

# Internal Controls, Fraud Prevention and Allowable Uses of Funds

## A Discussion with District and School Leadership

**FCMAT**

FISCAL CRISIS & MANAGEMENT  
ASSISTANCE TEAM

# What is FCMAT and What Does it Do?

- **We are education professionals serving K-14 and county offices of education**
- The Fiscal Crisis and Management Assistance Team (FCMAT) staff spends most of its time in county offices of education, school districts, community colleges and charter schools providing:
  - Management assistance
  - Technical assistance
  - Professional development
  - Fiscal crisis intervention
  - AB 139 audits
  - Data management support

**We are a part of their support system**

# FRAUD

## Remember the Basics

What is your word for fraud?

# Fraud has Many Names

- ✓ Misappropriation
- ✓ Theft
- ✓ Embezzlement
- ✓ Collusion
- ✓ Conflicts of Interest

**What's Common**



# Fraud → Financial Statements

- Attendance Fraud – overstating income
- Payroll Fraud – overstating expenses
- Benefits Fraud – overstating expenses, misreporting vacation time
- Vendor Fraud – overstating expenses
- Accrual Fraud – not accruing or over-/under-accruing revenue/expense, affects financial statements (motive/intent = performance evaluations?)
- Representation Fraud – failure to disclose or under-disclosure in the management representation letter and during interviews (intent?)
- Conflicts of Interest – related parties, friends, family, lovers, all of which can affect the financial statements

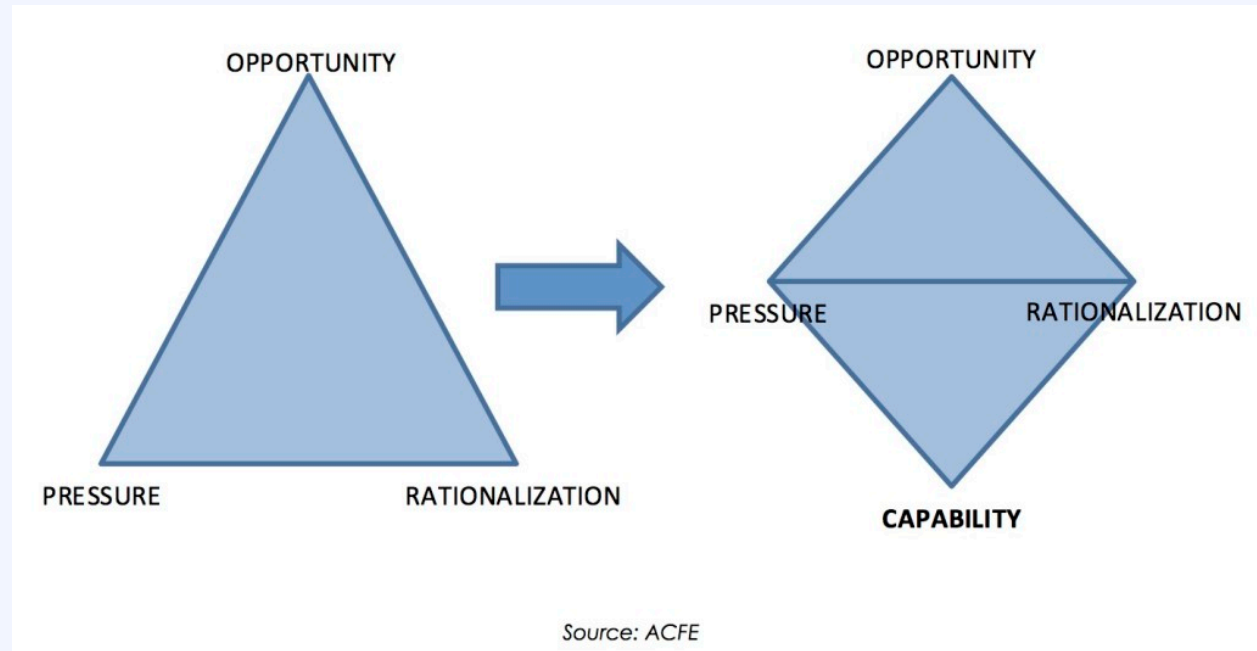
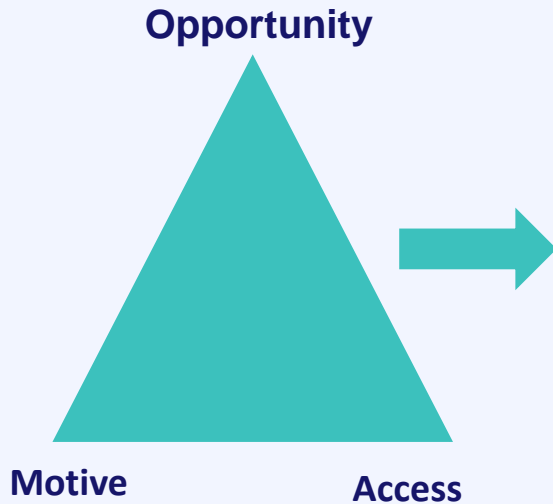
# Common Factors of Fraud

- Fraud often contains common factor(s):
  - People (employees, vendors, related parties, etc.) are the offenders.
  - The person, or people, involved are often capable of not only committing fraud or unethical behavior, but also concealing it.
  - The offenders are capable – an understanding of the internal controls, and the ability to exploit internal control weaknesses to plan and implement fraud.

# Fraud Indicators

- Staff bring evidence or suspicion to attention of leadership
- An audit or other report provides indication of possible fraud
- Whistleblower reports or tips
- And don't forget the fraud triangle / diamond indicating the necessary components that cultivate fraud

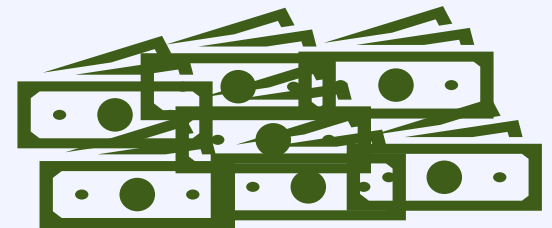
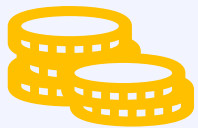
# Fraud Indicator Evolution





# All Organizations are Vulnerable

- Protect against those who succumb to the three elements of the fraud triangle and are also capable.
- Reduce vulnerability by establishing mechanisms to effectively prevent or detect fraudulent activities (internal controls).
- Watch for the pattern: people who commit fraud generally start small and grow in magnitude.



# Opportunity

- Opportunity is created when there are internal control weaknesses, ineffective governance, or lack of oversight.
- Opportunity means people will take advantage of the circumstances.
- Fraudsters believe an opportunity exists and assume that:
  - No one is aware.
  - No follow up occurs for employees who violate policy.
  - No one will consider the offense serious.
  - No one will care.

# Pressure

- **Pressure or incentive is the motivation** that leads to unethical and fraudulent behavior. It can be triggered by:
  - Sudden financial shortfalls
  - Living beyond one's means
  - Greed
  - Poor credit standing and inability to obtain credit
  - Unexpected expenditures
  - Family or peer pressure
  - Gambling losses
  - Alcohol, drugs, or extramarital affairs

# Rationalization

- The fraudster must justify his or her actions. For example: “This is just a loan. I’ll pay it back when I get paid.”
- Myths, Fallacies and Justification
  - “Everyone does it.”
  - “I’m worth it; I’ve earned it.”
  - “The district won’t miss it; they can afford it.”
  - “I work hard and haven’t had a raise in five years!”
  - “I’m borrowing the money and will pay it back.”

# Capability

- Having the necessary skills or abilities to pull it off.
- Recognizing the opportunity to commit fraud and having the ability to turn it into reality.
- Position, ego, intelligence, coercion, deceit and stress all contribute to capability.
- Capability is needed not only to carry out fraud, but more importantly to conceal it.
- Capability includes the skills needed to understand internal controls and exploit weaknesses in those controls to plan and implement fraud.

# Factors

- Operating environment
- Segregation of duties
- Tone at the top
- Internal controls effectiveness
- Be aware of, and realistic about, weaknesses
- A well-designed system can deter fraud by:
  - Reducing opportunity, thus reducing vulnerability
  - Increasing perception of detection

# Factors Increasing the Risk of Fraud

- Inefficient or poor authorization and oversight
- Failure to limit access to assets or sensitive data
- Irregular journal entries and transfers
- Inefficient or poor monitoring of internal controls by management and the governing board
- Collusion among employees, especially where little or no supervision, oversight, or monitoring exists

# Examples of Fraud

- Paying vendor “buddies” for no work product
- Purchasing supply items for personal use
- Irregular journal entries and transfers
- Collusion among employees, especially where little or no supervision, oversight, or monitoring exists
- Unsubstantiated travel expenses
- Ghost or fictitious employees in payroll
- Overpaying wages and benefits
- Unauthorized or falsified transactions, resulting in skimming, embezzlement or larceny
- Using a foundation-nonprofit for “special” contracts



# What to Look for: Staff Indicators

- Unexplained or unusual favor with a vendor/contractor
- Living beyond their means
- Failure to complete or file Form 700
- Displays unusual interest in a vendor or supplier
- Employee conducting business on the side
- Address of a vendor or contractor the same as an employee, an employee's relative, or employee associate

# KTLA: Exclusive -- School Operator Accused of Taking \$3 Million -- Chip Yost Reports

(02:26) 10/09/2009 at 05:27am

Multiple Fraud Schemes



# Fraud Detection: High Tech vs. Low Tech

## High Tech

- Anti-fraud analytics have evolved from asking simple, rule-based questions of data, to letting the data tell a story through visualization, predictive models, anomaly detection, pattern recognition and text-mining techniques. Data visualization serves as a digital art form that can intuitively display connections in your data and help you zero in on bad actors.
- Data analytics is statistics, modeling and data mining to analyze current and historical facts to make predictions about future or unknown events.
- Social Media: Facebook, Twitter, etc.
- Computer forensics – from professional specialty services to common user tools: data imaging, data archiving, internet research, data mining

Source: 2019 ACFE Conference

# Fraud Detection: High Tech vs. Low Tech, cont.

## Low Tech

- Vet your vendors (background checks, W-9, SSN/FEIN)
- Review bank reconciliations
  - Outstanding checks/deposits/adjustments
- Visually scan registers:
  - Detail general ledger – even telephone expense
  - Cash disbursements journal
  - Cash receipts journal
  - General journal – diffused/allocated entries
  - Payroll register – fictitious employees

# Fraud Detection: High Tech vs. Low Tech, cont.

## Low Tech (cont.)

- Review cancelled checks – front/back
  - Evaluate signatures
- Customers – buried expenses
- Other lists – hidden transactions
- Related/connected organizations – foundations, boosters, other nonprofits: pass-through/conduit entities and even their fundraisers – volunteers

# Fraud Detection: High Tech vs. Low Tech, cont.

## Low Tech (cont.)

- Construction contracts
  - Are instruction bulletins, change order proposals, change order authorizations, and change orders compared?
  - Is work or payment implemented only after the change authorization approval date?
  - Are architect's approvals required even for contingency and allowance transactions?
  - Are board-approved purchase orders required for all changes?

# Fraud Detection: High Tech vs. Low Tech, cont.

## Low Tech (cont.)

- Access points
  - Computer systems – using others' IDs
  - Backups – how secure are the IT backups?
  - Camera systems – are they working?
- Documents – Excel, Word, PDFs
  - Properties – is the document being passed off as historical when in fact the properties (metadata) indicate it is recent?



# Basics of Fraud Detection

- Sample vendors (background checks, W-9, SSN/FEIN)
  - Fictitious/false vendors, flimsy documentation
- Review bank reconciliations
  - Outstanding checks/deposits/adjustments
- Visually scan registers:
  - Detail general ledger – (even telephone expense)
  - Cash disbursements journal
  - Cash receipts journal
  - General journal – (diffused/allocated entries)
  - Payroll register – (fictitious employees)



# Basics of Fraud Detection, cont.

- Review cancelled checks – front/back
  - Evaluate signatures (very important in ASBs)
- Customers (buried expenses)
- Other lists (hidden transactions)
- Related/connected organizations – foundations, boosters, the charter's nonprofit, other nonprofits: passthrough/conduit entities (Sole Statutory Member – bylaws/articles of incorporation)

# Basics of Fraud Detection, cont.

- Construction contracts
  - Are instruction bulletins, change order proposals, change order authorizations, and change orders compared?
  - Is work or payment implemented only after the change authorization approval date?
  - Are architect's approvals required even for contingency and allowance transactions?
  - Are board-approved purchase orders required for all changes? (This is a huge loophole for fraudsters)
  - Credible supporting documentation for invoices/billing

# Basics of Fraud Detection, cont.

- Ask yourself – what are our true weaknesses?
- Ask yourself – what is unique here at our district that may have an issue?
- Please don't just go through a checklist. Regarding fraud and weaknesses, you really need to think about all of your systems and how they may be exploited.

# Uncovering Fraud

- Information can sometimes be gained by unlikely channels
  - Staff due to employee conflicts
  - Site visits/interviews
  - Board meetings/minutes
  - Whistleblowers
  - Most of the time is simply a matter of listening

# Uncovering Fraud, cont.

- Fraud detection is often more about awareness and observation, than a checklist
  - People – who has the authority and access.
  - Policies – what policies are in place.
  - Schemes – identify the fraud scheme(s) involved

# Uncovering Fraud: Conflicts of Interest

- Most conflicts of interest involved undisclosed financial interests with a vendor, supplier or contractor
  - Could be fictitious
  - Could have a separate business in competition with the school
  - Could be providing gifts, travel or kickbacks
  - Could be helping a family member/friend with their business

# Warning Signs

- Receipts are not issued, kept or requested by advisors, volunteers, trustees, etc.
- Charter management organizations (CMOs), EMOs, LLCs, corporations, disregarded entities, and other related entities/nonprofits are not available for audit. Lack of transparency and disclosure. Also possible consolidation issue.
- Records are missing
- Records are altered

# Warning Signs, cont.

- Bank reconciliations are several months behind
- Bank reconciliation errors
  - Outstanding deposits are carried forward
  - Numerous voiding transactions and error corrections that usually do not have any supporting documentation or reasons for such entries
- Cancelled checks are not kept and reconciled to books (this is an old but still very valid audit procedure). At least sample cancelled checks.



# Warning Signs, cont.

- Numerous adjusting journal entries, and/or those entries lack explanations and written authorization
- Subsidiary ledgers and journals where detail transactions would be entered are not used, and other supporting software systems are disconnected, or the data is imported into incorrect months

# Preventative & Detective Controls

Preventative Controls: Stop fraud before it occurs

- May be manual or automated processes
- Preferred

Detective Controls: Identify fraud after it occurs

- May be manual or automated processes
- For when preventative fails

Good internal control systems employ BOTH!

# False Sense of Security: Don't be Complacent

- Internal controls need regular review and evaluation to ensure effectiveness
  - Need to ask:
    - Are the same risks in place?
    - Are the current internal controls working?
    - Have there been any weaknesses identified, and if so, remedied?

# False Sense of Security: Independent Audits

- Don't over-rely on independent auditors to identify all deficiencies in internal control
  - Remember, not every transaction is reviewed. They are sampled.
  - The annual audit is NOT a fraud audit. It's a compliance audit.



# Final Thoughts on Fraud

- Good internal controls help protect the district and its employees and help to identify the perpetrator.
- Always trust your instincts and experience and ask as many questions as you need to get an answer.
- If you get an answer that does not make sense or that sounds doubtful, ask again and/or get help.

# Gift of Public Funds Discussion

# Gift of Public Funds

- To avoid being a gift of public funds, expenditures of all LEA funds must be for a direct and primarily public purpose.
  - Private individuals are benefitted only incidentally
  - Approved public purpose must be within the scope of an educational agency's (including charter school's) jurisdiction and purpose
- Expenditures that most directly and tangibly benefit students' education are more likely justified.
  - Expenditures driven by personal motive are not justified even if they are longstanding custom or based on benevolent feelings.



# Public Scrutiny Test

- All funds received by the district:
  - Are considered public funds
  - Must be used to support the educational mission
- The best test to use when determining whether the expenditure is appropriate is called the “public scrutiny test.”
  - Question: Would the tax-paying public view the expenditure as necessary to support public education?
  - Answer: If you are already questioning whether the expenditure is appropriate, it may not be!

# Public Funds Definition

- For purposes of state law, public funds are identified as any monies that are collected and retained in a district account. This includes all student activity dollars, which are designated as “quasi-public funds” and are subject to board of education direction and control in the same manner as all other district funds. Any “district” fund is considered public funds, unless the district is acting as a custodian for privately raised funds in a separately maintained agency fund or account.
- Funds maintained by associated student body organizations, or ASBs, are public funds subject to the constitutional gift clause.

WE WILL TALK ABOUT ASB FUNDS SOON!

# Nonpublic Funds Definition

- Dollars that are collected and retained by outside organizations such as parent and booster groups or foundations. This also includes collective bargaining association accounts.
- The district should not act as custodian for privately funded monies of a separately maintained agency fund or account, such as flower funds paid for exclusively by employee contributions or profits from vending machines, that is exclusively used and paid for by district employees.

# Connection to Education?

- An expenditure that does not have an obvious benefit or connection to education of the district's pupils should be carefully reviewed.
- For purposes of approval of district orders for payment, a governing board's expenditure of funds will not be considered a gift of public funds if one of the following is true:
  - The Legislature has provided that a school board must or may make such an expenditure
  - The expenditure falls under a specified exemption (e.g., joint powers agreement)
  - The district's governing board has found and determined that the expenditure serves a public educational purpose

# Is the Expenditure in Code?

- LEA expenditures determined to be for a public purpose are generally authorized by statute. So if in Code ... not a gift of public funds.
- In the context of public education, an expenditure serves a legitimate public purpose when it will directly and tangibly benefit the education of district students.
- To justify an expenditure of public funds, a district's governing board must determine that the expenditure will benefit the education of its students. If the governing board has reasonably determined that a particular type of expenditure serves a legitimate and approved public purpose and is within the scope of the LEA's jurisdiction and purpose, courts will generally defer to the board's decision.
  - An LEA's jurisdiction does not extend to aid of the indigent and the like, or the promotion of social welfare, though these may be lawful public purposes for other agencies.

# Is the Expenditure in Policy?

- Expenditures driven by personal motives or moral obligations, or for noble or virtuous purposes such as a desire to convey compassion, sympathy, joy or gratitude, are not justified and generally do not serve a primarily public purpose, and thus are likely unlawful gifts of public funds, even if they have been a longstanding local custom or are based on benevolent feelings.
- If the LEA's governing board has determined that a particular type of expenditure serves a public purpose, courts will almost always defer to that finding.
- Thus, if the district has a board policy or resolution stating that specific items are allowable (e.g., scholarships or donations), there is more certainty that the expenditure might be considered allowable.

# Reminders About Public Funds

- School districts and their employees are prohibited from using public funds for private purchases and expenses.
- In general, any use of school district funds that is not either expressly or impliedly legally authorized is unlawful.
- Districts should consult legal counsel if they believe an expenditure could be construed as a gift of public funds.

# What Can Happen if a Gift of Public Funds Occurs?

- Districts and public officials can face potential legal liability, including taxpayer lawsuits, civil and criminal penalties, and the loss of public confidence, for the misuse or improper expenditure of public monies. (See Gov. Code § 8314; Pen. Code § 424.)
- The California Supreme Court also held that public officials may be held personally liable if they fail to exercise due care and reasonable diligence in authorizing the expenditure of public funds.
- Whether or not an official has acted with due care depends on various factors including, for example, whether the expenditure's impropriety was obvious or not, whether the official was alerted to the possible invalidity of the expenditure, and whether the official relied upon legal advice in making the expenditure.



# Final Thoughts on Gift of Public Funds

- As public agencies, school and community college districts are subject to the constitutional prohibition against gifts of public funds.
- In reviewing proposed expenditures, districts should exercise due care and diligence in determining whether or not a particular expense serves a primarily public purpose.
- Although the analysis may be somewhat confusing and unclear at times, in the world of public education, expenses are most likely justified when they will directly benefit the education of students in the district.
- The best way to guard against gift of public funds issues is through board policy.

# Fiduciary Responsibility

# Fiduciary Responsibility

## **The Concept of Fiduciary Responsibility is Essentially “Ethics”**

Fiduciary responsibility, more commonly referred to as a fiduciary duty, is the legal duty to act solely in another party's interests. This legal duty includes the duty to act with care, competence, and diligence. A fiduciary duty is the strictest duty of care recognized by the US legal system.

# Fiduciary Responsibility, cont.

- A fiduciary duty is the highest standard of care. The person who has a fiduciary duty is called the fiduciary, and the person to whom he owes the duty is typically referred to as the principal or the beneficiary. (source: [https://www.law.cornell.edu/wex/fiduciary\\_duty](https://www.law.cornell.edu/wex/fiduciary_duty))
- A fiduciary also may be a person who holds a legal or ethical relationship of trust with one or more other parties (person or group of persons). In other words, a fiduciary takes care of money or other assets for another. District board members, administrators and management are examples of those who have fiduciary responsibilities or a fiduciary duty. The Cornell law source further describes several components of fiduciary duties, which FCMAT summarizes and applies to districts as follows:

# Fiduciary Responsibility, cont.

- **Duty of Care**: Before making a decision, collect all evidence and information available. Do your “due diligence” and review all the information and evidence available – don’t just accept the information as it is presented. Assess information with a critical eye and ask the questions: who, what, when and where. A fiduciary’s responsibility is to protect the assets of the district.
- **Duty of Loyalty**: You cannot use your position in the organization to further your private interests. Avoid anything that might injure the district.
- **Duty of Good Faith**: Advance the interests of the district. Do not violate the law. Fulfill your duties and responsibilities.

# Fiduciary Responsibility, cont.

- **Duty of Confidentiality**: Keep confidential matters confidential and never disclose confidential information to avoid personal liability.
- **Duty of Prudence**: Be trustworthy to a degree of care and skill that a prudent board member, member of management, or fiduciary would exercise. Prudent means acting with wisdom and care, including exercising good judgment.
- **Duty of Disclosure**: Act with complete candor. Be open, sincere, honest and transparent. Disclose all financial interests on Form 700, Statement of Economic Interests.

# Preserving a District's Fiscal Health

# FCMAT Early Intervention

- 2018-19 Budget Act provides for FCMAT to offer more proactive and preventive services to fiscally distressed school districts by automatically engaging with a district under the following conditions:
  - Disapproved budget
  - Negative interim report certification
  - Three consecutive qualified interim report certifications
  - Downgrade of an interim certification by the county superintendent
  - “Lack of going concern” designation
- FCMAT may perform a Fiscal Health Risk Analysis (FHRA) to determine the level of risk for insolvency.
- Conducted using an FHRA tool, or questionnaire, that covers 20 functional areas and weights each question based on high, medium and low risk.



# FCMAT Early Intervention, cont.

- An FHRA study is coordinated with the county superintendent to supplement the AB 1200 oversight process.
- No cost to the district or county superintendent for an FHRA analysis.
- FHRA tool is available on our website at <https://www.fcmat.org/fiscal-health>. Districts are invited to conduct self-assessments.
- All FHRA reports are made public on our website. Past reports are available at <https://www.fcmat.org/fcmat-reports>.

# Indicators of Risk or Potential Insolvency

- Each FHRA indicator reflects a lack of systems, processes, commitment or attention to one or more critical elements of an organization's operation.
- The existence of any one of the indicators increases risk of potential insolvency and the need for assistance from outside agencies.
- Lack of corrective action to the indicator will eventually lead to financial distress, insolvency and loss of local control.
- Identifying and responding to issues early is the key to maintaining fiscal health.
- Diligent multiyear planning will help a district remain solvent.

# Indicators of Risk or Potential Insolvency

## Unreliable Budget Development

- Unreasonable and/or unclear budget assumptions.
- Exclusive reliance on prior-year rollover budget method.
- Position control data not used effectively, causing inaccuracies in budgeting of salaries and benefits.
- LCFF revenue not calculated correctly.
- One-time sources utilized for ongoing expenditures.
- Expenditures described in the Local Control and Accountability Plan not aligned with the budget.

# Indicators of Risk or Potential Insolvency

## Insufficient Budget Monitoring

- Failure to regularly update budget changes and assumptions.
- Lack of monitoring of actual expenditures as compared to the current budget.
- Budget revisions not posted in the financial system or communicated to the board regularly.
- Lack of control or monitoring of total compensation as a percentage of total expenses.
- Requisitions or purchase orders processed when the budget is insufficient.

# Indicators of Risk or Potential Insolvency

## Inadequate Cash Management

- Failure to reconcile bank accounts monthly.
- Cash not forecasted beyond 12 months.
- Lack of short-term plan to address cash flow needs.
- Lack of communication to the board about the district's cash position.

# Indicators of Risk or Potential Insolvency

## Mismanaged Collective Borrowing Agreements

- Failure to consider long-term impact of collective bargaining agreements.
- Lack of bargaining agreements with all units for several years with no resources identified to cover potential settlements.
- Pre-settlement analysis not conducted thoroughly, accurately or timely.
- Settlements above the funded cost-of-living adjustment.

# Indicators of Risk or Potential Insolvency

## Ongoing Deficit Spending

- Deficit spending in the current or two subsequent fiscal years.
- Not having or not implementing a board-approved plan to reduce and/or eliminate deficit spending.
- Not decreasing deficit spending over the past two fiscal years.

# Indicators of Risk or Potential Insolvency

## Mismanaged Employee Benefits

- Lack of a board-adopted plan to fund health and welfare retiree benefit liabilities.
- Nonexistence of, or noncompliance with a policy or collectively bargained agreement to limit accrued vacation balances.
- No verification and determination of eligibility for benefits for all active and retired employees and dependents in the last five years.
- Compensated leave balances not tracked, reconciled, or reported.



# Indicators of Risk or Potential Insolvency

## Inattention to Enrollment & Attendance Reporting

- Enrollment decreases and/or instability.
- Enrollment and ADA data not monitored and analyzed at least monthly.
- Inaccurate data reported through CALPADS.
- Enrollment projections and assumptions not based on historical data, industry-standard methods, and other reasonable considerations.
- Board policy to limit outgoing interdistrict transfers is nonexistent, or policy is not followed.

# Indicators of Risk or Potential Insolvency

## Decreasing Fund Balance and Reserves

- Failure to accurately estimate the ending fund balance.
- Failure to maintain the minimum reserve for economic uncertainty.
- If unable to maintain the minimum reserve for economic uncertainty, a board-approved plan to restore the minimum reserve for economic uncertainty does not exist.

# Indicators of Risk or Potential Insolvency

## Ineffective Internal Controls and Fraud Prevention

- Lack of controls that limit access to the financial system.
- Access and authorization controls to the financial system are not reviewed and updated upon employment actions, and at least annually.
- Duties in accounts payable, accounts receivable, purchasing, contracts, payroll, human resources, ASB, and warehouse/receiving not segregated, supervised, and/or monitored.
- General ledger not reconciled or closed timely.
- Inadequate processes and procedures in place to discourage and detect fraud.

# Indicators of Risk or Potential Insolvency

## Breakdown in Leadership and Communication

- Instability in the superintendent or CBO positions.
- Lack of regular communication between the superintendent and cabinet.
- Regular training on financial management, budget, and governance not provided to site and department administrators, and board members.
- Board policies and administrative regulations routinely ignored, not adopted, updated, implemented, or communicated to staff.
- Micromanagement by board members.
- Systems fully or partially controlled by highly influential special interest groups.

# Indicators of Risk or Potential Insolvency

## Lack of Multiyear Planning

- Unreasonable and/or unclear multiyear projection (MYP) assumptions that are not aligned with industry standards.
- Financial decisions are made without using the current MYP as a guiding document.
- Miscellaneous or identified reductions are included on the MYP without a board-approved plan for implementation.

# Indicators of Risk or Potential Insolvency

## Ineffective Use of Position Control

- Accounting for positions and costs is inaccurate or incomplete.
- Budget source not identified for a new position before the position is authorized by the governing board.
- New positions & extra assignments posted without governing board approval.
- Staffing ratios for certificated, classified, and administrative positions not adopted or followed.
- Lack of regular meetings between human resources, payroll, and budget to discuss issues and improve processes.

# Indicators of Risk or Potential Insolvency

## Other Concerns

- Out-of-date long-range facilities master plan.
- Special Education costs not monitored. Contribution from the general fund and identification rates are above the statewide averages.
- Special Education staffing ratios, class sizes, and caseload sizes do not align with statutory requirements and industry standards.
- The district and county office of education have different financial systems and lack an automated interface.
- Annual independent audit report contains material weaknesses or internal control findings.

# What District Leadership Can Do to Avoid Fiscal Distress

- Actively participate in the annual budget development process.
- Monitor departmental budgets regularly – especially significant variances from budgeted amounts.
- Maximize the accuracy of budget projections using a dynamic budget development process – rather than just a prior-year rollover method.
- Provide annual training on financial management and budgeting to site and department administrators who are responsible for budget management.
- Maintain regular communication with the Business Office.



# What District Leadership Can Do to Avoid Fiscal Distress, cont.

- Develop and adhere to a districtwide budget development and monitoring calendar, including key dates and deadlines, as well as clearly defined roles and responsibilities.
- Have a documented policy and/or procedure for evaluating the proposed acceptance of grants and other restricted funds and the potential multiyear impact on the district's unrestricted general fund.
- Always use restricted dollars first, where applicable.
- Establish and follow a policy to limit accrued vacation.
- Review and verify all CALPADS data prior to submission.
- Regularly monitor enrollment and attendance.

# What District Leadership Can Do to Avoid Fiscal Distress, cont.

- Ensure the district accurately and thoroughly identifies all students eligible for free and reduced-price meals, as well as English learners and foster youth.
- Maintain strong access controls over district technology systems, and regularly monitor for accuracy.
- Regularly analyze staffing at all levels.
- Ensure full and efficient use of all school facilities.
- Maintain strong communication channels throughout the district.

# What District Leadership Can Do to Avoid Fiscal Distress, cont.

- Hold regular meetings where all members of the administrative cabinet can meet collectively.
- Adopt and revise board policies and administrative regulations annually.
- Ensure board approval of all new positions before posting.
- Establish and monitor effective internal controls. Maintain a strong “*tone at the top*” – the ethical atmosphere created in the workplace by the organization's leadership.
  - *Remember – If the tone set by managers upholds ethics and integrity, employees will be more inclined to uphold those same values.*

# Responses to Fiscal Distress

Districts That Make a Successful Recovery	Districts That Require Severe Measures
Recognize they have a problem	Deny they have a problem
<u>Don't</u> mask the problem	Resist scrutiny from outsiders
Take advantage of available financial expertise	<u>Don't</u> seek external assistance
Work collaboratively with oversight agencies	Are combative with oversight agencies
Are part of the solution	Fail to address deficiencies

# Links to FCMAT Tools

- ✓ **Indicators of Risk or Potential Insolvency for K-12 Districts:**  
<https://www.fcmat.org/PublicationsReports/FCMAT%20Indicators%208-14-19.pdf>
- ✓ **Fiscal Health Risk Analysis for K-12 Districts** – instructions, questionnaire and document list: <https://www.fcmat.org/fiscal-health>
- ✓ **FCMAT Projection-Pro** – for creating multiyear projection scenarios:  
<https://www.fcmat.org/projection-pro>
- ✓ **FCMAT LCFF Calculator** – for calculating LCFF revenue:  
<https://www.fcmat.org/lcff>

# **School Connected Organizations**

## **Booster Clubs, Parent Organizations and Foundations**

# School Connected Organizations

- Foundations, booster clubs, and parent organizations are often referred to as “school-connected organizations.”
- School connected organizations are formed by parents, community members, and staff members to support school activities (e.g., music groups, athletic teams, debate teams).
- School connected organizations must have their own separate Employer Identification Number (EIN).
- The primary role of a school connected organization is to enrich students’ participation in extracurricular school activities.

# District Relationship

- School connected organizations:
  - Are legally separate from the district
  - Are not under the legal control of the district superintendent, board of education, site administrators, other district staff or students
  - Must remain completely separate from district's Associated Student Body (ASB) organizations
  - Must not administer or supervise ASB organizations
  - Must never commingle funds with ASB or district funds
  - Cannot keep funds in ASB or school safe



# District Has Responsibility for School Connected Organizations

If school connected organizations operate separately from the district and are not controlled by district officials or students, why should the district care about their operations?

# Education Code Defines District Responsibility

Education Code Section 51521 states:

“No person shall solicit any other person to contribute to any fund or to purchase any item of personal property, upon the representation that the money received is to be used wholly or in part for the benefit of any public school or the student body of any public school, ***unless such person obtains the prior written approval of either the governing board of the school district in which such solicitation is to be made or the governing board of the school district having jurisdiction over the school or student body represented to be benefited by such solicitation, or the designee of either of such boards.***”

# District Policy

- Education Code Section 51521 means that a school-connected organization may not legally operate unless and until it obtains the prior written approval of the district's governing board or its designee.
- The district governing board should adopt board policies and administrative regulations that booster clubs, foundations, and parent organizations must follow to operate as a school-connected organization.

# District Policy, cont.

## Example XYZ Unified School District Board Policy 1240:

The Board recognizes that foundations, parent organizations, and school-booster organizations (school connected organization) are separate legal entities, independent of the district. However, to help the Board fulfill its legal and fiduciary responsibility to manage district operations and in accordance with Education Code 51521, any group wishing to operate a school connected organization that will conduct fundraising activities to benefit a school or its students shall submit a written application to the site administration, who shall approve or deny the application.

# District Policy, cont.

## **Example XYZ Unified School District Board Policy 1240 - *continued*:**

Any fundraising activities initiated by an approved school connected organization shall be submitted to school administration for approval prior to the fundraising activity. In addition, the Superintendent or designee shall establish appropriate procedures, guidelines and internal controls for the operation of school connected organizations and the relationship between school connected organizations and the district.

# Operating in the District

- School connected organizations must be authorized to operate within the district through an application process.
- All school connected organizations are subject to revocation by the superintendent or designee if deemed necessary.
- To operate in the district, each school connected organization should:
  - Provide evidence of California state and federal 501(c)(3) tax-exempt status (IRS Determination Letter and while waiting for the IRS letter, Form 1023 should be presented)
  - Provide proof that each parent organization or booster club has its own EIN. (Form SS-4)

# Operating in the District, cont.

- Submit a signed School Connected Organization Manual Acknowledgement form. (Booster Club Manual, PTA/PTO Manual, Foundation Manual)
- Submit the district's signed Hold Harmless Agreement.
- Submit a copy of the school connected organization's constitution, or bylaws.
- Submit complete, up-to-date financial statements (Balance Sheet and Income Statement) to the school site principal or designee twice each year.

# Operating in the District, cont.

- Ensure that the school-connected organization's officers attend a district-provided annual workshop.
- Not imply any form of responsibility for or sponsorship of its fundraising events by the district, school site or ASB unless authorized by the district, school principal or principal's designee.



# Operating in the District, cont.

- Be responsible for maintaining its own tax-exempt status, accounting, financial records and income tax reporting to both the federal and state government.
- Never be allowed to use the district's EIN.
- Not use the ASB or district funds as a pass-through account.
- Maintain a Seller's Permit if selling merchandise or goods, because school connected organizations are not sales tax exempt.
  - California Department of Tax and Fee Administration
  - <http://www.cdtfa.ca.gov>

# Operating in the District, cont.

- Annually submit a Certificate of Liability from its insurance company to the principal or designee and carry liability insurance in an amount equal to or exceeding the minimum coverage amounts determined by the district.
- Annually submit a member roster of names and a contact list of officers to the principal or designee complete with addresses, phone numbers and email addresses.
- Have its own bank account in the name of the organization separate from the district and/or ASB.
  - A copy of the bank account statement and list of authorized signers must be annually submitted to the principal or designee.

# Operating in the District, cont.

- Not allow any individual to personally benefit from the school connected organization's activities.
- Upon termination, provide through the school-connected organization's constitution for the distribution of any excess funds and assets to another nonprofit organization; e.g., the booster club's or parent organization's school site, the ASB, or the district.

# Operating in the District, cont.

- The school connected organization must submit a proposed budget and list of proposed fundraising activities to the school site principal or designee at the beginning of each school year for a determination to be made that there are no fundraising conflicts with other school activities, including ASB.
- School connected organizations' ability to use school district facilities is regulated by California Education Code 38130-38139, otherwise known as the Civic Center Act.
- All fundraising activities at any district school site, including school connected organizations, must be approved in advance per the district's Facility Use Policy.

# Operating in the District, cont.

- Students may volunteer for or assist school connected organizations when it does not interfere with students' other school site obligations.
- A school connected organization may never discriminate against students on the basis of a family's membership in, contributions to, or fundraising for the organization, or the family's time spent on organization activities.
- When a booster club or parent organization donates or raises funds for a school site, ASB or the district, it should state the specific purpose for which the funds are being donated on all applicable literature.
  - Once funds are donated and accepted by the district, the funds are the property of the district and may not be returned to the parent organization or booster club.

# Associated Student Body (ASB) Discussion

# Placentia-Yorba Linda USD ASB Alleged Embezzlement



OFFICE OF THE  
**DISTRICT ATTORNEY**  
ORANGE COUNTY, CALIFORNIA  
TODD SPITZER

## Former Esperanza High School Clerk Charged with 222 Felonies for Embezzling More than \$700,000 of Student Funds

[REDACTED] of Midway, was charged with 222 felony counts of misappropriation or embezzlement of monies by a public officer and an enhancement of aggravated white collar crime over \$500,000. [REDACTED] faces a maximum of 230 years in state prison if convicted on all counts.

[REDACTED] is currently being held at the Orange County Jail on \$709,084.00 bail, which is equivalent to the amount [REDACTED] is accused of embezzling over a five-year period. In order to post bail, [REDACTED] must show that the funds were not feloniously obtained.

[REDACTED] is accused of embezzling the money by writing checks to [REDACTED] self, [REDACTED] husband and [REDACTED] deceased mother. Prosecutors were limited in charging [REDACTED] with embezzlement only to a five year window between 2012 and 2017 due to the availability of bank records.

Source - <http://orangecountyda.org/civica/press/display.asp?layout=15&Entry=5899>



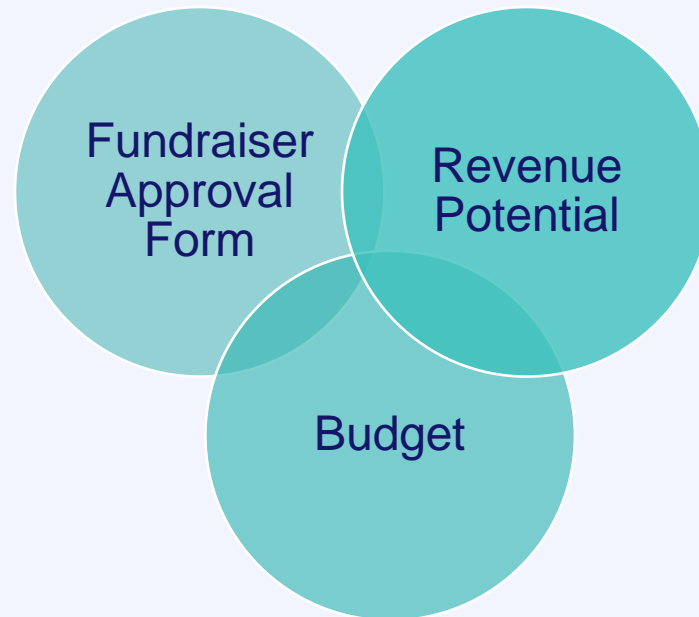
# It's All About Students

- Fundraising
- Participating
- Doing
- Learning
- Experiencing
- Making decisions (if organized ASB)





# Let's Talk about ASB Essentials



# ASB Essentials: Purchase Orders

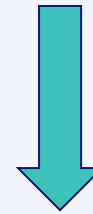
- Yes, purchase orders are required by Education Code.
  - Education Code section requires three approval signatures prior to funds being spent for organized ASB (E.C. 48933), and one signature for unorganized ASB (E.C. 48938).
- Even if the vendor does not take purchase orders, you must prepare one as evidence of preapproval.
  - Think of the PO as the Preapproval Form.
- Prepare a PO for employee reimbursements, too.

# District Board Policy and Regulations

**District policy and regulations govern everything, including ASB.**



**AND**



**District policy and regulations guide us to ensure an understanding of what allowable fundraisers and expenditures are.**



# District Board Policy and Regulations, cont.

Govern:

- Establishment of the student body organization
- Supervision of the organization's activities
- Operation and management of the organization's finances
- It is important for ASBs to be aware of district policy because district policy applies to the ASB
  - The district's policies and the ASB's policies should be consistent
    - For example, there should not be two sets of policies for non-sufficient funds (NSF) checks, travel, etc.

**Board policies are additional laws that ASBs must follow.**



# District Board Policy and Regulations, cont.

- The governing board of the school district, charter school or community college ultimately is responsible for everything that happens in the district, including the formation and activities of student organizations.
  - Education Code Section 48930 for K-12
  - Education Code Section 76060 for community colleges
- LEA administration is responsible for establishing and monitoring the procedures to carry out the policies and regulations adopted by the governing board.



# District Board Policy and Regulations, cont.

- Students are raising funds for their own benefit and are able to make decisions about the funds (with co-approval from a board-designated administrator and an advisor); however, when there is a conflict, **governing board policies and regulations are the final guide because ultimately the funds are under the governing board's authority.**



# District Board Policy and Regulations, cont.

- A comprehensive and current ASB manual for student organizations is critical to ensure sound practices, fiscal and otherwise, are followed.
  - Referencing the ASB manual in board policy is recommended to ensure staff understand how important it is to follow the manual's guidance.
- The FCMAT *ASB Accounting Manual, Fraud Prevention Guide and Desk Reference* may also be adopted to supplement a district's board policy or procedures regarding student and auxiliary organizations.
  - Include language to provide clarity and the flexibility to follow the district's own LEA policies and procedures when they differ from those in the FCMAT manual.



# Types of ASBs

- **Unorganized**

- Elementary and K-8 school sites
  - Can also include: Adult Ed, Special Education, ROP, Continuation
- Governing board delegates authority to oversee raising and spending of funds to a “trustee” (principal/administrator)
- Students do not govern themselves – usually no student council or student clubs
  - Limited student decision making: School principal/trustee oversees raising and spending of funds and CAN make all decisions
  - Note: Although the principal/trustee can make the decisions, this does not change the rules on how and why we raise and spend ASB funds
- Some requirements are not as strict





# Types of ASBs, cont.

- **Organized**

- Middle and high schools; community colleges
- Activities are organized around student clubs and a student council
- Students are the primary authority when making decisions
- More requirements, which students are involved in:
  - Formal meetings
  - Develop budgets
  - Plan fundraisers
  - Decide how funds will be spent
  - Approve payments
- Advisors and school principal/administrator:
  - Provide assistance, advice, and co-approve



# Clubs

- All clubs need to be approved, even activity clubs, for liability reasons
  - Each club must have a certificated club advisor assigned to it, and only that certificated club advisor can co-approve expenditures and activities
- A formal application should be completed that includes:
  - Title, powers and duties of the officers, and the manner of their election
  - Scope of proposed activities
  - Name of organization
  - Endorsement by a certificated club advisor
- New clubs must be approved by:
  - Student council\*
  - Principal/administrator

\*For organized ASB

# Classes

## **Classes in Organized ASB** (e.g., Freshman Class, Class of 2022)

- Must be run like a club
  - Certificated instructor/teacher could be club advisor
  - Same requirements and internal controls as any other club
    - Formal meetings
    - Develop budgets
    - Plan fundraisers
    - Decide how funds will be spent
    - Approve payments
    - Preapprovals for fundraising and expenditures, etc.
  - Under the direction of student council
  - Students are the primary authority when making decisions



# Student Club and Trust Accounts

- What is a Club (Trust Account)
  - Composed of currently enrolled students at that specific school site
  - Students form a club to fulfill a specific purpose (which will be stated in the constitution\*)
  - Advisor must be a certificated employee of the school district
  - Students **MUST** play a major role
  - Students are the primary authority when making decisions\*
  - There must be:
    - An approved constitution\*
    - Elected officers\*
    - An approved budget\*
    - Regular formal meetings\*
    - Minutes of meetings\*
  - Clubs report to the student council\*
  - All expenditures approved in advance

\*Optional if unorganized ASB



# Student Club and Trust Accounts, cont.

- Funds held in trust by student council
  - ASB constitution or bylaws should state what happens to funds of inactive clubs
    - Funds would revert to general ASB account
      - e.g., student council or leadership class
    - Define what an inactive club is (e.g., 18 months)
      - Length of time is not specified in Education Code. Best to specify in constitution or bylaws.
    - Try to spend money for same reason it was raised



# How Do Parent Groups, Boosters, and Auxiliary Groups Fit In?

- Parent, booster and auxiliary group (non-student) funds **cannot** be commingled with district/ASB funds
  - Non-student groups cannot deposit funds into the ASB accounts unless they are being donated to the ASB
  - Once the funds are donated to ASB, only the student organizations control how the funds will be used (following the district's policies and ASB guidelines)
  - Parent, booster and auxiliary groups' funds must be kept separate from those of student groups

**Chapter 21 of the FCMAT ASB manual gives detailed information about non-student groups**



# ASB Accounts

- ASB accounts should not be used as pass-through or clearing accounts.
- Only money that should be deposited in ASB:
  - Actual ASB funds
  - Will be used for appropriate ASB purposes
- When non-ASB activities are commingled with ASB, problems begin.
  - Commingled funds should never be allowed; may appear to be fraudulent or negligent
  - Avoid even the APPEARANCE of fraud



# What to Do with Funds that Don't Belong in ASB

- Non-ASB accounts, including but not limited to pass-through or clearing accounts, should be transferred into a district account
  - Discontinue accounting for non-ASB activities in the ASB financial records.
- Donations from parents, students or community members or groups should be deposited in the school site's district donation account, not accounted for through the ASB, unless they truly supplement ASB clubs or fundraising.





# Budgets

- Every club must have a budget (if organized ASB)
  - If unorganized, budgets are not mandatory
- Budget is an ESTIMATE
  - If the budget goes off track during the year, REVISE it
- Prepare NEXT YEAR'S budget early, don't wait
  - It's needed to conduct business
- Next year's budget can be as simple as using current year actual revenue and expenditures
- Students need to participate in the budget process
- Require that a budget is in place and approved BEFORE the club enters into any commitments (i.e., spends any money)

**No Budget = No Spending!**



# Budgets (cont.)

- Budget CARRYOVER
  - Possible; HOWEVER – Students should try to spend what they raise
  - But, if needed:
    - Seed money for next year = OK
    - Reasonable carryover balances = OK
    - Preapproved multiyear projects = OK
  - District policy should set the carryover amount or percentage
  - There should be a form to get approval to carry over funds from the prior year



# What Happens When a Class Graduates?

- ASB funds can only be spent on CURRENT students
- If graduating, students should:
  - Spend remaining funds prior to graduation
  - Gift the funds to the general ASB at the same school site
- Balances cannot follow students graduating from elementary or middle school and moving on to next level
  - Funds stay at same school where they were raised
- If class has already graduated and did not make a decision on how to spend remaining funds:
  - Funds would revert to general ASB



# Fundraising Essentials

- Obtain district governing board approval BEFORE the fundraiser occurs. This is required by Education Code Section 48932.
  - Best Practice: ASB fundraising events should be approved at the beginning of year, by the board or whomever the board delegates to do so, or the governing board should approve policies and administrative regulations that delineate allowable and unallowable fundraising events
- Ensure that parent organizations coordinate the timing of their fundraisers with ASB fundraisers, so they don't compete.



# Revenue Potential

- Complete a Revenue Potential form for each fundraiser
  - An internal control requirement, and a finding in the district's independent audits if not in existence
  - The Revenue Potential is NOT the same as a fundraiser approval, unless both activities/actions are on the same form
- Revenue Potentials will include an ESTIMATE, ACTUAL RESULTS and the DIFFERENCE
- Revenue Potential form can serve as the document to:
  - Ensure that the site administrator is informed and approves of all fundraising activity at the site
  - Notify the bookkeeper of an upcoming deposit
  - PLAN!



# Fundraising for Specific Students

## Parameters for Fundraising Events:

- Students should participate and make contributions to fundraising events voluntarily.
- They cannot be excluded from an activity funded by ASB funds because they did not participate in fundraising.
- Fundraising proceeds cannot be attributed to specific students based on what they raised.
  - The funds are raised to benefit the entire club or student group, not individual students.



# Fundraising Parameters - Don't Forget ...

- An ASB fundraiser must be preapproved and consist of students raising money to purchase “extras” for students’ educational experience.
- Charging students a fee is not a fundraiser.
- It is not legal for staff to raise funds (e.g., to increase specific classroom budgets) using the district’s tax ID number.
  - ASB can use the district’s tax ID number; not specific staff.
  - If staff does fundraise and deposit into district or ASB account, it’s a donation from the staff member. The funds are considered taxable income to the individual who raised the funds.

# When There is a Surplus of Funds

- When a club raises funds there must be a purpose in mind, and that purpose should be stated and approved on the fundraising approval form.
- So, when funds are raised for a specific reason, even if there is surplus, the money can't be used for just anything.
  - The surplus must be used for the stated purpose
- If a fundraiser comes up short, the club that came up short should do another fundraiser to cover the deficit.
- Other clubs having to use their balances to cover a shortfall of another club is not fair or appropriate.
  - The students in the club who raised the money do not benefit.





# Donations

- ASB can gladly accept donations of money or property if the donation is for appropriate ASB expenditures
- But they can't be:
  - Required
  - Mandatory
  - A prerequisite to participate in a program or activity
- All ASB rules and guidelines apply to any received donations
- Make sure you know if the district's board policy on donations has special provisions/instructions for how ASB donations are to be acknowledged or accepted (and by whom!)



# Allowable ASB Expenses

- Must be in compliance with the law and local board policy
- Must promote the students' general welfare, morale, and educational experience
- Must be directly linked to the students' benefit
- Must be pre-approved
- Must be outside of what the school district should provide, or has provided in past, from its own general funding sources
- Must benefit a group of students (with few exceptions)
- **AND: CANNOT be considered a gift of public funds**



# Examples of Allowable ASB Expenses

- Student magazines and newspaper subscriptions
- Supplemental equipment for student use not provided by the school (e.g., telescopes)
- Field trips/excursions/outdoor education camps
- Extracurricular athletics costs (e.g., costs for ticket sales, game officiating and security)
- Social events for students
- Awards to students for excellence (if in board policy)\*
- Substitute teacher if the teacher is absent due to an authorized ASB event

\*Discussed further on a later slide



# Examples of Unallowable ASB Expenses (but Allowed for District)

- School furniture, supplies and equipment
- Teacher and staff salaries
- Instructional materials and classroom supplies
- Repair and maintenance of equipment/facilities
- Faculty meeting costs
- Employee clothing/attire (e.g., coaches' uniforms)
- Caps and gowns for graduation ceremonies
- Flowers or decorations for a district awards ceremony or commemorative event
- Transportation for students living in outlying parts of the district

# Examples of Unallowable Expenditures for District or ASB

- A social gathering where a meal is provided for employee recognition, such as for administrative professionals' day, etc.\*
- Contributions or donations to religious, community, charity, or other nonprofit groups\*
- Purchase of flowers for personal gift\*
- Giving of flowers or items to convey compassion, sympathy or meet a perceived moral obligation
- Presents or gifts to anyone, including employees, volunteers or students\*
- Alcohol
- Holiday or other staff parties or picnics
- Employee reimbursement for mileage from their residence to their place of work

\*Discussed further on a later slide



# Awards

- Board required to adopt rules and regulations about awards.
  - If no policy or regulations, no awards allowed (even for students)
- Authorized by Education Code 44015.
  - Awards are allowed to employees for exceptional contributions and to students for excellence.
- Only student awards should come from ASB.
  - Governing board policy needed for types of student awards, e.g., awards to students for excellence, trophies, performance, homecoming flowers, plaques, certificates, shirts, erasers, pencils, lunch tickets, etc. (the longer and stronger the list, the more likely stakeholders, parents, and the community understand what is allowable).
- Awards cannot exceed \$200 in value unless board policy states a higher amount.
- Awards are not authorized or allowed to community members, parents, or volunteers.



# Gifts

- If something is purchased for a specific student or employee and it is not an award, it is a gift.
  - GIFTS ARE UNALLOWABLE, even if small in amount.
    - People have tried to say that if a gift's value is “de minimis,” trivial or of little value, it would be OK (e.g., under \$20/person).
      - They are wrong! A gift is a gift!
    - Gift certificates are ordinarily characterized as gifts of public funds even when purchased for an event with a public purpose because they confer a tangible private benefit to an individual.
      - Ask merchants or individuals to donate gift certificates to avoid making a gift of public funds.
  - If students want to give gifts, use private funds, not public funds.



# Donations to Other Organizations

- Donations are considered a “gift of public funds.”
  - Remember, the funds have been raised under the district’s non-taxable status
- Students can still organize fundraisers to support specific charities if fundraiser clearly identifies fundraising purpose.
  - The checks should be written directly to the organization/charity

Note: Donations are not allowed for needy families. A legal foundation must be established separate from the district.





# Employee Appreciation Meals

- Employee appreciation meals are not allowed.
- Such appreciation meals do not qualify as awards.
- Attorney General says not “actual and necessary” per Education Code 44032.
- Don’t provide a direct and/or substantial purpose -- so would be a gift of public funds.



# Sports and Athletics Club(s)

- For any sports revenues and expenditures to be accounted for and part of the ASB account, the sport must meet the same ASB club requirements as all other clubs.
- Each sport may be a separate club with its own constitution, certificated advisor, budget and other required elements,

OR

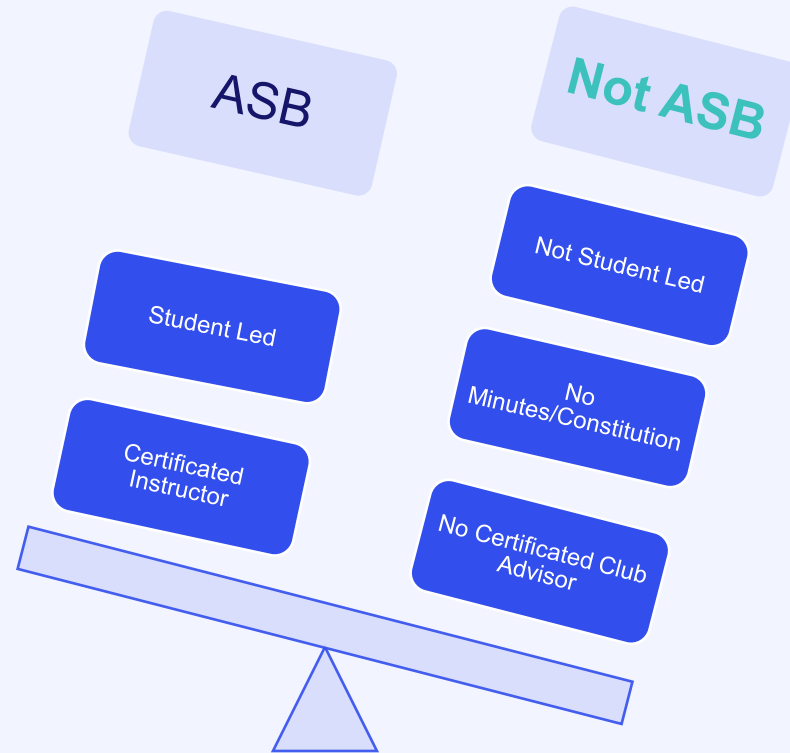
- Multiple sports can be organized as one athletics club, with each sport having representation in the club, one constitution, one certificated advisor and other required elements.
- If revenue is to be shared, governing board policy should state how revenue from ticket sales, etc., is distributed.



# Sports and Athletics Club(s), cont.

- If one athletic club is formed, each sport should elect at least one delegate or commissioner to be a member of the club's student leadership team, thus ensuring that each sport receives representation.
  - Each sport represented in the athletics club may then be accounted for in the ASB accounting record as a sub-account of the athletics club.
- If the athletic director of the school is a certificated employee of the district, the athletic director may serve as club advisor.
  - But remember, the club advisor-- a certificated employee -- must be at all club activities. Even if a classified coach is at the event, the certificated advisor must also be there.

# Sports and Athletics Club(s), cont.





# Sports and Athletics Club(s), cont.

If not operated as a true club, meaning the adults are making the decisions (not student led), no club constitution/bylaws, no student fundraising, there is no certificated instructor acting as club advisor and attending all sport/athletic ASB fundraising/events, then:

- Sports/athletics does not belong in ASB
  - Operations and bookkeeping should be in some other district business office approved account
    - Example: School site donation account



# ASB Minutes Requirements

- The student council and each club must prepare and maintain a record of each meeting and action taken.
- Details of proceedings.
  - Actions taken
  - Demonstrate that policies and procedures are followed
- Need to be concisely and clearly written.
- If ASB is unorganized, and if meetings are not held, then minutes are not mandatory. But if meetings are held, and financial or operational decisions are being made at the meetings, minutes are mandatory.

# ASB Top 13 Easy Audit Findings

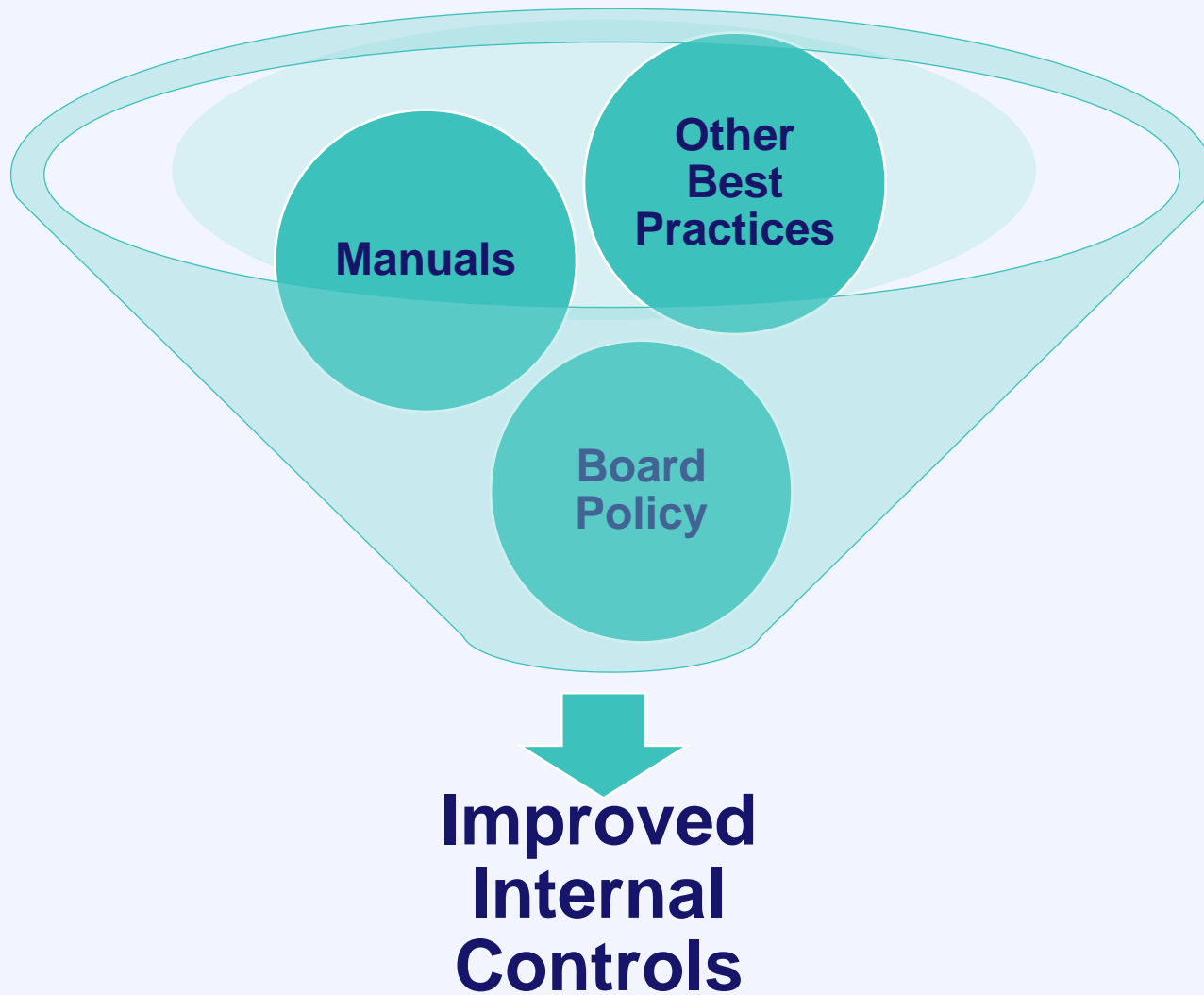
- Purchases prior to PO approval
- Purchases missing required signatures – Ed Code 48933(b) for K-12 and 76063 for community colleges
- Missing or late budget – no budget, no spending
- No manual and/or FCMAT manual not adopted as part of board policy (board policy = local laws)
- Missing or backdated fundraiser approval forms and missing three signatures (all fundraisers must be approved – Ed. Code 48932 – Board authority to fundraise, and 51521 – prohibits others from fundraising without board approval)
- No revenue potential/reconciliation (estimate, actual and difference)
- ASB account does not meet the requirements to be a club/class (e.g., lacks an application, constitution, bylaws, certificated instructor as club/class advisor)

# ASB Top 13 Easy Audit Findings, cont.

- Missing cash count and/or ticket control form
  - Money not counted with a witness and missing dual count signatures and dates. Includes start-up cash. Transported without witness.
- Negative year-end accounts or large balances or savings accounts (review the trial balance)
- No budget carryover limits or forms
- Untimely deposits, money sitting around in the safe (go look), or no safe at all, or a safe with a handle.
- District business office does not audit/review all ASB sites appropriate to their need
- No training programs – internal/external (where are the sign-in sheets to document training?)



# Internal Controls Discussion



# Internal Controls

- Policies and procedures designed to provide the governing board and management with reasonable assurance that the organization achieves its objectives and goals. Internal controls include:
  - Limiting access to assets
  - Management review and approval
  - Timely reconciliations

# Internal Controls, cont.

- Appropriate management tone – “tone at the top”
- Performance evaluations
- Training programs
- Efficient and effective accounting and business practices, policies and procedures
- Segregation of duties
- **An organizational culture that promotes awareness and takes fraud seriously at all levels.**

# Internal Controls, cont.

- Are the principal mechanism for preventing and/or deterring fraud or illegal acts, misappropriation of assets, or other fraudulent activities.
- Can help prevent an array of irregularities characterized by intentional deception and misrepresentation of material facts.
- Effective internal control processes provide reasonable assurance that a district's/charter's/ASB's/School Connected Organization'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 Controls Help Protect Everyone

- Your school district, charter school, county, college
- Programs and other operations
- Integrity and avoiding the appearance of negligence
- Employees
- Volunteers
- Students
- Your organization's assets
- Your reputation

# Internal Controls

- The foundation of a good internal control system includes up-to-date and approved policies and procedures, thorough and accurate manuals, transparency, and training.

## AND REMEMBER

- NEVER COUNT MONEY ALONE
- NEVER LET OTHERS COUNT MONEY ALONE
- ENSURE A WITNESS IS ALWAYS PRESENT WHEN COUNTING

# Examples of Cash Internal Controls

- Dual cash counts
  - Always count funds with a witness and countersign the proper deposit forms
  - Use tamper-proof sealed plastic bank bags at all levels of custody
- Endorse all checks – “For Deposit Only ...”
- Do not leave funds unattended on a desk
  - If the office manager or other staff member who normally receives cash is not available, assign another individual to receive the deposit and sign for the received funds in their absence. The cash should be double counted by this person with the person who brought it to them.
- Timely deposits (2-3 days)
  - Make the bank deposit THAT DAY, if possible!
  - Never leave undeposited money at a school over weekends or holidays
- Report overages and shortages
  - Loss of tickets is the same as loss of cash



# Examples of ASB Internal Controls

- Review the FCMAT ASB Manual Checklists

# Poor Internal Controls Leading to Fraud

- Receipts are not issued, not kept or requested by others.
- Bank reconciliations are several months behind.
- Old items in bank reconciliations.
- Bank reconciliations have errors, such as:
  - Outstanding deposits are carried forward
  - Numerous voiding transactions and error corrections, usually without supporting documentation or reasons for such entries.

# Poor Internal Controls Leading to Fraud, cont.

- Numerous adjustments of journal entries and/or entries without explanation and/or missing written authorization.
  - Note.** Remember, if approval is not obtained for journal entries and/or they are not described in detail, the person entering the adjustments is setting him/herself up for potential suspicion.
- Subsidiary ledgers and journals where detailed transactions should be entered are not used, and/or other supporting software systems are disconnected, or the data is imported into incorrect months.

# Poor Internal Controls Leading to Fraud, cont.

- Missing documents
- Second endorsements on checks. (sample cleared checks & look at signatures on the back of checks)
- Unusual endorsements on checks
- Unexplained adjustments to inventory balances, accounts receivable, or accounts payable
- Old outstanding checks/deposits, bank reconciliation adjustments
- Customer, community member, and even staff complaints.
- Unusual patterns in deposits in transit
- Dormant accounts become active

# Some Final Thoughts ...

- Always remember that a fraudster's best ability to commit fraud is to acquire cash *before* the cash is counted, confirmed, and put into the books and bank.
- Good internal controls help protect the district and its employees and help to identify the perpetrator.
- Always trust your instincts and experience and ask as many questions as you need to get an answer.
- If you get an answer that does not make sense or that sounds doubtful, ask again and/or get help.

# Words to Remember

- This is a wonderful industry.
- You must always do the right thing.
- We are all here to support the students.

**Any Questions?**

# Thank You for Attending