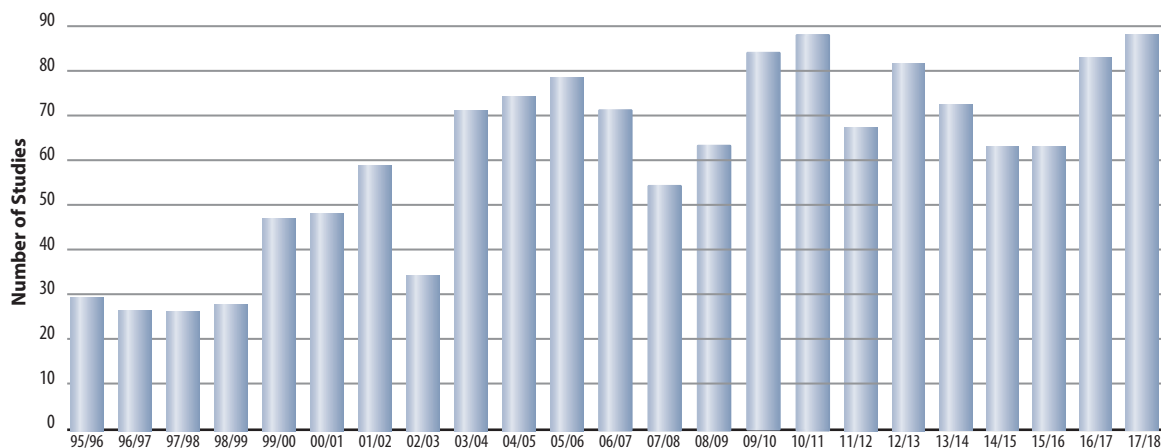
FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related 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.

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.

Studies by Fiscal Year



FCMAT also develops and provides numerous publications, software tools, workshops and professional development 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 state-wide 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 the 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 1,000 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by 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.

Introduction

Background

The Cascade Union Elementary School District is located in the city of Anderson, CA, about 12 miles south of Redding. The district is comprised of four schools that serve approximately 1,300 students in grades K-8. The district is also the authorizer of one charter school, Tree of Life International Charter, which opened in August 2017 and has an enrollment of 146 students in grades K-5.

District leadership has included two superintendents since 2013. The first served in this capacity from July 2013 to June 2016, and the second, the current superintendent, began in July 2016. In January 2015, the district hired a business manager/chief business official (CBO) to oversee all business functions of the school district. The CBO served as business manager/CBO until the governing board eliminated the position on May 14, 2018.

Shortly thereafter, the Shasta County Office of Education received a lengthy letter from the district's former CBO dated May 17, 2018 with multiple complaints about district leadership, district business practices, and an assertion that various policies and procedures were violated. Among other concerns, the former CBO indicated that a "misappropriation of assets" may have occurred, and that certain employees may have received salary increases without sufficient authorization.

On October 2, 2018, the district's current superintendent issued a rebuttal to the former CBO's letter, and included a claim that the former CBO was improperly paid for overtime hours despite being exempt.

In October 2018, the county office requested an Assembly Bill (AB) 139 Extraordinary Audit from FCMAT to review some of the allegations included in both the initial letter from the former CBO and the district's response. Under the provisions of Education Code Section 1241.5, the county office entered into a study agreement with FCMAT to perform a review of the district covering fiscal years 2015-16 through 2017-18. The review would include the following:

1. Determine if there was proper authorization of salary increases,
2. Determine if there was proper approval of overtime for exempt employees,
3. Based on the above assessment, determine whether fraud, misappropriation of funds or other illegal fiscal practices may have occurred.

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

1. 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.

Fieldwork

FCMAT initially visited the district on February 26-27, 2019 to begin conducting interviews, collect data and review documents. A subsequent visit occurred on March 28, 2019 to collect additional information.

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 auditor's judgment and experience to determine whether fraud may have occurred; evaluating the loss associated with the fraud; and determining who was involved and how it may have occurred.

FCMAT reviewed, analyzed and tested business records including payroll documentation, accounts payable disbursements, reconciliations, general ledger activity, financial reports, board policy and administrative regulations, board meeting minutes, email and hard-copy communications, and other internal documents secured from various departments and from independent sources.

FCMAT also conducted interviews with former and current management personnel, business office and other district staff, and district board members to obtain information related to the practices and events of 2015-16 through 2017-18 fiscal years, including any alleged mismanagement, fraud or abuse.

Scope and Procedures

Investigating allegations of fraud requires several steps such as conducting interviews with potential witnesses, management, staff and others, and gathering available evidence from internal and external sources.

Specific audit objectives include evaluation of policies, procedures and internal controls and transactions related to the following areas:

1. Process and approval of employee salary increases and adjustments, including stipends.
2. Board practices and policies regarding the adjustment of executive compensation.
3. Process and approval of overtime hours worked, specifically for exempt employees.
4. Procedures and internal controls surrounding the payment of adjusted compensation, including overtime hours.

During interviews, FCMAT team members asked questions about district and governing board policies and procedures, job responsibilities, internal controls, payment practices and authorizations, salary schedule adjustments. They also asked open-ended questions designed to elicit information about other possible irregularities related to the scope of work.

FCMAT performed the following audit procedures:

1. Identified positions receiving salary schedule adjustments outside of typical districtwide settlements during the 2015-16, 2016-17 and 2017-18 fiscal years.
2. Obtained and reviewed governing board policies, board meeting agendas and minutes, administrative regulations, and payroll and human resources procedures to determine if established processes were followed for salary schedule adjustments during the identified time period.
3. Reviewed salary schedule adjustments for individual positions to determine whether appropriate documentation, including required authorizations, were obtained prior to payment being made.
4. Reviewed internal controls to determine if any deficiencies existed in the recording of governing board action, the handling of executive compensation in accordance with statutory requirements, the revising of salary schedules, and the approval and payment of overtime hours for exempt employees.
5. Obtained and reviewed automated payroll payment schedules, including stipends and overtime, and attempted to identify any payments made outside of the normal payroll cycle.
6. Reviewed personnel access to various systems and records, such as district email, stored electronic and hard-copy files, board minutes, and the district's electronic accounting and payroll system.
7. Reviewed formal and informal district communication, both electronic and hard copy, between district management, the governing board, payroll, human resources and other related personnel to determine if appropriate authorizations were obtained for compensation increases and adjustments, and if both district and statutory protocol were followed.
8. Interviewed district management, business office and human resources staff, and any related personnel to determine the existing policies being followed, authorizations required for payroll adjustments, and any atypical or one-time payments, such as stipends and overtime, to executive staff.

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

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.

Study Team

The study team was composed of the following members:

Jeffrey B. Potter, CFE
FCMAT Intervention Specialist

Julie Auvil, CPA, CGMA, CICA
FCMAT Intervention Specialist

Leonel Martínez
FCMAT Technical Writer

Fraud Definition and Internal Controls

Fraud can include an array of irregularities and illegal acts characterized by intentional deception and misrepresentations of material facts. The principal mechanism to deter fraud or illegal practices is strong internal controls. Internal controls include processes designed to provide reasonable assurance that the district's operations are effective and efficient, that its financial information is reliable, and that its operations are in compliance with all applicable laws and regulations. The internal control structure includes policies and procedures used by district staff, accounting and information systems, the work environment and the professionalism of employees.

A material weakness is a deficiency in the internal control process that could allow errors or fraud to occur. Because of the weakness, employees in the normal course of business may not detect errors in time to correct them. A material weakness also can be a violation of law or regulations.

Although all employees have some degree of responsibility for internal controls, the governing board, superintendent and senior management are ultimately responsible.

Occupational Fraud

Occupational fraud occurs when an organization's owners, executives, managers or employees use their occupation to deliberately misuse or misapply the employer's resources or assets for personal benefit. The three main types of occupational fraud are asset misappropriation schemes, corruption schemes, and fraudulent financial statement schemes.

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

Occupational fraud is one of the most difficult types of fraud and abuse to detect. However, the most common method of detection is receiving tips from employees, customers and anonymously; this accounts for 40% of all detection. According to the 2018 Report to the Nations on Occupational Fraud and Abuse, prepared by the Association of Certified Fraud Examiners, Inc. (ACFE), 31% of local governments are victimized by occupational fraud, with a median loss of \$92,000 (page 20).

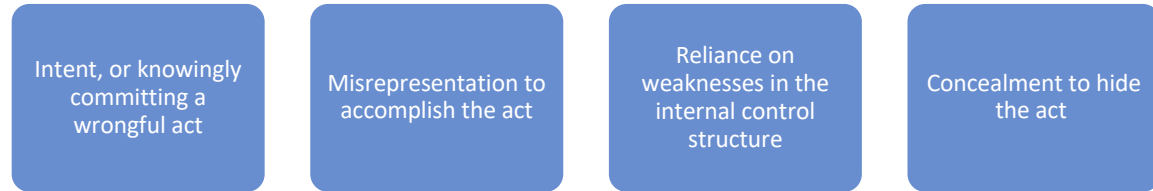
Based on a survey of ACFE members, the 2018 report explains that in 30% of all cases, "a simple lack of controls was the main factor that enabled the fraud to occur, while another 19% of cases occurred because the perpetrator was able to override the controls that had been put in place" (page 31).

According to the ACFE report, the main internal control weaknesses that contribute to occupational fraud, and the percentage of all occupational fraud they account for, are as follows:

- Lack of internal controls, 30%
- Override of existing controls, 19%
- Lack of management review, 18%
- Poor tone at the top, 10%
- Lack of competent personnel in oversight roles, 8%
- Others, 15%

Based on this report, a perpetrator's position and authority in an organization has a direct correlation with the losses incurred. The ACFE report states that 44% of fraudsters were employees, 34% were managers, 19% were owner/executives, and 3% were in other categories (page 33).

Common elements in all fraud include the following:



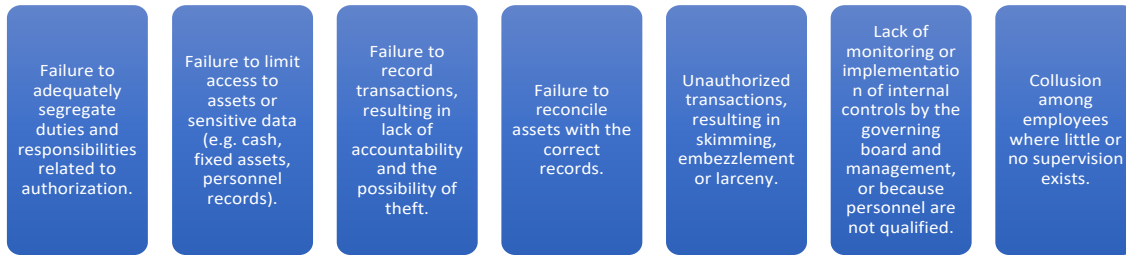
Internal Controls

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

Internal control elements provide the framework for an effective fraud prevention program. An effective internal control structure includes the policies and procedures used by staff, adequate accounting and information systems, the work environment, and the professionalism of employees. The five interrelated elements of an effective internal control structure and their definitions are included in the table below.

Internal Control Element	Definition
Control Environment	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.
Fraud Risk Assessment	Identification and assessment of the organization's objectives in order to develop a strategy to react in a timely manner.
Control Activities	The development of policies and procedures to enforce the governing board's directives. These include actions by management to prevent and identify misuse of the district's assets, including preventing employees from overriding controls in the system.
Information and Communication	Establish effective fraud communication. Ensure that employees receive information regarding policies and opportunities to discuss ethical dilemmas. Establishing clear means of communication within an organization to report suspected violations.
Monitoring	Conduct ongoing monitoring that includes periodic performance assessments to help deter fraud by managers and employees.

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



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

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

Control Environment

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

The control environment is a prerequisite that enables other components of internal control to be effective in achieving the goals and objectives 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 the absence of an effective internal control structure and oversight.

Control Activities

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

1. Performance reviews, which compare actual data with expectations. In accounting and business offices, this most often occurs when budgeted amounts are compared with actual expenditures to identify variances, and followed up with budget transfers to prevent overspending.
2. Information processing, which includes the approvals, authorizations, verifications and reconciliations necessary to ensure that transactions are valid, complete and accurate.

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

Findings

Overview

The district eliminated the CBO position at its May 14, 2018 board meeting in a decision that was made during a closed session, reported during open session and included in the board's minutes. On May 17, 2018, the CBO authored a lengthy letter to the county office alleging several improprieties that he believed had occurred during his tenure with the district. These were set out within three categories entitled as follows:

1. "Salary Schedule Changes and Placement, defiance/collusion of implemented internal control policies"
2. "Budget Control Overrides"
3. "Booster Club Accounts and District Fundraising"

The county office forwarded the CBO's complaint to the district and requested a response. The district's current superintendent provided his response in an October 2, 2018 letter. The county office then contacted FCMAT and, between the two agencies, reviewed the two letters to develop the scope of this study. That scope centered on the former CBO's allegation of improper authorization of salary increases, as well as the district's subsequent assertion that improper approval of overtime was granted to the former CBO.

FCMAT's interviews with current and former employees as well as the review of documentation requested from the district and others found that the former CBO was correct. Improperly authorized salary increases were granted to two employees, and one of these employees, who was exempt, also received overtime pay. Both employees have since left the district. Research and investigation determined that the largest offender was the former CBO.

The Cascade Union Elementary School District Governing Board

Some district governing board members have been trustees for several years, while others have shorter tenures. However, regardless of the varying tenures, the board has continually allowed some matters to be placed on its closed session agendas in violation of statutory requirements. Primary among those items are decisions regarding employee compensation.

While the Ralph M. Brown Act allows a personnel exception "to consider the appointment, employment, evaluation of performance, discipline, or dismissal of a public employee or to hear complaints or charges brought against the employee," this does not include compensation. In fact, the personnel exception prohibits discussion or action about compensation unless it relates to a reduction in pay.

Specifically, Government Code Section 54957.6 as well as the district's Board Bylaw 9321 prohibit closed sessions from including final action on the proposed compensation of one or more unrepresented employees. Both employees who were the subject of this study were unrepresented employees; the former executive assistant to the superintendent/human resources and the former CBO.

The Former Business Manager/CBO

FCMAT interviewed the former CBO and confirmed that he began his career with the district on February 3, 2015 after responding to an advertisement placed on EdJoin for a “Business Manager (CBO).” That posting stated that the position’s salary had three steps ranging from \$75,248 to \$91,464. However, FCMAT’s review of the district’s salary schedules for that fiscal year found an apparent typographical error in the ad. The district’s salary schedules typically have five steps, with five additional steps related to longevity. The 2014-15 salary schedule for the CBO ranged from \$75,248 on Step 1 to \$91,464 on Step 5.

The district issued a January 22, 2015 letter confirming the offer extended to the former CBO and setting his salary placement at Step 3. However, in the former CBO’s notes attached to the letter, the district appeared to be having difficulty aligning the step it offered with payment anticipated by the former CBO. The note states “received this correction letter from (two employee names) on 2/4/15. I told them I was hired @ Step 3 - \$91,464 They said that doesn’t exist!” (sic). This statement supports FCMAT’s theory that an error was made in the EdJoin advertisement.

After some debate between the former CBO and the district about the salary associated with Step 3, the former CBO was paid at the salary level attached to Step 3 on the five-step salary schedule; this amount was \$6,912.33 per month, or \$82,948 per year effective with his February 3, 2015 hire date. His acceptance of this salary was further demonstrated by a copy of the 2014-15 CBO salary schedule in his payroll file. This document contained his initials acknowledging receipt of the schedule with the Step 3 salary circled and stating “starting in July it will go up to,” indicating Step 3. The former CBO also approved the Payroll Release Authorization forms without having made any notations regarding a discrepancy.

The district provided FCMAT with an email from February 20, 2016 in which the former CBO addressed this issue with the former superintendent. The email that was supplied to FCMAT did not include a reply from the former superintendent. However, she stated to FCMAT in her interview that the former CBO had approached her about a different level of pay but that she told him that “he had signed his contract and that was what he would be paid.”

Another theme emerged in FCMAT’s review of various items of correspondence between the former CBO to the former and current superintendent and others: The constant assertion by the former CBO about how hard he worked, how many duties he performed outside of his job description and the number of hours he spent on duty. He sought to address the issue with both the former superintendent and the current superintendent. Since the issue was raised repeatedly, it was evidently never handled to the former CBO’s satisfaction.

Change in Superintendents

Although the board minutes do not provide confirmation of the acceptance of the former superintendent’s resignation, she stated that she gave notice to the district in May 2016 with her resignation effective in June 2016 to move to another district. Her intent was to time her departure so that she would be present until school ended. The district’s 2015-16 Instructional School Calendar shows that the last day of school for that year was June 2, 2016. Board meeting minutes also show that the board began discussion of seeking a qualified replacement for the superintendent at its June 6, 2016 meeting.

Former CBO – Salary Adjustment

Following the departure of the previous superintendent, on June 20, 2016, the former CBO presented the board in closed session a nonagendized “true-up” payment of his salary totaling \$11,367. This would provide him with the erroneously advertised “Step 3” salary of \$91,464 (which actually reflected Step 5) that he originally sought, but had been denied, under the previous superintendent. The proposal included salary increases provided through collective bargaining in 2014-15 and 2015-16. Additionally, he also sought redress on 641 hours of overtime.

The true-up changed the former five step schedule, with five additional steps related to longevity, to a 10-step salary schedule. The revised salary schedule no longer provided for longevity and reflected an 8.16% salary increase at Step 4, which was the former CBO’s salary placement in 2015-16. It also equalized the difference between all salary steps to 3%. Board meeting minutes from the June 20, 2016 special board meeting include a closed session announcement that “(t)he CBO Salary will be adjusted and the overtime hours will be paid out.”

Salary schedule with 5 steps & longevity at hiring of former CBO in Jan. 2015 (step 5 advertised as "step 3")										
						LONGEVITY				
						11	14	16	19	22
	STEP 1	STEP 2	STEP 3	STEP 4	STEP 5	6%	3.5%	3.5%	6%	6%
CBO	\$ 75,248	\$ 78,980	\$ 82,948	\$ 87,101	\$ 91,464	\$ 96,952	\$100,345	\$103,857	\$110,089	\$116,694

↓ Advertisd salary, plus increases.

Salary schedule with 5 steps & longevity, following 3% increase in 2014-15, and 4% increase in 2015-16										
						LONGEVITY				
						11	14	16	19	22
	STEP 1	STEP 2	STEP 3	STEP 4	STEP 5	6%	3.5%	3.5%	6%	6%
CBO	\$ 80,604	\$ 84,600	\$ 88,848	\$ 93,300	\$ 97,980	\$103,860	\$107,484	\$111,252	\$117,924	\$125,004

↓ Converted to step 3.

Salary schedule revision by former CBO, with 10 steps and no longevity										
	STEP 1	STEP 2	STEP 3	STEP 4	STEP 5	STEP 6	STEP 7	STEP 8	STEP 9	STEP 10
CBO	\$ 92,352	\$ 95,122	\$ 97,976	\$100,915	\$103,943	\$107,061	\$110,273	\$113,581	\$116,989	\$120,498

FCMAT interviews indicated that the change in the former CBO’s salary was made because of a promise from the former superintendent to the former CBO, but the former superintendent stated this did not occur. FCMAT confirmed that no one from the district had contacted her to confirm or deny that promise. However, the former CBO’s justification regarding this true-up remains in question because the item was submitted to the board when there was no superintendent to guide its decision, along with the claim that this was a promise.

The board violated the Brown Act by taking action on an unagendized item and determining an unrepresented employee’s compensation in closed session. The latter item also violates Government Code Section 54957(b). While the June 20, 2016 special board meeting agenda cited Government Code Section 54957 regarding public employment, that is insufficient to meet the codified requirements. If it was the board’s intention to raise the compensation of an unrepresented employee, the board needed to describe the matter sufficiently, including an identification of the employment position in question, so the public could address the board on the subject, if it so desired, prior to board action.

If the board elects not to cure this inappropriate handling of this matter, the added compensation paid may result in a claim of misappropriation of public funds or a gift of public funds. The board should seek a written opinion from its legal counsel on this matter.

Former CBO – Overtime Compensation

During the board meeting on June 20, 2016, the former CBO also presented the board in closed session a nonagendized item regarding overtime hours worked. The former CBO considered these hours to be duties performed in addition to his regular duties, and therefore requested payment of 641 overtime hours worked. His claim included work performed covering duties in payroll and accounts payable, both of which were under his supervision, as well as assisting with facilities.

In discussions with board members who attended the meeting, FCMAT determined that the former CBO was instructed that exempt employees do not qualify for overtime hours. However, he still negotiated a compensation settlement with the board in closed session indicating that, in lieu of payment of 641 hours of overtime, he would receive 100 hours of compensatory time earned (“comp time”), effective July 1, 2016. The district also agreed to pay all expenses associated with his enrollment and participation in the University of Southern California School Business Management Certificate Program (USC SBMCP).

Subsequent research confirmed that the district recorded 100 hours of comp time to the benefit of the former CBO, to be used at his discretion similar to vacation time. For the USC SBMCP beginning in July 2016, the district paid \$6,960 directly to USC for tuition in the program, and reimbursed the former CBO \$1,564.46 in related travel and incidental costs during the 2016-17 fiscal year. The USC program concluded in June 2017.

Again, taking action on an unagendized item and determining an unrepresented employee’s compensation in closed session are both Brown Act violations, and the latter also violates Government Code Section 54957(b). While the June 20, 2016 special board meeting agenda cited Government Code Section 54957 regarding public employment, that is insufficient to meet the codified requirements. If a board intends to take action on an unrepresented employee’s compensation, it must agendize the item in open session. This should include a sufficient description of the matter and an identification of the employment position in question, allowing the public to address the board on the subject before action is taken.

The former CBO, employed in an executive-level position and receiving a salaried compensation, was considered an exempt employee under the Fair Labor Standards Act (29 CFR 553.32). Overtime compensation should not be provided to an employee working in this capacity.

While no direct payment was made to the former CBO for his claim of overtime hours worked, the settlement represents compensation to the employee. The negotiation with the board for compensation in lieu of the initial 641 hours requested is a taxable benefit to the employee, the written settlement of which is briefly reflected in the minutes of the June 20, 2016 closed session board minutes.

While many local educational agencies (LEAs) send their executive administrative employees to the USC training program and pay for all of the related costs, the employees in those cases have not tied or negotiated prior services performed on behalf of the LEA to attending the program. In those cases, the costs for the program would not have been taxable compensation. However, since the former CBO exchanged the purported overtime pay for the ability to attend the USC program, with the district paying for all program costs, these costs represent a taxable benefit to the former

CBO in the form of additional compensation. The receipt of 100 hours of comp time also represents compensation in lieu of payment, and therefore also qualifies as a taxable event to the former CBO.

The combined, monetary benefit to the former CBO for the overtime compensation approved by the governing board in closed session on June 20, 2016 totals approximately \$13,682.67. This includes a tuition payment of \$6,960 to USC, related USC program expenses (transportation, hotel accommodations, meals, supplies, etc.) of \$1,564.46, and the estimated value of the 100 hours of granted comp time of \$5,158.21, based on the salary of the former CBO at the time when the comp time was used, and factoring in the applicable salary increases provided to all employees.

If the board elects not to cure the inappropriate handling of this matter, the added compensation paid may result in a claim of misappropriation of public funds or a gift of public funds. The board should seek a written opinion from its legal counsel on this matter.

Even if the board makes this change, any compensation provided to the former CBO cannot be for overtime hours worked since this violates the aforementioned Fair Labor Standards Act. Instead, the compensation must be identified as a stipend or other form of compensation, and may not represent any overtime hours worked by an exempt employee who is not eligible to receive overtime payments.

Former CBO – Tree of Life Charter School Assistance

FCMAT's review of the former CBO's payroll history in the district's payroll system also indicated that he submitted another compensation item to the board at a regular board meeting closed session on September 13, 2017. In this instance, it was a request for payment of overtime hours worked assisting with the Tree of Life charter school petition. Much like the June 2016 situation, the board agenda regarding the discussion of compensation for the former CBO cited the same Government Code section but did not provide further details. The board again violated the Brown Act and Government Code Section 54957(b) in closed session, stating the following:

\$4800.00 for startup work (hours in addition to regular job assignment) for business services for the Tree of Life International Charter School. The one stipend is for the 2017-18 school year only and will be paid out over 8 months at \$600.00 per month. The months the stipend will be paid out are September-April.

If the board elects not to cure the inappropriate handling of this matter, the added compensation paid may result in a claim of misappropriation of public funds or a gift of public funds. The board should seek a written opinion from its legal counsel on this matter.

Former CBO – Salary Discrepancies

In May 2017, the district entered into tentative agreements with its bargaining units covering two years. The agreements provided for a 3% salary increase retroactive to July 1, 2016, with an additional 2% increase effective July 1, 2017. While the board had not specifically voted to increase salaries for management/confidential employees, providing the same increases to management/confidential employees was the district's past practice and was confirmed during FCMAT's interviews. Regardless of whether a policy, practice or administrative contract provides for a salary increase that mirrors one for bargaining unit members, this item should be agendized for open session so the public can give its input before the board acts to approve the increases. The board should seek a written opinion from its legal counsel about how to ratify any prior actions in this regard, as well as how to proceed in the future.

FCMAT's review of the former CBO's salary history found two issues. First, FCMAT determined that he had received his annual step increase in May 2017, which was obscured when combined with the retroactive payment of the newly approved salary increase. He was not eligible to receive that increase until July 1, 2017. Second, he received a 5% increase on July 1, 2017 instead of the 2% increase to which he was entitled. When this fact was brought to the attention of the former CBO in his interview with FCMAT, he expressed doubt that he had received that percentage of increase. However, upon consulting a prior pay stub on his cell phone during the interview, he acknowledged that the numbers on the CBO salary schedule matched those on his pay stub.

FCMAT's research of who made the change to the CBO's salary schedule suggests this was accomplished by the former CBO himself. He stated in his interview that he normally performed this task. Among the complaints the CBO made in his June 28, 2017 email to the current superintendent were statements about the long hours he worked, his frustration regarding those hours, and the duties he felt were not in his job description. He also states "(t)he salary schedules are done," presumably a reference to the prior month's settlements with the district's bargaining units.

The past and present payroll personnel who worked under the supervision of the former CBO also stated in interviews that he was making those calculations. Additionally, the document titled "Payroll Cycle Procedures and Walkthrough 2016-17", purportedly authored by the former CBO, states that the "CBO or the payroll accountant then makes the changes in Escape.... The CBO has established the control for salaries in Escape to be locked and are not able to be changed by anyone other than him." (Note that "Escape" is the district's financial and payroll system.) Lastly, with the exception of the months of June 2017, February 2018 (during the former CBO's absence for paternity leave), and June 2018 (when the former CBO was on administrative leave), he was the only person who signed and approved payroll.

Unapproved Cell Phone Stipends

The former CBO was also paid a cell phone stipend of \$50 per month from the beginning of his employment on February 3, 2015 until his departure on July 22, 2018. This amount totaled \$2,100. Neither the former CBO's personnel or payroll file make any mention of authorizing this payment, and the district could not provide FCMAT with a board-approved listing of those who are entitled to receive cell phone stipends or any amount attached. Without the board approving the cell phone stipend and setting the positions and amounts to be paid, this is an unauthorized payment and must be returned to the district.

However, FCMAT's review of payroll reports shows that multiple administrative positions at the district also receive this stipend such as the superintendent, principals, directors, supervisors, and so on. Going forward, the district should generate a listing of the positions it believes are entitled to a cell phone stipend, the amount attached to each, place it on an upcoming board agenda for approval and ask the board to annually review and approve this document.

Former CBO – Aggregate Additional Compensation

To determine the value of the overpayments made to the former CBO, FCMAT increased the steps on the 2014-15 CBO salary schedule based on the increases provided to other bargaining units and other district employees. That amount, including the amounts of the Tree of Life Charter School assistance stipend, totals \$37,512.43. Additionally, the amount for the former CBO's one-time settlement of overtime hours, which included expenses related to his attendance at the USC School Business Management Certificate Program and the amount for the 100 hours

of compensatory time, is \$13,682.67. Adding the unapproved cell phone stipends of \$2,100 results in a grand total of \$53,295.09 and is the amount due back to the district unless the governing board takes open session action to ratify its closed session actions.

During FCMAT's February 27, 2019 interview, the former CBO appeared to be unaware of the legality of having executive compensation (i.e. for unrepresented employees) decided in closed session. However, the concept that the actions taken in the board's June 20, 2016 and September 13, 2017 meetings, and the cascading effect of the June 20, 2016 action, would cause funds to be owed back to the district should be no surprise to him. Indeed, on May 11, 2018, not 10 months prior, he authored an email to the district's former executive assistant to the superintendent/HR and stated the following in the last paragraph of that email:

(p)er government code: Unrepresented Employee Compensation cannot be determined in closed session and should have been an (sic) action item in the board minutes when she retired or when this 'retirement income' was initiated.

Even with this knowledge, openly and freely shared with others, the former CBO has contacted no one to arrange for repayment of sums to which he is not entitled.

Executive Assistant to the Superintendent/HR

This position began as the executive assistant to the superintendent and is the position to which the former CBO alluded in his May 17, 2018 complaint. She was hired by the district and began her duties on July 1, 2015. Based on a review of her salary schedule and her job description, the executive assistant was a classified, confidential position, which is not exempt from the Fair Labor Standards Act (29 CFR 553.20) (FLSA). Therefore, the overtime rules contained in the Labor Code 510 would apply. Further, this position would not be included in either the Teamsters or CSEA bargaining units but would instead be an unrepresented position.

The executive assistant's relationship with the former CBO was reported to have started amicably but later became strained. The stress between the two reportedly spread to others in the district office. FCMAT's review of emails provided by the district indicated a caustic relationship in which the former CBO seemed to go out of his way to provoke a reaction from the former executive assistant, including waiting six months to provide the executive assistant with a negotiated salary increase that every other classified employee received on July 1, 2017. Correction of that action required a specific written directive from the superintendent.

The executive assistant was hired to support the superintendent, but sometime during the first year of her employment, she absorbed duties related to human resources. Before the former superintendent's departure, the former superintendent made promises to the former executive assistant regarding a change in title and pay. The former superintendent confirmed to FCMAT that she had made those promises and also indicated that while she had worked with the board to fulfill them, she could not complete the title and pay change before her departure. FCMAT's examination of board minutes shows that at its September 14, 2016 regular board meeting, the board made a closed session announcement stating that "On a unanimous vote of the Board, it was directed that the job title and salary schedule of the Executive Assistant to the Superintendent be reviewed, revised and brought back next month."

Those two events did not occur until the March 8, 2017 regular board meeting and the April 25, 2017 special board meeting. Like the former CBO's June 20, 2017 and September 13, 2017 items to increase his compensation, the item to change the executive assistant's title and salary schedule went before the board in closed session. Neither meeting's board minutes reflect a closed

session announcement; however, the executive assistant provided FCMAT with a copy of the salary schedule discussed with original handwriting showing the board acted at its March 8, 2017 meeting to revise the job title, establish a 10-step salary schedule, place the executive assistant at Step 6 as of July 1, 2016 and make the change in salary retroactive to the same date. Both the current superintendent and a board member who had been present at the meeting remembered the item coming up for discussion, and the superintendent recognized his own handwriting on the document.

This action was nonetheless a violation of Government Code Section 54957.6. Like the action regarding the former CBO's closed session salary increases, if the board elects not to cure the inappropriate handling of this matter, the added compensation paid may result in a claim of misappropriation of public funds or a gift of public funds. The board should seek a written opinion from its legal counsel on this matter.

The other appearance of this issue was at the April 25, 2017 special board meeting where the board agenda shows that the board had an open session, "In Depth Discussion" item stating "Executive Assistant to the Superintendent – Reclassification – Superintendent Provence shared that the Executive Assistant to the Superintendent position will now be known as 'Human Resources Director & Executive Assistant to the Superintendent' position, since the position has now grown and encompasses both jobs." While this may appear to resolve the matter of the title change, it does not specify that the board acted on anything. The minutes were the memorialization of a statement by the current superintendent and review of subsequent board minutes through June 27, 2018 indicates that the board took no action on the item.

FCMAT's review of the executive assistant's payroll history found an issue with the payment of 155.25 extra-duty hours on June 27, 2016. Extra duty hours worked by a person in an eight-hour full-time position equate to overtime and should be paid at time and a half pursuant to the federal FLSA and Labor Code Section 510. However, this position did not receive time-and-a-half pay and was actually compensated at a rate that was 24 cents per hour less than shown on the salary schedule for straight time. A review of the timesheets for the 155.25 hours found they spanned an entire fiscal year (July 2015 to June 2016). None of the timesheets contained the employee's signature, only one had a supervisor's signature, five had no employee's name listed, all were completed electronically, and the forms used varied. Despite these anomalies, no one FCMAT interviewed disputed that the former executive assistant worked those hours, including the former superintendent (her direct supervisor) or the former CBO.

The former executive assistant was also paid a cell phone stipend of \$50 per month for 22 months from August 2016 until her departure in June 2018. The district could not find any documentation authorizing the addition of the cell phone stipend to the executive assistant's salary. As was mentioned above, the district could not provide FCMAT with a board-approved listing of those who are approved to receive cell phone stipends or the amount attached. Without the board approving the cell phone stipend and setting the positions and amounts to be paid, this is an unauthorized payment that the executive assistant to the superintendent/HR must return to the district. The board should seek a written opinion from its legal counsel on how to cure the past unapproved payments.

To determine the value of the overpayments made to date to the former executive assistant, FCMAT increased the steps in the 2014-15 executive assistant salary schedule based on the increases provided to other bargaining units and other employees in the district. Extra duty hours were also adjusted based on the revised salary schedule, translating that into hourly rates. Including the amounts for the unauthorized cell phone stipend, the amount due back to the district totals \$10,083.72, unless the district's governing board takes open session action to ratify its closed session actions (see "Unapproved Cell Phone Stipends" section, above).

Conclusion

Potential for Fraud

Based on the findings in this report, there is sufficient evidence to demonstrate that fraud, misappropriation of funds and/or assets, or other illegal fiscal practices may have occurred in the specific areas reviewed.

Deficiencies and exceptions noted during FCMAT's review of the district's 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 great concern to the Cascade Union Elementary School District and the Shasta County Office 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.

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 and juries. 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 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.

Recommendation

The county superintendent should:

1. Notify the governing board of the Cascade Union Elementary School District, the state controller, the superintendent of public instruction and the local district attorney that sufficient evidence exists to indicate that fraud or misappropriation of district funds and/or assets, or other illegal fiscal practices, may have occurred.

Appendices

Appendix A – Reconciliation of Improper Payroll and Overtime Payments to Former CBO

CASCADE UNION ELEMENTARY SCHOOL DISTRICT RECONCILIATION OF IMPROPER PAYROLL & OVERTIME PAYMENTS TO FORMER CBO

Pay Period	Description	District Calculation		FCMAT Calculation		Difference Owed by/From Employee		Salary/Employer Paid Benefits				Total Cost to District of Overpayment	Comments	
		Hour	Rate	Hour	Rate	Hour	Rate	WComp	PERS	Medicare	SUI			
IMPROPER SALARY & OVERTIME (OT) COMPENSATION														
15/16 Rates														
6/27/16	"True Up" Payment	\$	11,367.00	\$	11,367.00	\$	-	6.20%	11.8470%	1.46%	2.3451%	0.0500%	(5.68)	Increase is a violation of BB 9321 and GC Section 54957.6
16/17 Rates														
7/31/16	Salary	\$	8,652.00	\$	8,165.00	\$	487.00	6.20%	11.8470%	1.46%	2.3451%	0.0500%	(0.25)	Increase is a violation of BB 9321 and GC Section 54957.6
8/31/16	Salary	\$	8,652.00	\$	8,165.00	\$	487.00	6.20%	11.8470%	1.46%	2.3451%	0.0500%	(0.25)	Increase is a violation of BB 9321 and GC Section 54957.6
9/30/16	Salary	\$	8,652.00	\$	8,165.00	\$	487.00	6.20%	11.8470%	1.46%	2.3451%	0.0500%	(0.25)	Increase is a violation of BB 9321 and GC Section 54957.6
10/31/16	Salary	\$	8,652.00	\$	8,165.00	\$	487.00	6.20%	11.8470%	1.46%	2.3451%	0.0500%	(0.25)	Increase is a violation of BB 9321 and GC Section 54957.6
10/31/16	OT	26.00	74.67	1,941.42	8,165.00	1,941.42	8,165.00	6.20%	11.8470%	1.46%	2.3451%	0.0500%	(0.25)	Increase is a violation of BB 9321 and GC Section 54957.6
11/30/16	Salary	\$	8,652.00	\$	8,165.00	\$	487.00	6.20%	11.8470%	1.46%	2.3451%	0.0500%	(0.25)	Increase is a violation of BB 9321 and GC Section 54957.6
12/31/16	Salary	\$	8,652.00	\$	8,165.00	\$	487.00	6.20%	11.8470%	1.46%	2.3451%	0.0500%	(0.25)	Increase is a violation of BB 9321 and GC Section 54957.6
12/31/16	OT	12.00	74.67	896.04	8,165.00	896.04	8,165.00	6.20%	11.8470%	1.46%	2.3451%	0.0500%	(0.25)	Increase is a violation of BB 9321 and GC Section 54957.6
2/28/17	Salary	\$	8,652.00	\$	8,165.00	\$	487.00	6.20%	11.8470%	1.46%	2.3451%	0.0500%	(0.25)	Increase is a violation of BB 9321 and GC Section 54957.6
3/31/17	Salary	\$	8,652.00	\$	8,165.00	\$	487.00	6.20%	11.8470%	1.46%	2.3451%	0.0500%	(0.25)	Increase is a violation of BB 9321 and GC Section 54957.6
4/30/17	Salary	\$	8,652.00	\$	8,165.00	\$	487.00	6.20%	11.8470%	1.46%	2.3451%	0.0500%	(0.25)	Increase is a violation of BB 9321 and GC Section 54957.6
5/31/17	Salary	\$	8,652.00	\$	8,165.00	\$	487.00	6.20%	11.8470%	1.46%	2.3451%	0.0500%	(0.25)	Increase is a violation of BB 9321 and GC Section 54957.6
5/31/17	Reto on Salary	10.00	260.00	2,600.00	2,332.50	(267.50)		6.20%	11.8470%	1.46%	2.3451%	0.0500%	(0.25)	Increase that should not have been effective until 7/1/17. Also given a step increase that should not have been effective until 7/1/17.
5/31/17	(OT) 3%-APPROVED INCREASE		58.24		58.24								(0.03)	Increase that should not have been effective until 7/1/17.
6/30/17	Salary	\$	8,922.00	\$	8,409.95	\$	512.05	6.20%	11.8470%	1.46%	2.3451%	0.0500%	(0.20)	Increase is a violation of BB 9321 and GC Section 54957.6. Also given a step increase that should not have been effective until 7/1/17.
17/18 Rates														
7/31/17	Salary	\$	9,374.00	\$	8,578.15	\$	(795.85)	6.20%	15.3100%	1.46%	2.8035%	0.0500%	(0.40)	Increase is a violation of BB 9321 and GC Section 54957.6. A step increase is granted that should not have been effective until 7/1/18. Additionally, the salary increase per the two year agreement was to 2% for the 17/18 fiscal year. The CBO's salary schedule received a 5% increase.
8/31/17	Salary	\$	9,374.00	\$	8,578.15	\$	(795.85)	6.20%	15.3100%	1.46%	2.8035%	0.0500%	(0.40)	Increase is a violation of BB 9321 and GC Section 54957.6. A step increase is granted that should not have been effective until 7/1/18. Additionally, the salary increase per the two year agreement was to 2% for the 17/18 fiscal year. The CBO's salary schedule received a 5% increase.
9/30/17	Salary	\$	9,374.00	\$	8,578.15	\$	(795.85)	6.20%	15.3100%	1.46%	2.8035%	0.0500%	(0.40)	Increase is a violation of BB 9321 and GC Section 54957.6. A step increase is granted that should not have been effective until 7/1/18. Additionally, the salary increase per the two year agreement was to 2% for the 17/18 fiscal year. The CBO's salary schedule received a 5% increase.
10/31/17	Salary	\$	9,374.00	\$	8,578.15	\$	(795.85)	6.20%	15.3100%	1.46%	2.8035%	0.0500%	(0.40)	Increase is a violation of BB 9321 and GC Section 54957.6. A step increase is granted that should not have been effective until 7/1/18. Additionally, the salary increase per the two year agreement was to 2% for the 17/18 fiscal year. The CBO's salary schedule received a 5% increase.
10/31/17	TOL Stipend	\$	600.00	\$	600.00	\$	0.00						(0.30)	Increase is a violation of BB 9321 and GC Section 54957.6. A step increase is granted that should not have been effective until 7/1/18. Additionally, the salary increase per the two year agreement was to 2% for the 17/18 fiscal year. The CBO's salary schedule received a 5% increase.
11/30/17	TOL Stipend	\$	600.00	\$	600.00	\$	0.00						(0.30)	Increase is a violation of BB 9321 and GC Section 54957.6. A step increase is granted that should not have been effective until 7/1/18. Additionally, the salary increase per the two year agreement was to 2% for the 17/18 fiscal year. The CBO's salary schedule received a 5% increase.
12/31/17	TOL Stipend	\$	600.00	\$	600.00	\$	0.00						(0.30)	Increase is a violation of BB 9321 and GC Section 54957.6. A step increase is granted that should not have been effective until 7/1/18. Additionally, the salary increase per the two year agreement was to 2% for the 17/18 fiscal year. The CBO's salary schedule received a 5% increase.
1/31/18	TOL Stipend	\$	600.00	\$	600.00	\$	0.00						(0.30)	Increase is a violation of BB 9321 and GC Section 54957.6. A step increase is granted that should not have been effective until 7/1/18. Additionally, the salary increase per the two year agreement was to 2% for the 17/18 fiscal year. The CBO's salary schedule received a 5% increase.
2/28/18	TOL Stipend	\$	600.00	\$	600.00	\$	0.00						(0.30)	Increase is a violation of BB 9321 and GC Section 54957.6. A step increase is granted that should not have been effective until 7/1/18. Additionally, the salary increase per the two year agreement was to 2% for the 17/18 fiscal year. The CBO's salary schedule received a 5% increase.
2/28/18	TOL Stipend	\$	600.00	\$	600.00	\$	0.00						(0.30)	Increase is a violation of BB 9321 and GC Section 54957.6. A step increase is granted that should not have been effective until 7/1/18. Additionally, the salary increase per the two year agreement was to 2% for the 17/18 fiscal year. The CBO's salary schedule received a 5% increase.
3/31/18	TOL Stipend	\$	600.00	\$	600.00	\$	0.00						(0.30)	Increase is a violation of BB 9321 and GC Section 54957.6. A step increase is granted that should not have been effective until 7/1/18. Additionally, the salary increase per the two year agreement was to 2% for the 17/18 fiscal year. The CBO's salary schedule received a 5% increase.
3/31/18	TOL Stipend	\$	600.00	\$	600.00	\$	0.00						(0.30)	Increase is a violation of BB 9321 and GC Section 54957.6. A step increase is granted that should not have been effective until 7/1/18. Additionally, the salary increase per the two year agreement was to 2% for the 17/18 fiscal year. The CBO's salary schedule received a 5% increase.
4/30/18	TOL Stipend	\$	600.00	\$	600.00	\$	0.00						(0.30)	Increase is a violation of BB 9321 and GC Section 54957.6. A step increase is granted that should not have been effective until 7/1/18. Additionally, the salary increase per the two year agreement was to 2% for the 17/18 fiscal year. The CBO's salary schedule received a 5% increase.
5/31/18	TOL Stipend	\$	600.00	\$	600.00	\$	0.00						(0.30)	Increase is a violation of BB 9321 and GC Section 54957.6. A step increase is granted that should not have been effective until 7/1/18. Additionally, the salary increase per the two year agreement was to 2% for the 17/18 fiscal year. The CBO's salary schedule received a 5% increase.

Appendix B – Study Agreement



CSIS California School Information Services

**FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
AB139 STUDY AGREEMENT
November 2, 2018**

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

1. BASIS OF AGREEMENT

The team provides a variety of services to 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 Cascade Union Elementary School District, and is requesting that FCMAT review the personnel practices of the district.

The team will review and test recorded transactions for fiscal years 2015-16 through 2017-18 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 the auditor's judgment, whether (1) there was proper authorization of salary increases, (2) proper approval of overtime for exempt employees, and (3) based on that assessment, determine 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; and will continue to review pertinent documents off-site.
3. Progress Reports - The team will inform the COE of material issues as the review is performed.
4. 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. *To Be Determined FCMAT Staff***
- B. *To Be Determined FCMAT Consultant***

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 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 \$23,000.

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

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

6. PROJECT SCHEDULE

The following schedule outlines the planned completion dates for different phases of the study and will be established upon the receipt of a signed study agreement:

<i>Orientation:</i>	<i>To be determined</i>
<i>Staff Interviews:</i>	<i>To be determined</i>
<i>Exit Meeting:</i>	<i>To be determined</i>
<i>Preliminary Report Submitted:</i>	<i>To be determined</i>
<i>Final Report Submitted:</i>	<i>To be determined</i>

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 preliminary 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**

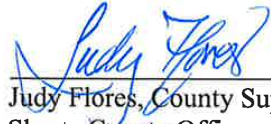
During the term of this agreement, FCMAT shall maintain liability insurance of not less than \$1 million unless otherwise agreed upon in writing by the COE, automobile liability insurance in the amount required under California state law, and workers' compensation as required under California state law. FCMAT shall provide certificates of insurance, with Shasta County Office 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: Adam Hillman
Associate Superintendent of Administrative Service
Telephone: (530) 225-0317
E-mail Address: ahillman@shastacoe.org



Judy Flores, County Superintendent
Shasta County Office of Education

11-5-18

Date



Michael H. Fine
Chief Executive Officer
Fiscal Crisis & Management Assistance Team

November 2, 2018

Date