



# School District & Charter School Fraud

Sponsored by:  
CalCPA  
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Presented by:  
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# 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 spend most of our time in county offices of education, school districts, community colleges and charter schools. We provide:
  - Management assistance
  - Technical assistance
  - Professional development
  - Fiscal crisis intervention
  - AB 139 audits
  - Data management support

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

# 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

# FRAUD

## Remember the Basics

What is your word for fraud?

# FRAUD

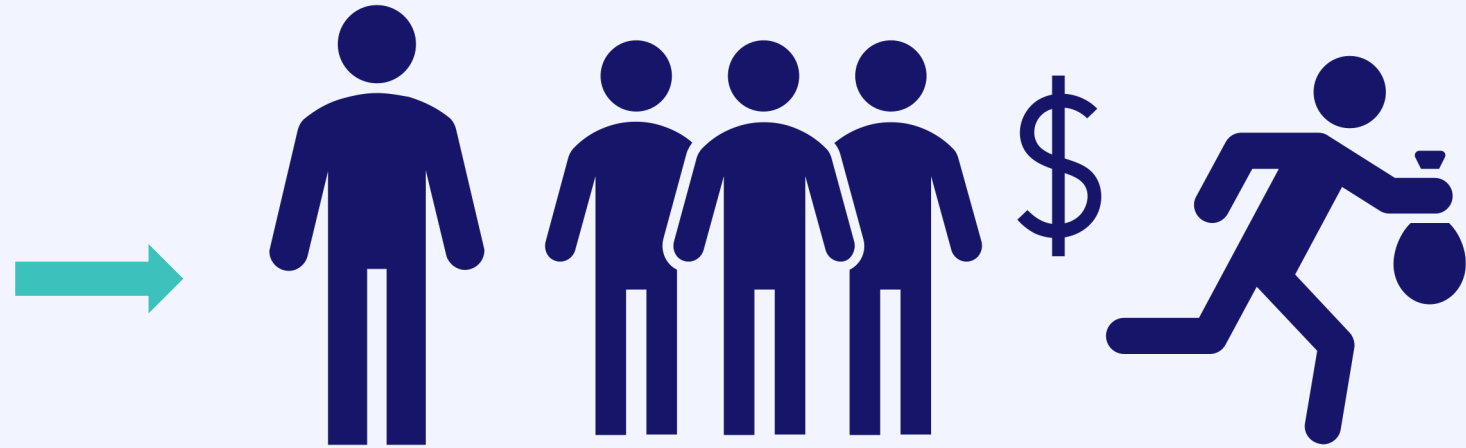
★ Black's Law Dictionary defines fraud as:

“all multifarious means which human ingenuity can devise, and which are resorted to by one individual to get an advantage over another by false suggestions or suppression of the truth. It includes all surprise, trick, cunning or dissembling, and any unfair way by which another is cheated.”

# FRAUD

- ✓ Misappropriation
- ✓ Theft
- ✓ Embezzlement

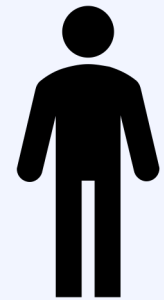
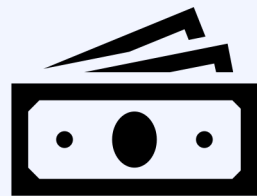
**What's Common**



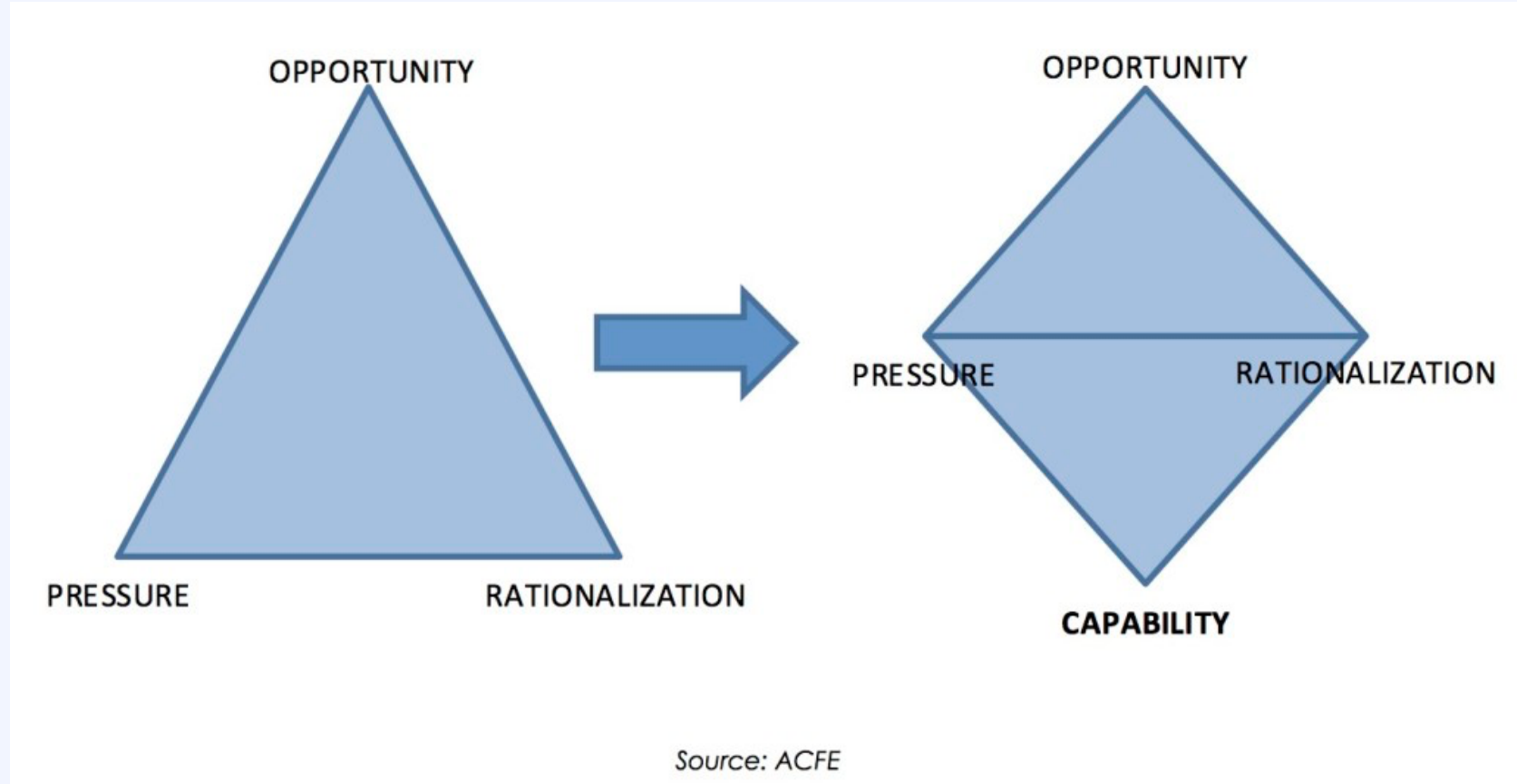
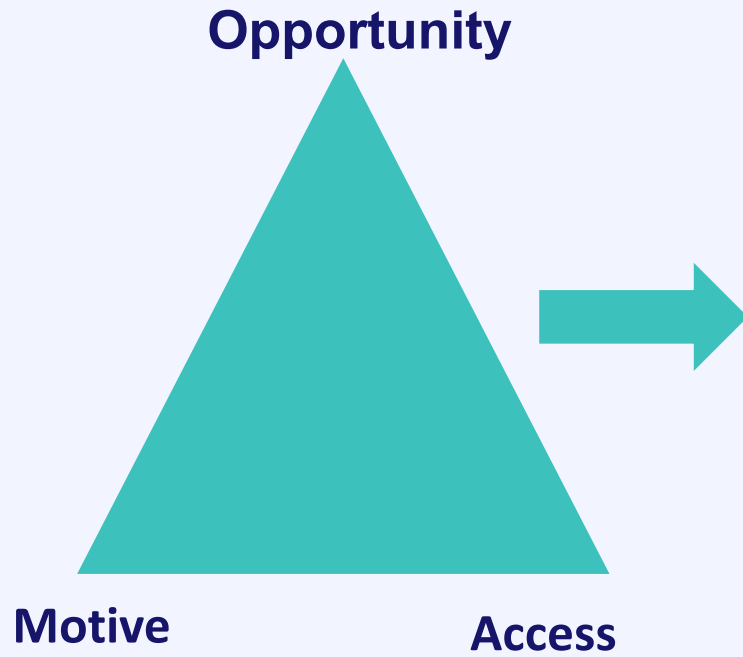
# MISAPPROPRIATION

★“In law, **misappropriation** is the **intentional, illegal use** of the property or **funds** of another person for one's own use or other unauthorized purpose, particularly by a **public official**, a trustee of a trust, an executor or administrator of a dead person's estate or **by any person with a responsibility to care for and protect another's assets** (a fiduciary duty).”

Definition by Wikipedia via Google Search



# Fraud Indicator Evolution





# 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

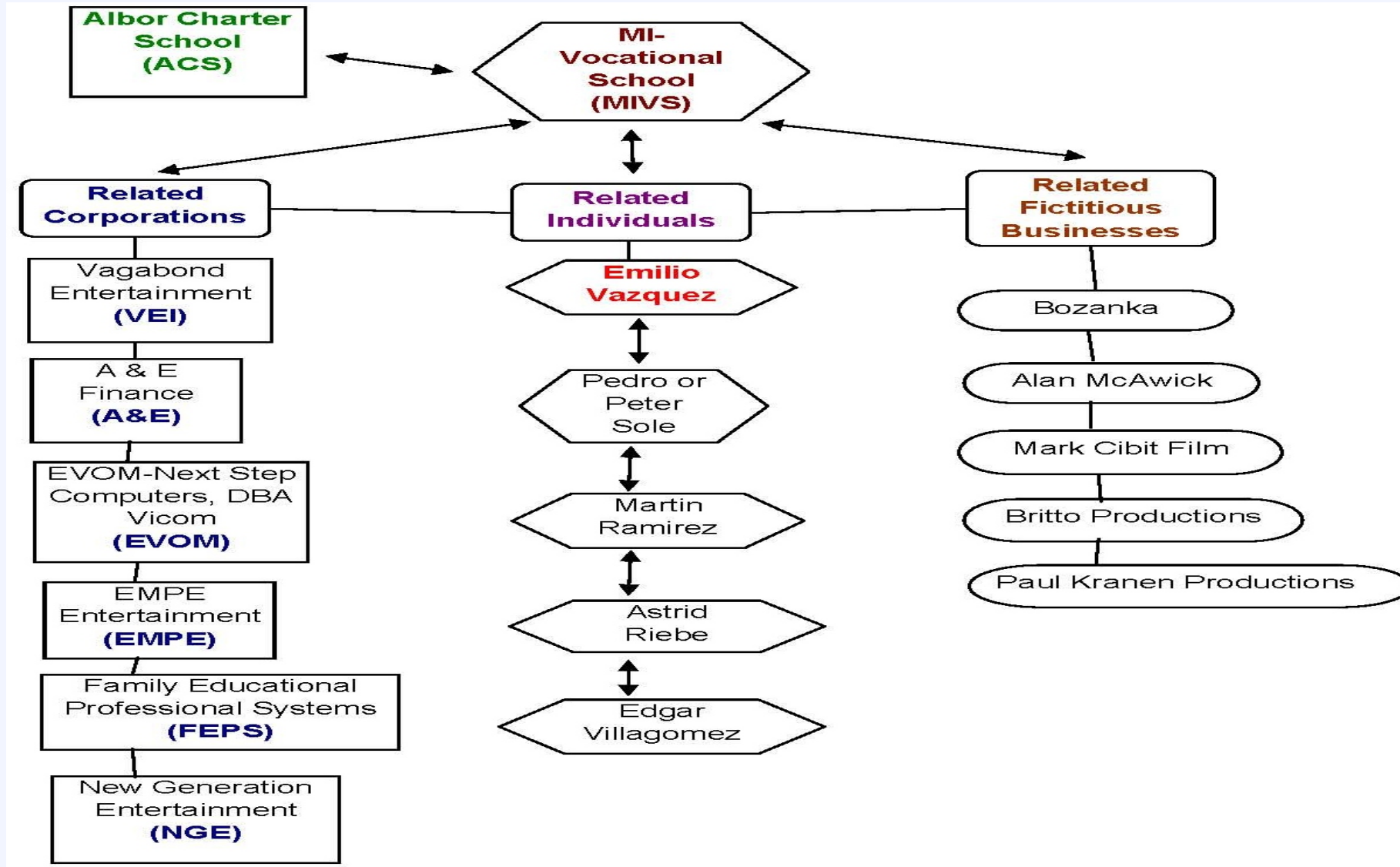
- Having the necessary skills or abilities to pull it off.
- Recognizing the opportunity to commit fraud and having the ability to turn it into reality.
- Position, ego, intelligence, coercion, deceit and stress all contribute to capability.
- Capability is needed not only to carry out fraud, but more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

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

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



# Watch Those Vendors



# 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.)

- 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 (cont.)

- Ask during the audit planning phase — what are our true weaknesses?
  - Please don't just go through a checklist.
  - Think about the district/charter you are auditing and ask yourself, “what is unique here that may have an issue?”

# Question #1 – Multiple Choice

In order to commit fraud, what is commonly required?

- a) At least one person
- b) Motive
- c) Opportunity
- d) Access
- e) All of the above

# Basics of Fraud Detection (cont.)

Most Important

LISTEN AND GO WITH YOUR INSTINCTS

# Simple Trend Analysis = Ask Why

YOUR CHARTER SCHOOL						Risk of		Tolerable Misstatement = \$24,000
Trial Balance - Analytical Review						Material		Overall Materiality = approx. \$33,000
For the Years Ended, June 30,						Misstatement		
						L - Low	IM = Immaterial	
				20xx - 20xx		M = Medium		
				Amount	%	H = High		
		20xx	20xx	Changed	Changed		Ref.	
								(1) The net salaries change is \$18,389 and immaterial
1110	Teachers' Salaries	\$ 816,485	\$ 933,179	\$ 116,694	12.5%	L	(1)	
1175	Teachers' Salaries - Stipend/Extra Duty	42,673	-	(42,673)	100.0%	L	(1)	
1300	Certificated Supervisor and Administrator	90,000	171,339	81,339	47.5%	L	(1)	
1900	Other Certificated Salaries	56,292	-	(56,292)	100.0%	L	(1)	
2100	Instructional Aid	-	5,665	5,665	100.0%	L	(1)	
2200	Classified Support Salaries	42,453	50,154	7,701	15.4%	L	(1)	
2300	Classified Supervisor and Administrator	233,437	141,440	(91,997)	-65.0%	L	(1)	
2400	Clerical/Technical/Office Staff Salaries	187,223	159,981	(27,242)	-17.0%	L	(1)	
2900	Other Classified Salaries	10,833	36,027	25,194	69.9%	L	(1)	
3101	STRS -Certificated Positions	76,295						
			86,984	10,689	12.3%	L	(2)	(2) The net benefits increase of \$40,958 is due to premium increases = reasonable
3301	OASDI - Certificated Positions	28,828	4,164	(24,664)	-592.3%	L	(2)	
3302	OASDI - Classified Positions	-	5,857	5,857	100.0%	L	(2)	
3303	OASDI/Medicare Alternative	21,185	35,358	14,173	40.1%	L	(2)	
3403	Health & Welfare	53,700	90,213	36,513	40.5%	L	(2)	
3503	State Unemployment Insurance	4,606	6,181	1,575	25.5%	L	(2)	
3603	Worker Compensation	42,769	38,844	(3,925)	-10.1%	L	(2)	
3902	Other Benefits	-	380	380	100.0%	L	(2)	
4100	Approved Textbooks	32,782						Supplies decreased by \$31,457



# Trend Analysis (cont.)

5505	Student Transportation	-	41,226	41,226	100.0%	L	IM		
5506	Transportation Repair	-	7,725	7,725	100.0%	L	IM		
5510	Security Services	-	407	407	100.0%	L	IM		
5600	Space Rental/Leases Expense	272,662							Lease compliance is considered difficult since the charter is cash poor.
			389,495	116,833	30.0%	L			
5601	Building Maintenance	-							Examined for Capitalizable Items and transactions are reasonable.
			21,055	21,055	100.0%	L			New leases
5605	Equipment Rental/Lease Expense	17,874	34,777	16,903	48.6%	L			
5610	Equipment Repair	30,075	224	(29,851)	-13326.3%	L	IM		
5800	Professional/Consulting Services and Operations	-							Vendors, can include ExEd, EdTec, and CSMC, Etc.
			276,576	276,576	100.0%	L			
5803	Banking and Payroll Service Fees	-	11,310	11,310	100.0%	L	IM		
5812	Field Trip	77,047	-	(77,047)	100.0%	L	IM		
5805	Legal Services and Audit	31,312	76,696	45,384	59.2%	L			Vendors
5810	Educational Consultants	-	140,409	140,409	100.0%	L			Vendors
5830	Advertisement / Recruitment	75	-	(75)	100.0%	L	IM		
5850	Non Instructional Consultants	135,336	-	(135,336)	100.0%	L	IM		
5851	Instructional Consultants	307,720	-	(307,720)	100.0%	L	IM		
5853	ExEd, EdTec?	90,000	-	(90,000)	100.0%	L	IM		
5890	Interest Expense/Fees	14,887	4,464	(10,423)	-233.5%	L	IM		
5891	Charter School Capital (CSC) Receivables Sales Fees	169,319							Obtain Schedule from CSC, Reasonable upon review.
			220,998	51,679	23.4%	L			
5895	Bad Debt Expense	-	-	-	0.0%	L	IM		
5896	Special Ed Fair Share (District)	72,239	-	(72,239)	100.0%	L	IM		
5897	Fundraising Cost	9,329	-	(9,329)	100.0%	L	IM		
5900	Communications (Tele., Internet, Copies)	19,823							For 20xx-20xx the program application was denied; therefore, higher prices.
			52,873	33,050	62.5%	L			

# Attendance Mismatches

Super Charter School

Summary Mismatches

Row data presented on Top: from Attendance Records

Row data presented on Bottom: from Your Attendance Program

Month 7 & Year 20

Orig	Sort	Last	First	Grade	ID	2/7	2/8	2/9	2/10	2/11	2/14	2/15	2/16	2/17	2/18	2/21	2/22	2/23	2/24	2/25	2/26	3/1	3/2	3/3	3/4	Total Number of matches	
1	Smith	Jane	Jane	7	na	NE	NE	NE	NE	NE	NE	NE	NE	NE	NE	H	P	P	P	P	P	P	P	P	P	P	10
1	Smith	Jane	Jane	7	1072	0	0	0	0	0	0	0	0	0	0	H	P	P	P	P	P	P	P	P	P	P	10
					na	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH												1
40	Jones	Ruby	Ruby	6	na	P	P	P	P	P	P	P	P	P	P	H	P	P	P	P	P	P	P	P	P	P	22
40	Jones	Ruby	Ruby	6	988	P	P	P	P	P	P	P	P	P	P	H	P	P	P	P	A	P	P	P	P	P	22
					na															MISMATCH							1
58	Gonzales	Jose	Jose	8	na	NE	NE	NE	NE	NE	NE	NE	NE	NE	NE	H	NE	NE	NE	NE	NE	NE	NE	NE	NE	NE	22
58	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	H	0	0	0	0	0	0	0	0	0	0	22
					na	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH		MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	1
242	Chang	Bob	Bob	7	na	P	P	P	P	P	P	P	P	P	P	H	P	P	P	P	P	P	P	P	P	P	0
242	Chang	Bob	Bob	7	1022	P	P	P	P	P	P	P	P	P	P	H	P	P	P	P	P	P	P	P	P	P	0
					na																						0
266	BeGood	Carol	Carol	9	na	P	P	P	P	P	P	P	A	P	P	H	P	P	P	P	A	P	P	P	P	P	1
266	BeGood	Carol	Carol	9	1069	P	P	P	P	P	P	P	A	P	P	H	P	P	P	P	P	P	P	P	P	P	1
					na															MISMATCH							1
292	Roy	Ted	Ted	8	na	A	P	P	P	P	A	A	A	A	A	H	NE	NE	NE	NE	NE	NE	NE	NE	NE	NE	9
292	Roy	Ted	Ted	8	870	A	P	P	P	P	A	A	A	A	A	H	0	0	0	0	0	0	0	0	0	0	9
					na												MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	6
360	Best	Alice	Alice	10	na	NE	NE	NE	NE	NE	NE	P	P	P	P	H	P	A	P	P	P	P	P	A	P	P	6
360	Best	Alice	Alice	10	497	0	0	0	0	0	0	P	P	P	P	H	P	A	P	P	P	P	P	A	P	P	6
					na	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH																1
363	Ten	Mike	Mike	7	na	P	P	P	P	P	P	P	P	P	P	H	P	P	P	P	P	P	P	P	P	P	1
363	Ten	Mike	Mike	7	782	P	P	P	P	P	P	P	P	P	P	H	P	P	P	P	P	P	P	P	P	P	1
					na															MISMATCH							1
376	Varga	Sam	Sam	8	na	P	P	P	P	A	A	A	P	A	P	H	NE	NE	NE	NE	NE	NE	NE	NE	NE	NE	9
376	Varga	Sam	Sam	8	909	P	P	P	P	A	A	A	P	A	P	H	0	0	0	0	0	0	0	0	0	0	9
					na												MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	MISMATCH	1
385	Vega	Alex	Alex	9	na	P	P	P	P	P	P	P	A	P	P	H	P	P	P	P	P	P	P	P	P	P	1
385	Vega	Alex	Alex	9	405	P	P	P	P	P	P	P	A	P	P	H	P	P	P	P	P	P	P	P	P	P	1
					na							MISMATCH															1
399	Yenez	Josh	Josh	7	na	P	P	P	P	P	P	P	P	P	P	H	P	P	P	P	P	P	P	P	P	P	1
399	yenez	Josh	Josh	8	613	P	P	P	P	P	P	P	P	P	P	H	P	P	P	P	P	P	P	P	P	P	1
					MISMATCH	na																					1

61



# Wisdom Academy Charter School AB139



## News Releases

### October 15, 2019: Charter School Founder, Son Plead Guilty to Misappropriating Public Funds

██████████ founded Wisdom Academy for Young Scientists more than a decade ago. ██████████ no longer worked at the charter school when it was determined ██████████ had a conflict of interest.

Between 2012 and 2014, about \$200,000 was transferred from the school to a business run by ██████████. ██████████ approved fake invoices for purported school supplies and food from the shell company, the prosecutor said.

The money was deposited into the company's account and then transferred into ██████████ personal bank account, the prosecutor added.

Case BA457205 was investigated by the District Attorney's Bureau of Investigation.

Source = <http://da.co.la.ca.us/media/news/charter-school-founder-son-plead-guilty-misappropriating-public-funds>

# 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>

# Placentia-Yorba Linda USD ASB Alleged Embezzlement

Table 9: Transactions and Amounts Comparison

Sorted Largest Check Amount to Smallest			
2004-05 through 2010-11		2010-11 through 2017-18	
Check Amount	Number of Checks	Check Amount	Number of Checks
\$4,350.00	2	\$4,000.00	2
4,200.00	2	3,900.00	3
4,150.00	2	3,854.00	2
4,100.00	2	3,850.00	2
4,000.00	8	3,751.00	3
3,784.50	4	3,750.00	4
3,750.00	5	3,746.00	3
3,745.00	2	3,745.00	2
3,650.00	2	3,700.00	2
3,645.00	2	3,649.00	2
3,545.00	2	3,648.00	2
3,539.48	2	3,612.00	6
3,525.00	2	3,600.00	5
<b>3,500.00</b>	<b>26</b>	3,560.00	2
3,450.00	2	<b>3,500.00</b>	<b>44</b>
3,410.00	2	3,489.00	2
3,400.00	7	3,475.00	2
3,300.00	2	3,452.00	2
3,250.00	3	3,425.00	2
3,245.00	3	3,400.00	6
3,209.25	3	3,250.00	2
3,200.00	2	3,152.00	2
3,150.00	3	3,150.00	4
3,145.00	2	3,125.00	3
<b>3,000.00</b>	<b>15</b>	3,105.00	2
2,875.00	2	<b>3,000.00</b>	<b>19</b>
2,500.00	7	2,950.00	2
2,450.00	3	2,500.00	6
2,400.00	3	2,400.00	2
2,175.00	2	2,100.00	2
2,000.00	3	2,000.00	5
1,800.00	2	1,000.00	3
1,000.00	3		

# 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?)

# Warning Signs

What are some of the significant **WARNING SIGNS** to watch for that can lead to or signal fraud ?

# Warning Signs (cont.)

- 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

**BANK RECONCILIATION REPORT**

January 2010

As of Statement Ending Date: 1/29/2010

Bank Code: A - CASH CHECKING

GL Account: 1010 CASH-CHECKING

Date	Type	Name	Ref #	Amount Cleared
Cleared Deposits:				
09/01/09	D	BANK DEPOSIT	441	711.00 C
10/29/09	D	BANK DEPOSIT	460	169.00 C
12/02/09	D	BANK DEPOSIT	465	5,568.84 C
01/10/10	D	BANK DEPOSIT	466	4,401.60 C
01/10/10	D	BANK DEPOSIT	467	2,705.00 C
01/10/10	D	BANK DEPOSIT	468	4,629.60 C
01/10/10	D	BANK DEPOSIT	469	9,100.51 C
01/10/10	D	BANK DEPOSIT	470	875.00 C
01/10/10	D	BANK DEPOSIT	471	274.00 C
9 Cleared Deposits:				28,434.55
Outstanding Deposits:				
05/15/09	D	BANK DEPOSIT	430	3,740.00
01/04/10	D	BANK DEPOSIT	521	5,964.13
2 Outstanding Deposits:				9,704.13
Cleared Adjustments:				
01/10/10	A	Entry Error	1843	(190.50) C
01/10/10	A	Entry Error	4853	(190.50) C
01/12/10	A	Non Sufficient Funds	5049	104.00 C
01/13/10	A	Credit Card Fees	5056	(25.95) C
01/18/10	A	Computer Error Blue Bear Acctng	5057	(4,500.50) C
01/18/10	A	Computer Error Blue Bear Acctng	5060	(3,928.60) C
01/18/10	A	Computer Error Blue Bear Acctng	5069	(5,578.40) C
01/18/10	A	Computer Error Blue Bear Acctng		227.55 C
8 Cleared Adjustments:				(14,082.90)

# Warning Signs (cont.)

## BANK RECONCILIATION REPORT

August 2010

As of Statement Ending Date: 8/31/2010

Bank Code: A - CASH CHECKING

GL Account: 1010 CASH-CHECKING

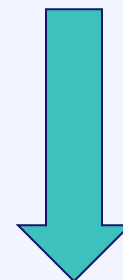
Date	Type	Name	Ref #	Amount Cleared
Cleared Deposits:				
05/15/09	D	BANK DEPOSIT	430	3,740.00 C
08/20/10	D	BANK DEPOSIT	703	25,652.15 C
08/26/10	D	BANK DEPOSIT	704	5,654.40 C
3 Cleared Deposits:				35,046.55
Outstanding Deposits:				
02/03/10	D	BANK DEPOSIT	476	5,934.10
03/05/10	D	BANK DEPOSIT	481	438.00
03/05/10	D	BANK DEPOSIT	482	210.00
03/05/10	D	BANK DEPOSIT	483	1,582.11
03/05/10	D	BANK DEPOSIT	484	2,734.10
05/15/10	D	BANK DEPOSIT	494	30,130.00
05/15/10	D	BANK DEPOSIT	495	1,144.00
05/15/10	D	BANK DEPOSIT	496	3,250.99
05/15/10	D	BANK DEPOSIT	497	3,460.00
05/29/10	D	BANK DEPOSIT	498	17,264.31
05/29/10	D	BANK DEPOSIT	499	30,258.68
05/29/10	D	BANK DEPOSIT	500	5,176.50
05/29/10	D	BANK DEPOSIT	501	5,986.06
13 Outstanding Deposits:				107,568.85
Cleared Adjustments:				
08/17/10	A	Bank Deposit Entry Error	661	(304.20) C
08/31/10	A	Entry Error	662	(3,740.00) C
08/04/10	A	Entry Error	663	(2,486.00) C
08/04/10	A	Credit Card Sales	664	2,486.00 C
08/20/10	A	Entry Error	665	(404.10) C
08/20/10	A	Entry Error	666	(404.10) C
08/20/10	A	Entry Error	667	404.10 C
08/20/10	A	Entry Error	668	404.10 C
8 Cleared Adjustments:				(4,044.20)

# District/Charter Board Policy and Regulations

**Board policy and regulations govern everything.**



**AND**



**Board policy and regulations provide guidance to ensure understanding of what is allowable and prohibited.**

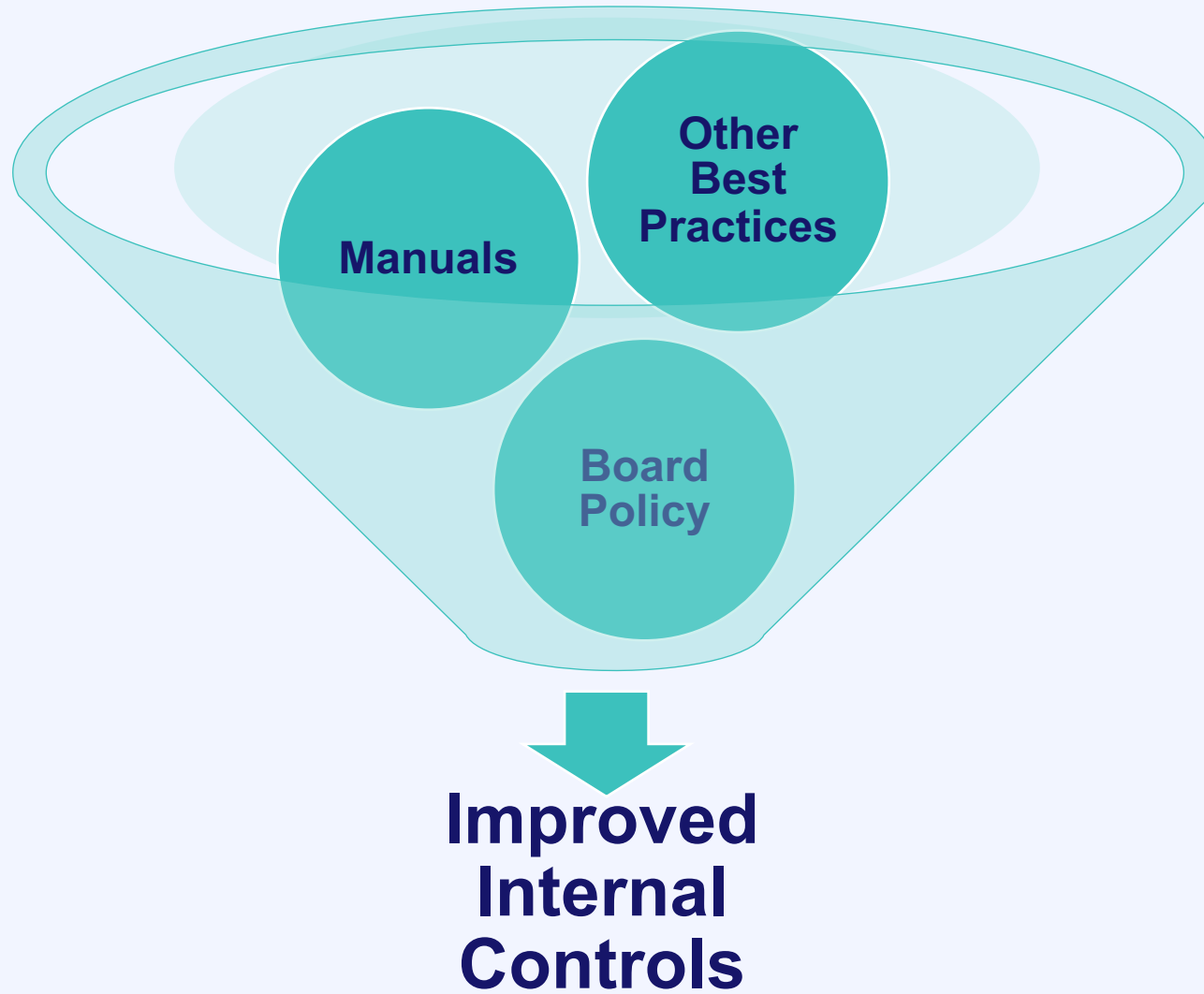
# District/Charter Board Policy and Regulations (cont.)

**Board policies and regulations are additional laws the district/charter must follow.**

- If the governing board has determined that a particular type of policy, activity, expenditure, etc. serves a public purpose, as long as it is not illegal, courts will usually defer to that **policy**.
- The school's administration is responsible for establishing and monitoring the procedures to carry out the policies and regulations adopted by the governing board.

# District/Charter Board Policy and Regulations (cont.)

- A comprehensive and current accounting manual is critical to ensure sound practices are followed, including those related to fiscal issues.
- Referencing the accounting manual in board policy is recommended to ensure staff understand how important it is to follow the manual's guidance, and so there is no question about what practices should be adhered to.
- This applies to all other manuals: ASB, school-connected organizations – booster/PTA/PTO, athletics, employment, etc.



# Audits, Fraud, and Internal Controls

- Do you need internal controls if everyone is completely honest?
- Can fraud occur if you have great internal controls?
- Could your auditor miss ongoing fraud?



# Evaluate District/Charter Internal Control System For Weaknesses

Simple **INTERNAL CONTROLS** help **mitigate fraud, improve protections** against **motive, opportunity and access**, and **shield employees** from accusations of fraud.

# 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.
- When was the last time the district's or charter's board policies or manuals were updated?
- What type of manuals do they have, and are they referenced in board policy?
- Board-approved policies and manuals form a foundation to audit against and confirm compliance.

# Question #2 – True or False

Internal Controls can completely prevent fraud

# Charter Schools Are Particularly Susceptible to Allegations of Fraud and Actual Fraud

Both established and start-up charters are susceptible

Do not let your guard down

- Charter schools often:
  - Become so focused on education and overall mission that the complex business side of operations is minimized or overlooked
  - Delegate business function to a back office service provider and believe everything financial is being overseen
  - Fail to look at the back-office service providers internal controls
  - Have fewer experienced business staff

# Charter Schools Are Particularly Susceptible to Allegations of Fraud and Actual Fraud, (cont.)

- Charter schools often (cont.):
  - Have board members who are inexperienced in business, internal controls systems, and governmental and nonprofit business
  - Lack written accounting, human resources and employment policies, procedures and best practices manuals
  - Have little to no accounting, business or fraud awareness training

# Charter Schools Are Particularly Susceptible to Allegations of Fraud and Actual Fraud, (cont.)

Charter schools often (cont.):

- Overlook performing formal account reconciliations and follow-up
- Have difficulty obtaining or retaining highly qualified business staff (i.e., pay, start-up perceived as risky by candidates, close family ties within the organization)
- Have less segregation of duties due to smaller size of charter school (fewer staff doing more work), higher levels of trust, and less oversight
- Have a greater number of untrained volunteers
- Have fewer resources to vet vendors

# Charter Schools Are Particularly Susceptible to Allegations of Fraud and Actual Fraud, (cont.)

- Charter schools often (cont.):
  - Use, or don't properly or fully disclose or approve, related party or affiliate vendors, contractors, service providers (e.g., family members and friends). Although related parties are not illegal, failure to disclose related party relationships and the details of the transaction will raise concerns and possible allegations – Transparency is critical, as is a level of professional skepticism.
  - Have less knowledge about conflicts of interest, Government Code 1090, and proper and consistent filing of State Form 700 “Statements of Economic Interests”.

# Government Code 1090

- Government Code 1090 (a) states: “Members of the Legislature, state, county, district, judicial district, and city officers or employees shall not be financially interested in any contract made by them in their official capacity, or by any body or board of which they are members.” – Related-party issues discovered during an audit can reveal potential violations of GC 1090.
- Best rule to remember to tell your clients: “When in doubt, sit it out”. It is easier to abstain from a contract when you may know the vendor than to answer the questions that come up later about why you participated. As auditors, we must ask these questions. Please ask... even if it is uncomfortable for you or your client.



# State Form 700: “Statements of Economic Interests”

- Obtain Forms 700 for your audit, and review disclosures for potential issues. You can save your client from embarrassing issues or worse.
- Best rule to remember to tell your clients: Disclose everything. It is easier to find that someone over-disclosed information than under-disclosed. Under-disclosing is related to failure to disclose, which may land the filer in trouble with the Fair Political Practices Commission (FPPC), which can issue fines and refer filers for possible prosecution.
- Form to be filed annually, as well as anytime entering or leaving office (see <http://www.fppc.ca.gov/Form700.html>)

# Gift of Public Funds

## Beware of Gift of Public Funds Issues:

- Expenditures of all LEA funds must be for a direct and primary public purpose to avoid being a gift of public funds
  - 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 long-standing custom or based on benevolent feelings



**Any Questions?**

# Thank You For Attending