



CSIS California School Information Services

# Monterey County Office of Education

## Extraordinary Audit of the Soledad Unified School District

May 24, 2016

Joel D. Montero  
Chief Executive Officer







May 24, 2016

Nancy Kotowski, Superintendent  
Monterey County Office of Education  
901 Blanco Circle  
Salinas, CA 93901

Dear Superintendent Kotowski,

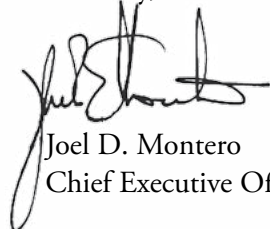
In December 2015, the Monterey County Office of Education and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement to conduct an AB 139 Extraordinary Audit of the Soledad Unified School District. Specifically, the agreement states that FCMAT will perform the following:

- A. Review and advise the COE and the district with reasonable assurance, based on the testing performed, whether:
  - 1. Adequate management controls are in place regarding the district's reporting and monitoring of financial transactions, and
  - 2. Based on that assessment, whether fraud, misappropriation of funds or other illegal fiscal practices may have occurred.

Specific audit objectives are outlined in the study agreement in appendix D of this report.

This final report contains the study team's findings and recommendations. FCMAT appreciates the opportunity to serve you and extends thanks to all the staff of the Monterey County Office of Education and Soledad Unified School District for their cooperation and assistance during fieldwork.

Sincerely,



Joel D. Montero  
Chief Executive Officer

**FCMAT**

Joel D. Montero, Chief Executive Officer

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# About FCMAT

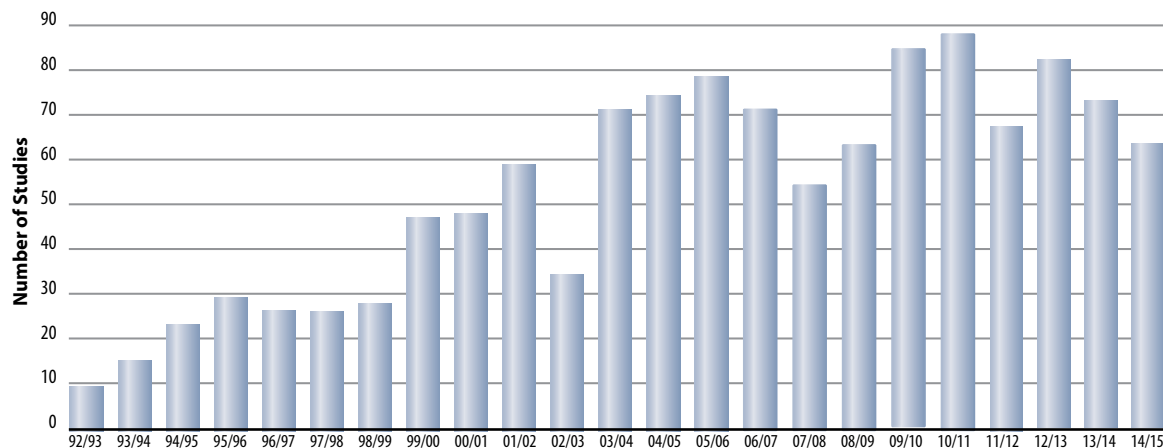
FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related school business and data services. FCMAT's fiscal and management assistance services are used not just to help avert fiscal crisis, but to promote sound financial practices, support the training and development of chief business officials and help to create efficient organizational operations. FCMAT's data management services are used to help local educational agencies (LEAs) meet state reporting responsibilities, improve data quality, and inform instructional program decisions.

FCMAT may be requested to provide fiscal crisis or management assistance by a school district, charter school, community college, county office of education, the state Superintendent of Public Instruction, or the Legislature.

When a request or assignment is received, FCMAT assembles a study team that works closely with the LEA to define the scope of work, conduct on-site fieldwork and provide a written report with findings and recommendations to help resolve issues, overcome challenges and plan for the future.

FCMAT has continued to make adjustments in the types of support provided based on the changing dynamics of K-14 LEAs and the implementation of major educational reforms.

**Studies by Fiscal Year**



FCMAT also develops and provides numerous publications, software tools, workshops and professional development opportunities to help LEAs operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) division of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS) and also maintains DataGate, the FCMAT/CSIS software LEAs use for CSIS services. FCMAT was created by Assembly Bill (AB) 1200 in 1992 to assist LEAs to meet and sustain their financial obligations. AB 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide data management work. AB 1115 in 1999 codified CSIS' mission.

AB 1200 is also a statewide plan for county offices of education and school districts to work together locally to improve fiscal procedures and accountability standards. AB 2756 (2004) provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans.

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

Since 1992, FCMAT has been engaged to perform more than 1,000 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by Joel D. Montero, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.



# Introduction

The Soledad Unified School District is located in rural southern Monterey County and serves approximately 4,900 students in grades K-12.

In September, 2015 the Soledad Teachers Association presented the Monterey County Office of Education with concerns about potential violations of the Education Code, Government Code, Penal Code and the district's board policy. Items presented included supporting documentation obtained from the district via a public information request, as well as testimonial letters and other communications from former district staff regarding their experiences of questionable business activities within the district and the presence of a pervasive hostile culture and climate under the district's current administration.

In November 2015 the Monterey County Office of Education requested that FCMAT assist the county office by conducting an Assembly Bill (AB) 139 extraordinary audit to determine if fraud, misappropriation of funds or other illegal activities may have occurred at the Soledad Unified School District.

## Study Guidelines

Education Code Section 1241.5(b) permits a county superintendent of schools to review or audit the expenditures and internal controls of any school district in the county if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. On completion of the investigation, if evidence exists that fraud or misappropriation of funds may have occurred, Education Code Section 42638 (b) states, “. . . the county superintendent shall notify the governing board of the school district, the State Controller, the Superintendent of Public Instruction, and the local district attorney.” The purpose of this review is to determine if sufficient documentation exists to further investigate the findings, or if there is evidence of possible criminal activity that should be reported to the local district attorney's office for further investigation by law enforcement.

Based on the allegations and information provided, the Monterey County Office of Education asked FCMAT to provide for the assignment of professionals to conduct an AB 139 extraordinary audit under the provisions of Education Code Section 1241.5(b). FCMAT and the county office entered into a contract for this extraordinary audit on December 2, 2015. As part of the audit, FCMAT interviewed individuals who brought forward the allegations, interviewed past and present Soledad Unified School District management, staff and board members, and reviewed documents to determine if instances of fraud, misappropriation of funds or other illegal practices may have occurred that would warrant further investigation by the local district attorney's office.

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

## Study Team

The study team was composed of the following individuals:

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Bakersfield, CA

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

## Background

Over recent years, the Soledad Unified School District has experienced ongoing change in administrative leadership at all levels including superintendent, assistant and associate superintendent, principal and support staff positions. The district has been led by three different superintendents over the last decade, the newest of whom has held the position for approximately three years.

Stability in the CBO position was maintained until the end of 2012. Under the leadership of the current superintendent, five individuals have served as chief business official (CBO), and the current CBO has been in the position for approximately four months. Each of the current CBO's three most recent predecessors left the district after serving for less than one year. The individual in the CBO position prior to that served for approximately seven years and retired shortly before the arrival of the current superintendent; however, because of instability in subsequent business leaders, this individual has returned on short-term contracts during the past several years to help the district with financial reporting. Each of the former CBOs, as well as other current and former staff members, expressed concerns regarding the superintendent's practice of circumventing established operating procedures, internal controls and policy.

FCMAT's interviews validated the assertion that staff members felt intimidated and at times threatened by the current administration. Numerous reports indicated a climate of fear, frustration and discontent within the district's administrative office. Although interviews with board members and current cabinet-level administrators suggested that former staff left the district to pursue better opportunities elsewhere, interviews with many former staff indicated that the negative climate, pervasive pressure to conduct business in disregard of established policy, procedures and/or best practices, as well as dissatisfaction with the leadership under the current superintendent, contributed to employees' decisions to seek other employment.

## Audit Procedures

Fraud investigations consist of gathering information and documentation pertaining to specific allegations; establishing an audit plan and performing various audit procedures to determine whether fraud may have occurred; evaluating the loss associated with the fraud; and determining who was involved and how it may have occurred.

As a result of FCMAT's examination of the allegations presented, FCMAT evaluated the district's internal control system. Internal controls include the processes for planning, organizing, directing and controlling program operations, including systems for measuring, reporting and monitoring performance. To address the allegations, specific audit objectives included evaluating the district's policies, procedures and internal controls and transactions.

Audit objectives and transaction sampling and testing were based on the FCMAT study team's experience and professional judgment and did not include the testing of all available transactions and records. Sample testing and examination results are intended to provide reasonable but not absolute assurance regarding the accuracy of the transactions and financial activity.

FCMAT visited the Monterey County Office of Education and the Soledad Unified School District on January 27-29, 2016 to conduct interviews, collect data and review documents. During interviews of staff, administrators, board members and other individuals, FCMAT study team members asked questions pertaining to the allegations; policies and procedures; transactions

and activities; authorization levels; job duties, responsibilities and training; and the internal control structure, lines of authority, and oversight.

## Transaction Sampling Analysis

To accomplish the objectives of this audit, a number of audit test procedures were developed to provide an analysis and understanding of the allegations and potential outcomes.

The district's detailed general ledger, warrant register and other reports that provided transaction data were obtained directly from the district's Escape financial system, exported by the county office for the 2013-14, 2014-15 and 2015-16 (through December 29, 2015) fiscal years. Specific and randomly selected disbursement checks from the accounting reports were identified and examined. In many cases a single check included multiple transactions, each of which was reviewed for proper supporting documentation and approval. FCMAT did not review payroll checks.

The following table summarizes the number of district disbursement checks the FCMAT study team reviewed compared to the total number of disbursement checks recorded in each given fiscal year.

<b>Disbursement Transaction Checks (non-payroll)</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16 Through 12/29/15</b>	<b>Total</b>
Sampled	59	51	33	143
Total	2,778	3,306	1,886	7,970
% Sampled	2.12	1.54	1.75	1.79

Reports detailing current (as of January 2016) employee information and a vendor master list were obtained directly from the district's Escape financial system and exported by the county office. The detailed address fields in these reports were disaggregated and their format standardized to provide comparable data for analysis. Results of this comparison were used to identify transactions from the accounting reports for examination.

Transactions selected were analyzed and evaluated in light of board policy, administrative regulations, operational procedures, and industry-standard or best practice procedures based on the team's judgment and technical expertise in school district accounting. Testing procedures and noted exceptions are detailed in the substantive testing section of this report. FCMAT's findings and recommendations are the result of the above audit procedures and interviews with current and former district staff and board members.

# Definitions of Fraud, Occupational Fraud, Internal Control, Gift of Public Funds

## Fraud

Fraud can include an array of irregularities and illegal acts characterized by intentional deception and misrepresentations of material facts.

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

Although all employees have some degree of responsibility for internal controls, the governing board, district superintendent and senior management are ultimately responsible for those controls that employees under their supervision are expected to follow.

## Occupational Fraud

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

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

Occupational fraud is one of the most difficult types of fraud and abuse to detect; however, tips help prevent occupational fraud three times as often as any other detection method.

According to the 2016 *Report to the Nations on Occupational Fraud and Abuse* conducted and published by the Association of Certified Fraud Examiners, corruption schemes accounted for 35.4% of the 2,410 cases reported, with a median loss of \$200,000. There is a direct correlation between the perpetrator's position and authority in an organization and the amount of losses incurred. Losses from fraud by owners and executives are four times higher than those from fraud by managers and seven times higher than losses incurred as a result of fraud by employees. Proper monitoring and effective oversight are also highly effective at preventing fraud.

## Internal Controls

The accounting industry has defined the term "internal control" as it applies to organizations, including school agencies. Internal control is a combination of integrated processes, put in place and affected by people, designed to provide management with reasonable assurance regarding the achievement of an entity's objectives in its mission or vision. Part of establishing such controls includes setting goals, objectives, budgets and performance expectations. Several factors influence the effectiveness of internal controls, including the social environment and how it affects employees' behavior; the availability and quality of information used to monitor the

organization's operation; and the policies and procedures that guide the organization. Internal controls help an organization obtain timely feedback on its progress in meeting operational goals and guiding principles, produce reliable financial reports, and ensure compliance with applicable laws and regulations. Internal controls are the principal mechanism for preventing and/or deterring fraud or illegal acts. Illegal acts, misappropriation of assets or other fraudulent activities can include an assortment of irregularities characterized by intentional deception and misrepresentation of material facts. Effective internal controls provide reasonable assurance that operations are effective and efficient, that the financial information produced is reliable, and that the organization complies with all applicable laws and regulations.

All educational agencies should establish internal control procedures to accomplish the following:

1. Prevent management from overriding internal controls.
2. Ensure ongoing state and federal compliance.
3. Assure the governing board that the internal control system is sound.
4. Help identify and correct inefficient processes.
5. Ensure that employees are aware of the expectation that proper internal controls will be used.

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

Internal Control Component	Definition
Control Environment	Commonly referred to as the moral tone of the organization, the control environment includes a code of ethical conduct; policies and guidelines for ethics, hiring and promotion; proper assignment of authority and responsibility; oversight by management, the board or an audit committee; investigation of reported concerns; and effective disciplinary action for violations.
Risk Assessment	Identification and assessment of risks to achieving the organization's objectives and developing strategies to manage those risks.
Control Activities	The development of policies and procedures to enforce the governing board's directives. These include actions by management to prevent and identify misuse of the district's assets, including preventing employees from overriding controls in the system.
Information and Communication	Establishes effective communication to prevent and deter fraud. Ensures that employees receive information regarding policies and opportunities to discuss ethical dilemmas. Establishes clear means of communication within an organization to report suspected violations.
Monitoring Activities	Ongoing monitoring that includes periodic performance assessments to help deter fraud by managers and employees.

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

## Control Environment

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

The control environment is a prerequisite that enables other components of internal control to be effective in preventing and/or deterring fraud or illegal acts. It sets the tone for the organization, provides discipline and control, and includes factors such as the integrity, ethical values and competence of employees.

The control environment can be weakened significantly by a lack of experience in financial management and internal controls.

## Control Activities

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

1. Performance reviews, which compare actual data with expectations. In accounting and business offices, these occur most often when budgeted amounts are compared with actual expenditures to identify variances, and are followed by budget transfers to prevent overspending.
2. Information processing, which includes the approvals, authorizations, verifications and reconciliations needed to ensure that transactions are valid, complete and accurate.
3. Physical controls, which are the processes and procedures designed to safeguard and secure assets and records.
4. Segregation of duties, which consists of processes and procedures that ensure that no employee or group is placed in a position to be able to commit and conceal errors or fraud in the normal course of duties. In general, segregation of duties includes ensuring that separate employees are responsible for the custody of assets, the authorization or approval of transactions affecting those assets, the recording or reporting of related transactions, and the execution of the transactions. Adequate segregation of duties reduces the likelihood that errors will remain undetected by providing for separate processing by different individuals at various stages of a transaction, and for independent review of the work.

Independent auditors' reports on internal control over financial reporting are based on an audit of financial statements performed in accordance with government auditing standards. When conducting independent financial audits, auditors consider internal control over financial reporting to determine audit procedures that are appropriate in the circumstances so they may express their opinion on the financial statements. However, they will not express an opinion on the effectiveness of an organization's internal control because the auditors' consideration of internal control is not designed to identify all deficiencies in internal control that might be a

material weakness or significant deficiency. This means that an organization may have material weaknesses or significant deficiencies that were not discovered during the audit.

- A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, detect and/or correct misstatements in a timely manner. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or not be detected and corrected in a timely manner.
- A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness yet important enough to merit attention from those charged with governance.

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

- Failure to adequately segregate duties and responsibilities related to authorization.
- Failure to limit access to assets or sensitive data (e.g., cash, fixed assets, personnel records).
- Failure to record transactions, which can result in lack of accountability and the possibility of theft.
- Failure to reconcile assets with the correct records.
- Unauthorized transactions, which can be an indicator of skimming, embezzlement or larceny.
- Lack of monitoring or implementation of internal controls by the governing board and management, or because personnel are not qualified.
- Collusion among employees where little or no supervision exists.

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

## Gift of Public Funds

Article 16, Section 6 of the California Constitution specifies that the state Legislature cannot authorize any county, city, or other political subdivision to make any gift of public funds to an individual or corporation. Article 16 states that, in the absence of a statute granting public local educational agencies (LEAs) the legal authority to make a special expenditure (e.g., for food, clothing, awards, or other items), the legality of any expenditure is determined by the gift of public funds provision in the California Constitution, Article 16, section 6. This constitutional provision prohibits making any gift of public money to any individual (including any public employee), corporation, or other government agency. It states, “. . . the Legislature shall have no . . . power to make any gift, or authorize the making of any gift, of any public money or thing of value to any individual . . . whatever.”



In general, the constitutional prohibition against the gift of public funds does not apply when a direct and primary public purpose is accomplished so that the public receives a benefit from the expenditure. However, if the gift is to an employee or other individual and there is no benefit to the public as a result, it can be considered a gift of public funds.

On the other hand, it is also well established that expenditures of public funds that involve a benefit to private persons (including public employees) are not gifts within the meaning of the California Constitution if those funds are expended for a public purpose. This means that public funds may be expended only if a direct and substantial public purpose is served by the expenditure and if any benefit to private individuals is merely incidental to public purpose. To justify the expenditure of public funds, an LEA's governing board must determine that the expenditure will benefit the education of students in its schools. Expenditures that most directly and tangibly benefit students' education are more likely justified. Expenditures driven by personal motives are not justified 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 stating that specific items are allowable (e.g., scholarships or donations), there is more certainty that the expenditure might be considered allowable.

The constitutional prohibition against gifts of public funds is designed to prevent the misuse of public money. A gift of public funds can occur under many circumstances; however, in FCMAT's experience misuse often occurs under the following two circumstances.

- When the expenditure has a noble or virtuous purpose.  
For example, the use of district funds to purchase flowers for the funeral of a student or family member of a governing board member.
- When there is a moral or benevolent purpose.  
This is the most common form of a gift of public funds and results from a desire to convey some form of gratitude or expression of compassion. Staff members who are not formally trained in school district and governmental policies and procedures often unknowingly participate in giving gifts of public funds because of a moral or benevolent purpose. For example, a coach may offer free tickets or other items as an expression of gratitude to individuals who have helped with the sports program, or to highly involved supporters, well-known contributors or longtime friends of the program, or may provide such items to individuals who cannot afford to attend an event.

Unless there is a district policy, adopted by the governing board and approved by the district's legal counsel, that specifically approves the expenditure of district funds for noble, virtuous or moral purposes such as those described above, expenditures of this type may be considered a gift of public funds.



# Findings

## Substantive Testing

FCMAT requested and obtained from the Monterey County Office of Education financial system the Soledad Unified School District's financial reports for the 2013-14, 2014-15 and 2015-16 fiscal years and performed the following procedures:

- Analyzed data in the cash disbursement/warrant register reports and selected individual transactions for review.
- Requested from the district all supporting documentation for each selected transaction.
- Reviewed documentation for each transaction to determine whether:
  1. Authorization was obtained and documented in advance of the expenditure.
  2. The expenditure was appropriate, in accordance with district policy, and allowable by law.
  3. Goods or services were received and an obligation was incurred.
  4. Transactions were processed accurately and in a timely manner, and properly recorded.

FCMAT selected 143 disbursement checks from July 1, 2013 through December 29, 2015, many of which contained multiple individual transactions. All transactions included in each check were reviewed as described in the procedures above. The value of all transactions reviewed was \$517,034 (or 1.15%) of the district's total of \$45,129,228 in accounts payable transactions. Upon completion of testing, only 39 of the 143 checks, or 27%, had sufficient documentation to support payment; exceptions were noted in 73% of the transactions reviewed by FCMAT.

FCMAT's testing of payments made to vendors, consultants and individual employees revealed that the majority were processed without proper supporting documentation. Payments to employees for travel reimbursement frequently lacked documented advance authorization, detailed vendor receipts, and/or approval signatures. In addition, meals were frequently reimbursed for amounts exceeding the district's approved per diem rate. Each of these deficiencies are in direct violation of Board Policy 3350 (Appendix A).

Current and former district staff stated that they experienced pervasive pressure by the district's current administration to process transactions that lacked appropriate supporting documentation. Individuals interviewed indicated the presence of threatening tone and/or manner from administrators when directing employees to continue processing transactions that the employees have questioned because they lack proper supporting documentation or are contrary to established policies and procedures.

In almost every case it was clear that the vendor payment package provided to FCMAT for selected transactions had been taken apart and reassembled. Significant deficiencies FCMAT noted during the review of transactions include the following:

- Purchase orders were prepared inconsistently; most were absent from the transactions reviewed.

- Purchase orders were prepared after goods and/or services were received and after the date of the invoices.
- Indications of board approval were not included in many reimbursement claims submitted by the superintendent.
- Employee reimbursements for mileage that were in violation of established procedures (Appendix C). The district's business office procedures state, "If trips over 200 one-way miles are taken by car, train, or bus the reimbursement is limited to the amount that would normally be reimbursed for air travel." Reimbursements were made to employees for total mileage traveled based on the standard mileage rate when trips were in excess of 200 one-way miles. No supporting documentation was included with payments to indicate that a comparison was done to determine that mileage reimbursement was a more economical travel method than flying.
- Reimbursement requests for supplies were submitted on travel reimbursement claim forms and paid based on this documentation.
- Reimbursement for meals was made on one claim in April 2014 for two people who appear to be related because they have the same last name. No approved travel request was attached to help determine whether the second individual was an employee. The check issued to the employee reimbursed meals for both individuals. The travel authorization attached to the payment was for someone other than the employee reimbursed.
- One payment reviewed was processed for less than the invoice without any notation stating why the payment was modified.
- Consultants were paid without signed and approved agreements. FCMAT observed payments processed that were supported by memos or e-mails but no invoice from the consultant. Board Policy 3300 states, "All purchases shall be made by formal contract or purchase order or shall be accompanied by a receipt."
- At its January 15, 2014 meeting the district's governing board approved a consultant agreement in the amount of \$60,000 for an interim human resources director. Meeting minutes supported the approval of the contractual agreement, but the agreement accompanying the payment was not executed by either party. Staffing of interim positions created to meet ongoing personnel needs should follow established hiring procedures, and payments should be processed through payroll.

In addition, verification of prior State Teachers Retirement System (STRS) or Public Employee Retirement System (PERS) membership, and of the individual's retirement status, is essential to determining limitations of and/or potential effects on a member's retirement. Incorrectly paying a STRS/PERS retiree as a consultant for an extended time can rescind their retirement status and cause them to be required to pay back retirement dollars received.

- Expenditures were given incorrect object codes for goods or services invoiced; the coding did not adhere to the guidance in the California School Accounting Manual (CSAM).

## Credit Cards

The district maintains four credit cards that are issued only to administrators. These administrators' responses varied when asked if they were provided with a credit card use policy and/or instructions for credit card use. The district was unable to provide FCMAT with a copy of a credit card use policy when requested. The district's chief business official (CBO) reported that the district does not have an established credit card use policy.

FCMAT found pervasive misuse of these credit cards. The volume and content of transactions reviewed clearly indicate that the cards are used to bypass the district's established purchasing and travel procedures for expenditures initiated primarily by administrators. Additionally, employees who do not have a district credit card assigned to them frequently make purchases using one of the administrators' cards, in some cases without the administrator's knowledge or documented consent. Individuals interviewed reported that when an administrator's credit card does not have a sufficient credit balance for a new transaction, a credit card assigned to another administrator is used for the purchase.

District Board Policy 3300 states, "All purchases shall be made by formal contract or purchase order or shall be accompanied by a receipt." The phrase "accompanied by a receipt" is included to reference transactions processed to pay for employee travel reimbursement or credit card purchases, not to indicate that it is appropriate to bypass the purchase requisition/purchase order system or otherwise override the expenditure limits imposed by policy. Although staff members stated that purchase orders are required for the expenditure of district funds, it was clear that the purchase order process is not followed or is frequently bypassed by using district credit cards.

Credit cards should be used infrequently and only when a purchase need is immediate and cannot be delayed until a purchase order can be processed, or when a vendor will not accept a purchase order or revolving check, or to secure travel accommodations. It is best practice to limit credit card use to instances when a purchase order is impractical, uneconomical, or not an option.

With the exception of emergencies, the purchasing process should not be bypassed when it is necessary to use a credit card; instead, a purchase order, travel and conference request, or other established expenditure authorization procedure should be followed before the credit card is used. Even in the case of emergency purchases, advance authorization should be obtained and documented. Documentation should accompany the credit card receipt forwarded to accounts payable to support the transaction on the credit card statement.

FCMAT found credit card expenditures by administrators for several computers, a 50-inch TV and other equipment purchases; books and other instructional materials; and other items such as electronic device chargers and accessories. FCMAT also noted several credit card transactions for purchases from QVC; the administrator making the purchase selected an installment payment plan, which makes reconciliation of credit card statements difficult and time consuming and provides little to no benefit to the district. Credit card charges also included apparently excessive and nonessential purchases of food and meals; expenditures of this type may be considered a gift of public funds.

Credit card expenditure transactions should follow the purchasing process from the start to ensure that advance authorizations are obtained, sufficient funds are authorized by the board and available in the district's budget, and the most advantageous pricing is secured. In addition, it is essential that technology and other equipment purchases be consistent with standard specifications supported by the district.

The district did not pay monthly credit card charges on time. Payments were made without advance purchase authorization documentation and/or without review and approval authorization signatures of the cardholder and the CBO on the card statements. The district's stated practice is to require board member authorization for charges on the superintendent's card, but this occurred inconsistently.

The district's Board Policy 3350 states, "All out-of-state travel for which reimbursement will be claimed **shall be approved in advance by the Board**" [emphasis added]. The district has a travel request form designed to document advance authorization for employee travel; however, the expenditures tested indicate that the administration routinely bypasses this system. District credit cards are used extensively for all travel costs for administrators and board members. Expenditures for meals associated with travel frequently exceeded established per diem rates, lacked detailed receipts, and included meals for individuals accompanying the cardholder.

FCMAT also found charges on administrators' credit cards for travel costs for nonemployee family members. Board Policy 3350 states, "Under no circumstances shall personal expenses be charged on a district credit card, even if the employee intends to subsequently reimburse the district for the personal charges." District administrators and board members should abide by the procedures established for travel and conferences, including meal per diems.

Technology equipment was purchased using district credit cards, including multiple ipads and cameras. No purpose or assignment was noted in the purchase documentation reviewed by FCMAT. Interviews with current and former employees indicated that many of these items bypassed the district's asset tagging procedures. Several computers were purchased by the superintendent and the assistant superintendent of secondary services and human capital using their district credit cards to intentionally bypass the district's technology department. During interviews, several individuals reported that when staff inquired about the technology equipment and devices so that they could be tagged and configured with the district's asset tracking software, the response was aggressive contempt and refusal. In addition, interviewees reported that when the technology department inquired about computer purchases made by the superintendent, the reason given for the purchase was that previously assigned devices had been misplaced or otherwise lost. Using the district's asset tracking software, the technology director was able to locate at least one device in use by a relative of the superintendent at a location in southern California. FCMAT could not confirm whether the device has since been returned to the district.

FCMAT found numerous violations of district policy and established procedures in the transactions reviewed. FCMAT reviewed fewer than two percent of the transactions the district carried out from July 1, 2013 through December 2016; because of the extensive number of exceptions noted in the small sample tested, it is reasonable to conclude that the violations are pervasive and systemic and would extend into the remaining transactions. Significant exceptions noted during FCMAT's review include but are not limited to the following:

- All or part of the credit card statement missing.
- Missing cardholder spreadsheet for the maintenance department administrator, used to break down expenses and account coding or funding source for each charge.
- Numerous transaction charge receipts missing.
- Payment packages with attached invoices and receipts that applied to different vendor payments.

- One instance in which the invoice was date stamped as received with a date that was later than the check date for vendor payment.
- Credit card charges for meals lacked detailed receipts supporting the number of meals purchased and/or their content. In addition, in many cases there was no notation of the purpose of the meal and/or whom the meals were for. The district's per diem for meals is \$7 for breakfast, \$10 for lunch, and \$20 for dinner. Meals frequently exceeded the district's per diem rate, especially for out-of-town travel. FCMAT found payments on district credit cards that included breakfast charges of \$34 per person and dinners exceeding \$50 per person.
- Although the district's Board Policy 3350 states, "the district shall not reimburse tips or gratuities," FCMAT found that the cost of tips was commonly included. In one instance FCMAT noted a gratuity of more than 40%.
- Meal reimbursements to employees when meals were provided as part of a conference and included in the conference fee.
- Charges for purchases of between-meal snacks totaling \$82.37 at one event.
- Charges that included the purchase of alcohol with dinner, and a separate charge and receipt for desserts on the same card at the same restaurant.
- Charges for meals for consultants and other nonemployees.
- Payments were made for charges on illegible receipts and on receipts on which items had been redacted.
- Charges for hotel room and flight upgrades, incurring additional unnecessary expense to the district for personal benefit.
- Purchases of gift cards, which are likely gifts of public funds.
- Purchases of flowers for a hospitalized employee, which may be construed as a gift of public funds.
- Purchase of a men's fitness magazine during an airline flight, documented as "professional reading."
- The purchase of airline tickets using a district credit card was supported by an Expedia booking memo that lacked detailed information regarding the passenger assigned to the plane ticket or the purpose of the travel.
- Several instances in which airfare was purchased for employees and board members using a district credit card even when the cardholder was not traveling.
- Airline tickets were purchased for family members of district administrators and board members: two transactions occurred in December 2013 and five transactions during the 2014-15 fiscal year. FCMAT noted reimbursement to the district for some of the personal expense charges made in 2014-15; however, these reimbursements appear to have been prompted by a review initiated by the district after members of the public expressed concerns. No supporting documentation was provided to demonstrate that the district was reimbursed for the personal expense charges noted on statements for 2013-14.
- Meals for family members who traveled with district board members and administrators were charged on district credit cards. Reimbursement to the district for charges of this

nature during 2013 could not be verified and thus these charges could be considered a gift of public funds. FCMAT noted personal checks and/or reimbursement receipts documenting reimbursement for specific 2014-15 family travel and meal costs identified through a district self-audit initiated in response to the public concern that prompted FCMAT's review. The documentation provided to FCMAT supporting reimbursement for personal charges did not clearly indicate which charges were identified as personal.

- In 2013-14 two purchases were made from Petunia's flowers, one paid directly to the vendor through accounts payable process and the other through a district-issued credit card. The order placed on the credit card is missing the receipt and FCMAT could not determine what the item was or the purpose. The second order states "sympathy" and may be considered a gift of public funds.
- Charges for playground maintenance materials, trash pick-up, a 50-inch television, a refrigerator, clocks for use as retirement gifts, and blueprints for construction projects; each of which should have been processed following the established purchase order process.



## Internal Control Deficiencies

Weaknesses in or the lack of many internal control elements, including the control environment, monitoring and control activities, have led to an environment in which there is considerable risk for fraud, misappropriation of funds and misuse of district assets. FCMAT identified material weaknesses in multiple areas of internal control as a result of ineffective procedures in several elements of the internal control structure. Among these weaknesses are improper segregation of duties, improper application and/or enforcement of operational policies and procedures and governing board policy, weak management and oversight of business activities, and management overrides of established procedures and internal controls. In addition, employees widely perceive the ethical conduct of the district's administration as questionable, which compromises the moral tone of the organization.

Both information obtained during interviews and a review of transactions support assertions that the district's administrators use their occupations and influence over business transactions to deliberately misuse or misapply the district's resources and assets for personal benefit.

During FCMAT's audit of the district, FCMAT identified internal control deficiencies and noncompliance with industry-standard and best practices in almost every process managed by the Business Services Department. Many of these weaknesses also crossed over into the Human Resources Department. Lack of proper segregation of duties was identified in all functional areas including purchasing, accounts payable, accounts receivable/cash collections, position control, payroll, and asset management. Details of the deficiencies in these areas are provided below.

### Leadership

District staff reported feeling that they compromised their ethical values when directed to process transactions without documentation; create positions without proper backup, including without board approval; and bypass established internal control procedures related to processing payroll. Both current and former staff reported challenges associated with changes in the CBO and superintendent positions over the last three years and indicated that these have resulted in a weakness in business and administrative leadership.

### Purchasing

The district's purchasing practices are extremely flawed. Board Policy 3300 states, "All purchases shall be made by formal contract or purchase order or shall be accompanied by a receipt." However, requisitions, purchase orders and other forms of preapproval (such as travel request forms and board-approved consulting contracts) are not being used to ensure appropriate purchases are made and coded in accordance with the district's approved budget. Purchase orders are often created after the purchase has been initiated and/or after goods or services have been received. Costly items are purchased using district credit cards, bypassing advance authorization procedures and avoiding asset tracking procedures designed to manage inventory and assets. Employees are permitted to purchase supplies and materials and claim reimbursement, bypassing the purchasing process.

The volume and types of district-issued credit card transactions by design bypass the controls established for the purchasing process, including authorization requirements and spending limits. The district-issued credit cards are also used by individuals other than the cardholders, often without the cardholders' knowledge. In addition, payments for credit card charges are processed without proper supporting documentation.

Expenditures for travel frequently violate board policy and established procedures and lacked documentation of advance authorization from the superintendent or designee. Travel request forms supporting all estimated costs should be prepared, and the superintendent or superintendent's designee should approve (or deny) them in advance of related expenditures. The district processes and pays reimbursement claims for prepaid travel expenses without a travel request form, including travel costs paid for using district-issued credit cards. As indicated above, the district's business office procedures' travel and conference guidelines state, "If trips over 200 one-way miles are taken by car, train, or bus the reimbursement is limited to the amount that would normally be reimbursed for air travel." FCMAT found no instances in which this guideline was enforced.

Reimbursements for meals during business-related travel are often supported by receipts that lack detail, and approved per diem rates are frequently disregarded, most notably when a district-issued credit card is used.

The district permits expenditures that appear to confer a private rather than public benefit, including purchases of food and meals, gift cards, flowers, and travel expenses for nonemployees. Many of these expenditures may constitute a gift of public funds.

### **Accounts Payable**

The accounts payable clerks are responsible for entering new vendors in the financial system. The clerks print the purchase orders which are then provided to the CBO for approval. The accounts payable clerks then return purchase orders to the initiator using district mail, and the initiator submits the purchase order to the vendor. Accounts payable clerks should not have the ability to both enter a new vendor in the system and pay that vendor because this arrangement presents a weakness in internal control; instead, these duties should be segregated so that no one employee can do both.

The district frequently purchases meals and food for meetings, department meetings, working lunches, celebrations and other activities before, during and after the workday. District procedures require a detailed receipt, a meeting agenda, and a sign-in sheet of attendees as supporting documents for payment. FCMAT found numerous items missing from documentation supporting food and meal purchases including detailed receipts, agendas describing the business purpose of the meeting, attendee sign-in sheets, and documents indicating advance authorization. FCMAT frequently observed the use of a lost receipt form for meal and food purchases, primarily in credit card payment documentation.

### **Accounts Receivable**

Accounts receivable duties are the responsibility of the accountant. This position creates invoices in the accounts receivable system and applies the payments when received. After payments are entered into the financial system, the accountant prepares the deposit for the County treasury. When one person has the ability to establish and/or modify accounts receivable data, collect payments, record payments and prepare deposits, the risk of fraud increases. These duties need be segregated.

### **Position Control and Payroll**

The budget analyst is assigned responsibility for establishing new positions in the position control system. However, staff members in the Human Resources Department report that they can and do create new positions in the position control system. The district does not audit the positions

in the system to ensure that only positions approved by the governing board are open and/or staffed.

The payroll technicians are responsible for processing payroll, under the direction of the Business Services Department. However, staff in the Human Resources Department are also able to and do make changes in the payroll system. Payroll entries and edits should be made only by staff assigned these duties, and these duties should be isolated from the ability to create a new position and assign employees to a position in position control. Absent additional controls to mitigate weaknesses, the lack of segregation of duties enables one person to create a new position or change a position assignment and pay that position. These weaknesses create the potential for incorrect payroll payments and fraud.

### **Account Coding and Inventoried Purchases**

Equipment purchases the district has coded to object code 4300 (supplies) would be more appropriately coded to object code 4400 (noncapitalized equipment) to ensure that items are identified for inventory purposes. Items that cost more than \$500 should be included in the district's inventory when purchased. FCMAT identified several purchases including iPads, a mini refrigerator, furniture and other technology that should be inventoried; however, many of these purchases bypassed this process.

## Conflicts of Interest

A conflict of interest exists when an individual has a private financial interest in the outcome of a contract or a public decision and does either of the following:

1. Participates in the decision-making process.
2. Influences, or attempts to influence, others making a contract or decision.

Statutes that govern conflicts of interest include the Political Reform Act, Government Code 1090, Government Code 87100, Corporations Code Section 5233 for nonprofit organizations and Education Code Section 35107(e).

Government Code Section 1090 is an absolute prohibition against financial interests by board members, officers or employees in contracts “made by them in their official capacity, or by any body or board of which they are members.” (GC 1090(a)) If an employee prepares or negotiates a contract or recommends its approval, this prohibition applies to him or her. The prohibition is absolute and the contract is voidable and has no legal effect. It is not legally possible to abstain from a contract that violates 1090 unless the contract fits the criteria of a “remote interest” under 1091 or a “non-interest” under 1091.5.

When an action is not contractual but has a material effect on a source of income to a public official, the abstention provisions of the Political Reform Act apply. When considering action items of this type, governing board members and administrators should abstain from all discussions, negotiations and votes related to a contract in which they have a personal financial interest by removing themselves from the meeting and ensuring that their abstention and departure is recorded in the board minutes. Even when abstention and departure take place, a conflict of interest can still exist because of subsequent action on the contract, such as authorizing payment under a contract, or negotiating disputes or contract terms. Therefore, the governing board member or administrator should abstain from all discussions, negotiations and/or votes related to any contract in which he or she has a personal interest.

The documents FCMAT reviewed indicate that the district’s governing board members regularly abstain from discussions, negotiations and votes related to any contract in which they have a personal financial interest. Abstentions are properly recorded in the board minutes.

### Political Reform Act – Disclosure, Conflicts of Interest and Enforcement

The Political Reform Act (PRA), Government Code Sections 81000 - 91014, was enacted by Proposition 9 in June 1974. The stated intent of the act was to establish a process for most state and local officials, as well as certain designated employees, to publicly disclose their personal income and assets as follows:

[a]ssets and income of public officials which may be materially affected by their official actions...[are] disclosed and in appropriate circumstances the officials...[are] disqualified from acting in order that conflicts of interest may be avoided.

The PRA provisions are enforced by the Fair Political Practices Commission (FPPC) and require every state and local governmental agency to adopt a conflict of interest code. The commission is the state agency responsible for interpreting the provisions of the law and issuing California Form 700 – Statement of Economic Interests. Because school district governing board members are considered public officials and governing boards are considered legislative bodies, board members and certain designated employees must file Form 700 annually, or when they take office or begin in a position, and upon leaving office. Usually, Form 700 must be filed by April 1 for the

calendar year, and most filers file within 30 days of assuming or leaving office or their position unless an exception applies.

The FPPC's rules on conflict of interest codes state that a consultant to an organization "who makes, participates in making, or acts in a staff capacity for making governmental decisions" may be required to complete Form 700 if this provision is included in the organization's conflict of interest code (<http://www.fppc.ca.gov/learn/rules-on-conflict-of-interest-codes/consultants-and-new-position-rules.html>).

The PRA provides the following eight-step process to determine whether a conflict of interest exists:

1. Is the individual a public official?
2. Is the public official making, participating in making, or influencing a governmental decision?
3. Does the public official have one of the five disqualifying types of economic interests: business entity, real property, income, gifts, or personal finances (which are explained in detail at <http://www.fppc.ca.gov/learn/public-officials-and-employees-rules-/conflict-of-interest.html>).
4. Is the economic interest directly or indirectly involved in the governmental decision?
5. Will the governmental decision have a material financial effect on the public official's economic interests?
6. Is it reasonably foreseeable that the economic interest will be materially affected?
7. Is the potential effect of the governmental decision on the public official's economic interests distinguishable from its effect on the general public?
8. Despite a disqualifying conflict of interest, is the public official's participation legally required?

Although nepotism is not illegal in California, it can raise issues of fairness and possible conflicts of interest. Hiring of family members often is considered favoritism because it is viewed as unfair and may bring to mind concepts such as cronyism. Hiring of dependents has a direct effect on the income of the person making or recommending the hiring decision, in contravention of conflict statutes and policies. There are laws and policies that prohibit nepotism in the public sector; however, those laws and policies often deal with human resources and procurement, such as awarding of contracts. Local governmental agencies such as school districts and charter schools often establish board policies and administrative regulations to address the hiring of family members; however, most of those policies allow a family member to work for the organization but prohibit family members from serving on the interview panel of a family member, directly supervising a family member, or working in the same line of supervision as a family member.

The PRA and Government Code Sections 1090 and 87100 do not prohibit the hiring of family members in a school district. Conflicts of interest are primarily related to conflicts that arise from influencing and being a party to business interests, contracts, loans, and other economic interests. Unless the district's governing board has adopted a policy barring nepotism, hiring family

members is not prohibited. FCMAT's review of the district's governing board policies online did not reveal a policy of this nature.

The district's governing board has adopted Board Policy 9270, which includes a comprehensive conflict of interest code that adopts the PRA of 1974 and California Government Code Section 87100 and following, and that designates those who must report conflicts of interest on Form 700. The conflicts of interest code also states the following:

Board members and designated employees shall annually file a Statement of Economic Interest/Form 700 in accordance with the disclosure categories specified in the district's conflict of interest code. Members of the Governing Board of the Soledad Unified School District shall file their Statements of Economic Interest (Form 700s) with the Clerk of the Board's Office of the Monterey County Board of Supervisors and all other designated positions listed in the Conflict of Interest Code for the Soledad Unified School District, and shall file their statements of Economic Interest with the Soledad Unified School District. A Board member who leaves office or a designated employee who leaves district employment shall, within 30 days, file a revised statement covering the period of time between the closing date of the last statement and the date of leaving office or district employment. (Government Code 87302, 87500)

The district's conflict of interest code's Exhibit 9270, designated positions, adopted by the board on December 10, 2014, states that the governing board members, superintendent, assistant/associate superintendents, directors, principals, assistant principals, director of maintenance, operations, transportation and facilities (MOTF)/project manager, program coordinators, CBO and consultants identified by the superintendent or superintendent's designee must file Form 700. The conflict of interest code disclosure categories are referenced according to the level of decision-making authority: positions with broad decision-making authority disclose more interests than those with limited discretion.

Category 1 designees are governing board members, superintendent, and assistant/associate superintendents. These designees disclose the following:

- a. Interests in real property located entirely or partly within district boundaries, or within two miles of district boundaries, or of any land owned or used by the district.
- b. Investments or business positions in or income from sources which are engaged in the acquisition or disposal of real property within the district, are contractors or subcontractors which are or have been within the past two years engaged in work or services of the type used by the district, or manufacture or sell supplies, books, machinery, or equipment of the type used by the district.

Category 2 designees are all other designated positions. These designees disclose the following:

- a. Investments or business positions in or income from sources which are contractors or subcontractors engaged in work or services of the type used by the department which the designated person manages or directs.
- b. Investments or business positions in or income from sources which manufacture or sell supplies, books, machinery, or equipment of the type

used by the department which the designated person manages or directs. For the purposes of this category, a principal's department is his/her entire school.

Both categories are specific about reporting interests in real property, investments, business positions, or manufacture or sale incomes, but do not prohibit the hiring of family members in the school district.

Based on the documents provided to FCMAT, the district collects Forms 700 for employees in designated positions who were employed as of December 31 of the disclosure calendar year, including employees hired midyear. However, during this period the district had no Forms 700 filed by designated employees within 30 days of when they left district employment as required by Government Code 87302 and adopted by Board Policy 9270.

This lack of Form 700 upon leaving the district occurred in both the 2013 and 2014 disclosure periods and included the superintendent, CBO, director, and principal positions that are included in disclosure categories 1 and 2 and that are required to file Form 700 with the district.

The 2015 disclosure period was not complete at the time of FCMAT's review; however, no Forms 700 were provided to FCMAT for employees who left designated positions during the 2015 calendar year. Government Code 87302 and Board Policy 9270 require employees in designated positions who leave district employment midyear to file a revised Form 700 within 30 days of the end of their employment.

FCMAT's review of warrants for July 1, 2013 through January 19, 2016 did not reveal evidence that any district administrator or governing board members were paid as both employees and independent contractors or consultants.

California Code of Regulations, Title 2, Division 6, Chapter 7, Article 2, Section 18730, Provisions of Conflict of Interest Codes, includes the following:

(9) Section 9. Disqualification.

No designated employee shall make, participate in making, or in any way attempt to use his or her official position to influence the making of any governmental decision which he or she knows or has reason to know will have a reasonably foreseeable material financial effect, distinguishable from its effect on the public generally, on the official or a member of his or her immediate family . . . [emphasis added]

In addition, the district Conflict of Interest code, Board Policy 9270, states:

Board members, employees, or district consultants shall not be financially interested in any contract made by the Board on behalf of the district, including in the development, preliminary discussions, negotiations, compromises, planning, reasoning, and specifications and solicitations for bid . . .

FCMAT's review of the district's transactions, contracts and other available documents did not indicate that the board members had a material economic interest in real property, investments, business positions, or manufacture/sale incomes sufficient to represent a conflict of interest.

However, FCMAT found one vendor payment for services that has the appearance of impropriety because of a personal relationship with one of the district's designated employees. An appearance of impropriety may occur when a reasonable person questions the ethics of a situation based on its appearance without specific knowledge of the circumstances. It may occur independently of a conflict of interest.



On November 12, 2014, under consent calendar item #11, the district's governing board approved a "services agreement with Brenda Heslin to provide professional marketing, communications, and recruitment services." Further details in the undated contract between the district and the vendor indicate that the vendor was to work with members of the district's staff to develop and create a strategic marketing plan on a continual basis from December 2014 through November 2015 and provide professional marketing and communications services. These services included but were not limited to annual reports, publications and presentations; brochure and newsletter design and layout; custom illustrations and photography services; logo design; outreach materials and publications; social media marketing; special event materials (invitations, programs); stationery packages; web design; and writing, editing and proofreading services, at a cost not to exceed \$10,000 for the plan and subsequent marketing tasks and products.

On April 20, 2015, the district received an invoice for \$8,006.25 from the consultant for 106.75 hours at a rate of \$75 per hour. The invoice was for (3) creative concepts, (3) creative concept executions, (1) logo redesign, and (1) banner production. The superintendent approved the invoice for payment, and the executive secretary to the superintendent entered the purchase requisition. A purchase order was issued on April 23, 2015 with the authorizing signature of the CBO, and payment of the invoice was issued that same day. The purchase order and related board approval were acknowledged after the consultant's invoice was submitted on April 20, 2015.

According to the minutes of district governing board meetings held on February 11 and March 11, 2015, the assistant superintendent of secondary services and human capital was responsible for "branding the district." As part of this process, this administrator brokered an agreement with Brenda Heslin as a consultant to perform district branding services.

Ms. Heslin shares a physical address with the assistant superintendent of secondary services and human capital, a position designated as a category 1 reporter in the Conflict of Interest code, Board Policy 9270 Exhibit. Although past and current district staff widely reported that a relationship exists between the two, during FCMAT interviews the assistant superintendent of human capital denied any family relationships with anyone working in the district or any personal benefit resulting from consultant contracts the district entered into. Although FCMAT did not verify the legal status of the relationship between the assistant superintendent and Ms. Heslin, the legitimacy of employees' reports was supported by a fulfilled online wedding registry that identified a wedding date of October 23, 2015.

Because the contract with Ms. Heslin was approved through the consent calendar, there were no disclosures to the board regarding the financial relationship between the consultant and the assistant superintendent. This may constitute a conflict of interest because of the appearance of a direct financial interest in and/or benefit from this contract.

A review of warrants for the 2014 calendar year revealed payments to Consuelo Nunez as a contracted consultant for services as an interim human resources director, as noted earlier in this report. Per the district's conflict of interest code Exhibit 9270, directors are category 2 designees and must file Form 700. No written determination or Form 700 for the 2014 calendar year was provided to FCMAT for this consultant. Upon the approval of new consultant contracts, the superintendent or designee should review the contract to determine if the consultant meets the requirements of a designated employee. If the requirements are met, the superintendent or designee should create a written determination and inform the consultant of his/her reporting requirements.



## Conclusion — Potential for Fraud

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

Deficiencies and exceptions noted during FCMAT's review of the financial records and deficiencies in the district's internal control environment increase the probability of fraud, mismanagement and/or misappropriation. These findings should be of great concern to the Soledad Unified School District and the Monterey County Office of Education and require immediate intervention to limit the risk of fraud, mismanagement and/or misappropriation of assets, or other illegal activities in the future.

Proving the existence of fraud is solely the purview of the courts and juries, and FCMAT will not make statements that could be construed as a conclusion that fraud has occurred. In accordance with Education Code Section 42638(b), action by the county superintendent shall include the following:

If the county superintendent determines that there is evidence that fraud or misappropriation of funds has occurred, the county superintendent shall notify the governing board of the school district, the state controller, the superintendent of public instruction and the local district attorney.

In accordance with Education Code Section 1241.5(b), the county superintendent shall report the findings and recommendations to the governing board of the district at a regularly scheduled board meeting within 45 days of completing the audit. The governing board of the school district shall, within 15 days after receipt of the report, notify the county superintendent of its proposed actions on the county superintendent's recommendations.



# Recommendations

*The county superintendent should:*

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

*The district should:*

2. Review, implement and strictly enforce all district board policies and administrative regulations applicable to business and human resources.
3. Review, update and/or develop and implement operational policies and procedures for all business processes associated with business services and human resources.
4. Enforce and strictly follow the procedures established for purchasing. Ensure that a purchase order is prepared and approved in advance of all purchases.
5. Enforce and strictly follow the procedures established for district-related travel. Ensure that a travel request is prepared and approved in advance of travel.
6. Enforce and strictly follow the district's policy and procedures for travel costs including meal per diems. Ensure that all district staff and governing board members follow established policies and operational procedures applicable to travel.
7. Evaluate and implement proper segregation of duties in the Business Services and Human Resources departments as follows:
  - a. Separate duties and limit access for creating and managing positions in the position control system (commonly assigned to business services) and for assigning positions to employees (commonly assigned to human resources).
  - b. Limit access to enter or modify payroll system data to employees in the payroll department (commonly assigned to business services).
  - c. Assign the duties for creating or modifying vendors in the financial system to a staff member other than the employee responsible for processing vendor payments.
  - d. Segregate accounts receivable duties so that separate employees receipt the cash, post to the general ledger, and make the deposit.
8. Establish, implement and enforce a credit card use policy that outlines rules and regulations for credit card purchases, required receipts, and the process for payments. The policy should not permit sharing of individual credit cards;

expenditures should be limited solely to the purpose of the assignee's business. A credit card should be assigned to the Business Services Department or the superintendent's office for travel and conference arrangements for board members if necessary. Each cardholder should be informed of these regulations and be required to sign a printed copy of them before receiving a credit card and annually thereafter.

9. If proper detailed receipts for credit card purchases are not submitted to the CBO in a timely manner, suspend the credit card.
10. Ensure adherence to the district's \$500 inventory threshold, and ensure that all assets valued at this amount or higher are properly tagged and safeguarded.
11. Ensure that all equipment and technology purchases are reviewed and authorized by the appropriate department (e.g., technology, business services, operations).
12. Establish a culture of trust within the district. Tone at the top is essential to fostering a culture of ethical behavior. Governing board members and administrators need to demonstrate a high moral and ethical example by gaining a thorough understanding of and adhering strictly to established district policies and operational procedures, as well as by segregating the duties and responsibilities of staff members in each department and supporting employees who are responsible for enforcing established policies.
13. Ensure that all staff receive training in their area of service.
14. Train or retrain board members and all employees, including management/administration, in what constitutes necessary and appropriate expenditures for a school district.
15. Develop a process to obtain Forms 700 from designated employees within 30 days of the end of their employment.
16. Adjust the Conflict of Interest code (Board Policy 9270) to address the practice of hiring or entering into contracts with the relatives of employees in designated positions.

# Appendices

## Appendix A

**Board Policy 3350 Travel Expenses (6-9-14)**

## Appendix B

**Board Policy 3300 Expenditures and Purchasing (6-9-14)**

## Appendix C

**Board Policy 9270 Conflict Of Interest (12-10-14)**

## Appendix D

**Business Office Procedures – Travel (12-23-14)**

## Appendix E

**Study Agreement**



## Appendix A: Board Policy 3350 Travel Expenses (6-9-14)

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Soledad USD | BP 3350 Business and Noninstructional Operations

### Travel Expenses

The Board of Trustees recognizes that district employees may incur expenses in the course of performing their assigned duties and responsibilities. To ensure the prudent use of public funds, the Superintendent or designee shall establish rules to keep such expenses to a minimum while affording employees a reasonable level of safety and convenience.

(cf. 9250 - Remuneration, Reimbursement and Other Benefits)

The Board shall authorize payment for actual and necessary travel expenses incurred by any employee performing authorized services for the district, whether within or outside district boundaries. (Education Code 44032)

The Superintendent or designee shall establish procedures for the approval of travel requests and the submission and verification of expense claims. He/she also shall establish reimbursement rates in accordance with law and Board policy.

An employee shall obtain approval from the Superintendent or designee prior to traveling. The Superintendent or designee may approve travel requests in accordance with the adopted budget and upon determining that the travel is authorized or assigned by the employee's supervisor, is necessary to attend a conference or other staff development opportunity that will enhance employee performance, and/or is otherwise necessary to the performance of the employee's duties. Travel expenses not previously budgeted may be approved on a case-by-case basis by the Superintendent or designee if he/she determines that the travel is essential and that resources may be obtained or redirected for this purpose.

(cf. 3100 - Budget)

(cf. 3110 - Transfer of Funds)

(cf. 4131 - Staff Development)

(cf. 4231 - Staff Development)

(cf. 4331 - Staff Development)

All out-of-state travel for which reimbursement will be claimed shall be approved in advance by the Board.

Reimbursable travel expenses may include, but are not limited to, costs of transportation, parking fees, bridge or road tolls, lodging when district business reasonably requires an overnight stay, registration fees for seminars and conferences, telephone and other communication expenses incurred on district business, and other necessary incidental expenses.

The district shall not reimburse personal travel expenses including, but not limited to, tips or gratuities, alcohol, entertainment, laundry, expenses of any family member who is accompanying the employee on district-related business, personal use of an automobile, and personal losses or traffic violation fees incurred while on district business.

Except as otherwise provided, reimbursement of travel expenses shall be based on actual expenses as documented by receipts.

Authorized employees shall be reimbursed for the use of their own private vehicles in the performance of assigned duties, on either a mileage or monthly basis as determined by the Superintendent or designee. (Education Code 44033)

The mileage allowance provided by the district for employees' use of their private vehicles shall be equal to the rate established by the Internal Revenue Service.

Vehicles should be shared whenever possible to minimize travel costs. No employee shall be entitled to reimbursement for automobile travel when he/she is transported free of charge or by another employee who is entitled to the expense reimbursement.

The Superintendent or designee shall establish a per diem allowance for meal costs incurred while traveling on district business based on the location and hours of travel. The per diem allowance shall not exceed the standard meal allowance for business-related travel prescribed for federal income tax purposes.

Any expense that exceeds the maximum rate of reimbursement established by the district shall be reimbursed only with the approval of the Superintendent or designee.

All expense reimbursement claims shall be submitted on a district form, within 10 working days following return from travel when possible. The form shall be accompanied by receipts and any explanation necessary to document that the expenses meet district criteria for reimbursement.

The Superintendent or designee shall approve expense claims only upon verifying that all necessary documentation is provided and that all expenses are appropriate and related to district business. If an expense claim is disallowed due to lack of documentation or inappropriate expenses, the employee may be personally responsible for any improper costs incurred.

When approved by the Superintendent or designee, an employee may be issued a district credit card for use while on authorized district business. Receipts documenting the expenses incurred on a district credit card shall be submitted promptly following return from travel. Under no circumstances shall personal expenses be charged on a district credit card, even if the employee intends to subsequently reimburse the district for the personal charges.

When necessary, the Superintendent or designee may approve a cash advance, not to exceed the estimated out-of-pocket reimbursable expenses, to an employee authorized to travel on district business. Within 10 working days following return from travel, the employee shall submit a final accounting with all necessary supporting documentation. He/she shall refund to the district any amount of cash advance exceeding the actual approved reimbursable expenses.

Legal Reference:

EDUCATION CODE

42634 Itemization of expenses

44016 Travel expense to employment interview



GAMUT Online : Soledad USD : Travel Expenses BP 3350

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44032 Travel expenses

44033 Automobile allowance

44802 Student teacher's travel expense

Management Resources:

INTERNAL REVENUE SERVICE PUBLICATIONS

Per Diem Rates (For Travel Within the Continental United States), Publication 1542

WEB SITES

Internal Revenue Service: <http://www.irs.gov>

U.S. General Services Administration, Per Diem Rates: <http://www.gsa.gov/perdiem>

Policy SOLEDAD UNIFIED SCHOOL DISTRICT

adopted: June 9, 2014 Soledad, California

<http://gamutonline.net/displayPolicy/942710/3>

1/3/2016



## Appendix B: Board Policy 3300 Expenditures and Purchasing (6-9-14)

GAMUT Online : Soledad USD : Expenditures And Purchases BP 3300

Page 1 of 3

Soledad USD | BP 3300 Business and Noninstructional Operations

### Expenditures And Purchases

The Board of Trustees recognizes its fiduciary responsibility to oversee the prudent expenditure of district funds. In order to best serve district interests, the Superintendent or designee shall develop and maintain effective purchasing procedures that are consistent with sound financial controls and that ensure the district receives maximum value for items purchased. He/she shall ensure that records of expenditures and purchases are maintained in accordance with law.

(cf. 3000 - Concepts and Roles)

(cf. 3100 - Budget)

(cf. 3350 - Travel Expenses)

(cf. 3400 - Management of District Assets/Accounts)

(cf. 3460 - Financial Reports and Accountability)

(cf. 9270 - Conflict of Interest)

### Expending Authority

The Superintendent or designee may purchase supplies, materials, apparatus, equipment, and services up to the amounts specified in Public Contract Code 20111, beyond which a competitive bidding process is required. The Board shall not recognize obligations incurred contrary to Board policy and administrative regulations.

(cf. 3311 - Bids)

(cf. 3312 - Contracts)

The Board shall review all transactions entered into by the Superintendent or designee on behalf of the Board every 60 days. (Education Code 17605)

The Superintendent or designee may authorize an expenditure which exceeds the budget classification allowance against which the expenditure is the proper charge only if an amount sufficient to cover the purchase is available in the budget for transfer by the Board.

(cf. 3110 - Transfer of Funds)

District funds shall not be expended for the purchase of alcoholic beverages. (Education Code 32435)

### Purchasing Procedures

Insofar as possible, goods and services purchased shall meet the needs of the person or department ordering them at the lowest price consistent with standard purchasing practices. Maintenance costs, replacement costs, and trade-in values shall be considered when determining the most economical purchase price. When price, fitness, and quality are equal, recycled products shall be preferred when procuring materials for use in district schools and buildings.

(cf. 3314.2 - Revolving Funds)

(cf. 3440 - Inventories)

(cf. 3511.1 - Integrated Waste Management)

All purchases shall be made by formal contract or purchase order or shall be accompanied by a receipt. In order to eliminate the processing of numerous small purchase orders, the Superintendent or designee may create a "blanket" or "open" purchase order system for the purchase of minor items as needed from a vendor. He/she shall ensure that the "open" purchase order system details a maximum purchase amount, the types of items that can be purchased under this order, the individuals authorized to approve purchases, and the expiration date of the "open" order.

Legal Reference:

#### EDUCATION CODE

17604 Delegation of powers to agents; approval or ratification of contracts by Governing Board

17605 Delegation of authority to purchase supplies and equipment

32370-32376 Recycling paper

32435 Prohibited use of public funds, alcoholic beverages

35010 Control of district; prescription and enforcement of rules

35035 Powers and duties of superintendent

35160 Authority of Governing Boards

35250 Duty to keep certain records and reports

38083 Purchase of perishable foodstuffs and seasonal commodities

41010 Accounting system

41014 Requirement of budgetary accounting

#### GOVERNMENT CODE

4330-4334 California made materials

#### PUBLIC CONTRACT CODE

3410 U.S. produce and processed foods

20111 Contracts over \$50,000; contracts for construction; award to lowest responsible bidder

Management Resources:

#### CSBA PUBLICATIONS

GAMUT Online : Soledad USD : Expenditures And Purchases BP 3300

Page 3 of 3

Maximizing School Board Governance: Fiscal Accountability, 2006

#### WEB SITES

CSBA, Financial Services: <http://www.csba.org/fs>

California Association of School Business Officials: <http://www.casbo.org>

California Department of Education: <http://www.cde.ca.gov>

Policy SOLEDAD UNIFIED SCHOOL DISTRICT

adopted: June 9, 2014 Soledad, California

<http://gamutonline.net/DisplayPolicy/942699/3>

1/3/2016



## Appendix C: Board Policy 9270 Conflict Of Interest (12-10-14)

GAMUT Online : Soledad USD : Conflict Of Interest BB 9270

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Soledad USD | BB 9270 Board Bylaws

### Conflict Of Interest

The Governing Board desires to maintain the highest ethical standards and help ensure that decisions are made in the best interest of the district and the public. In accordance with law, Board members and designated employees shall disclose any conflict of interest and, as necessary, shall abstain from participating in the decision.

(cf. 9005 - Governance Standards)

The Board shall adopt a resolution that specifies the terms of the district's conflict of interest code, the district's designated positions, and the disclosure categories required for each position.

Upon direction by the code reviewing body, the Board shall review the district's conflict of interest code and submit any changes to the code reviewing body.

When a change in the district's conflict of interest code is necessitated due to changed circumstances, such as the creation of new designated positions, changes to the duties assigned to existing positions, amendments, or revisions, the amended code shall be submitted to the code reviewing body within 90 days. (Government Code 87306)

When reviewing and preparing the district's conflict of interest code, the Superintendent or designee shall provide officers, employees, consultants, and members of the community adequate notice and a fair opportunity to present their views. (Government Code 87311)

(cf. 9320 - Meetings and Notices)

Board members and designated employees shall annually file a Statement of Economic Interest/Form 700 in accordance with the disclosure categories specified in the district's conflict of interest code. Members of the Governing Board of the Soledad Unified School District shall file their Statements of Economic Interest (Form 700s) with the Clerk of the Board's Office of the Monterey County Board of Supervisors and all other designated positions listed in the Conflict of Interest Code for the Soledad Unified School District, and shall file their statements of Economic Interest with the Soledad Unified School District. A Board member who leaves office or a designated employee who leaves district employment shall, within 30 days, file a revised statement covering the period of time between the closing date of the last statement and the date of leaving office or district employment. (Government Code 87302, 87500)

(cf. 4117.2/4217.2/4317.2 - Resignation)

(cf. 9222 - Resignation)

### Conflict of Interest under the Political Reform Act

A Board member or designated employee shall not make, participate in making, or in any way use or attempt to use his/her official position to influence a governmental decision in which he/she knows or has reason to know that he/she has a disqualifying conflict of interest.

A conflict of interest exists if the decision will have a "reasonably foreseeable material financial effect" on one or more of the Board member's or designated employees "economic interests," unless the effect is indistinguishable from the effect on the public generally or the Board member's or designated employee's participation is legally required. (Government Code 87100, 87101, 87103; 2 CCR 18700-18709)

A Board member or designated employee makes a governmental decision when, acting within the authority of his/her office or position, he/she votes on a matter, appoints a person, obligates or commits the district to any course of action, or enters into any contractual agreement on behalf of the district. (2 CCR 18702.1)

A Board member who has a disqualifying conflict of interest on an agenda item that will be heard in an open meeting of the Board shall abstain from voting on the matter. He/she may remain on the dais, but his/her presence shall not be counted towards achieving a quorum for that matter. A Board member with a disqualifying conflict of interest shall not be present during a closed session meeting of the Board when the decision is considered and shall not obtain or review a recording or any other nonpublic information regarding the issue. (2 CCR 18702.1)

#### Conflict of Interest under Government Code 1090

Board members, employees, or district consultants shall not be financially interested in any contract made by the Board on behalf of the district, including in the development, preliminary discussions, negotiations, compromises, planning, reasoning, and specifications and solicitations for bids. If a Board member has such a financial interest, the district is barred from entering into the contract. (Government Code 1090; *Klistoff v. Superior Court*, (2007) 157 Cal.App. 4th 469)

A Board member shall not be considered to be financially interested in a contract if his/her interest is a "noninterest" as defined in Government Code 1091.5. One such noninterest is when a Board member's spouse/registered domestic partner has been a district employee for at least one year prior to the Board member's election or appointment. (Government Code 1091.5)

A Board member shall not be considered to be financially interested in a contract if he/she has only a "remote interest" in the contract as specified in Government Code 1091 and if the remote interest is disclosed during a Board meeting and noted in the official Board minutes. The affected Board member shall not vote or debate on the matter or attempt to influence any other Board member to enter into the contract. (Government Code 1091)

Even if there is not a prohibited conflict of interest, a Board member shall abstain from voting on personnel matters that uniquely affect his/her relatives. However, a Board member may vote on collective bargaining agreements and personnel matters that affect a class of employees to which his/her relative belongs. Relative means an adult who is related to the Board member by blood or affinity within the third degree, as determined by the common law, or an individual in an adoptive relationship within the third degree. (Education Code 35107)

A relationship within the third degree includes an individual's parents, grandparents, great-grandparents, children, grandchildren, great-grandchildren, brothers, sisters, aunts, uncles, nieces, nephews, and the similar family of the individual's spouse/registered domestic partner unless the individual is widowed or divorced.

#### Common Law Doctrine Against Conflict of Interest



A Board member shall abstain from any official action in which his/her private or personal interest may conflict with his/her official duties.

#### Rule of Necessity or Legally Required Participation

On a case-by-case basis and upon advice of legal counsel, a Board member with a financial interest in a contract may participate in the making of the contract if the rule of necessity or legally required participation applies pursuant to Government Code 87101 and 2 CCR 18708.

#### Incompatible Offices and Activities

Board members shall not engage in any employment or activity or hold any office which is inconsistent with, incompatible with, in conflict with, or inimical to the Board member's duties as an officer of the district. (Government Code 1099, 1126)

(cf. 4136/4236/4336 - Nonschool Employment)

#### Gifts

Board members and designated employees may accept gifts only under the conditions and limitations specified in Government Code 89503 and 2 CCR 18730.

The limitation on gifts does not apply to wedding gifts and gifts exchanged between individuals on birthdays, holidays, and other similar occasions, provided that the gifts exchanged are not substantially disproportionate in value. (Government Code 89503)

Gifts of travel and related lodging and subsistence shall be subject to the current gift limitation except as described in Government Code 89506.

A gift of travel does not include travel provided by the district for Board members and designated employees. (Government Code 89506)

#### Honoraria

Board members and designated employees shall not accept any honorarium, which is defined as any payment made in consideration for any speech given, article published, or attendance at any public or private gathering, in accordance with law. (Government Code 89501, 89502)

The term honorarium does not include: (Government Code 89501)

1. Earned income for personal services customarily provided in connection with a bona fide business, trade, or profession unless the sole or predominant activity of the business, trade, or profession is making speeches
2. Any honorarium which is not used and, within 30 days after receipt, is either returned to the donor or delivered to the district for donation into the general fund without being claimed as a deduction from income for tax purposes

Legal Reference:

EDUCATION CODE

1006 Qualifications for holding office

35107 School district employees

35230-35240 Corrupt practices, especially:

35233 Prohibitions applicable to members of governing boards

41000-41003 Moneys received by school districts

#### FAMILY CODE

297.5 Rights, protections, and benefits of registered domestic partners

#### GOVERNMENT CODE

1090-1099 Prohibitions applicable to specified officers

1125-1129 Incompatible activities

81000-91014 Political Reform Act of 1974, especially:

82011 Code reviewing body

87100-87103.6 General prohibitions

87200-87210 Disclosure

87300-87313 Conflict of interest code

87500 Statements of economic interests

89501-89503 Honoraria and gifts

91000-91014 Enforcement

#### PENAL CODE

85-88 Bribes

#### CODE OF REGULATIONS, TITLE 2

18110-18997 Regulations of the Fair Political Practices Commission, especially:

18702.5 Public identification of a conflict of interest for Section 87200 filers

#### COURT DECISIONS

Klistoff v. Superior Court, (2007) 157 Cal.App.4th 469

Thorpe v. Long Beach Community College District, (2000) 83 Cal.App.4th 655

Kunec v. Brea Redevelopment Agency, (1997) 55 Cal.App.4th 511

#### ATTORNEY GENERAL OPINIONS

92 Ops.Cal.Atty.Gen. 26 (2009)

92 Ops.Cal.Atty.Gen. 19 (2009)

89 Ops.Cal.Atty.Gen. 217 (2006)

86 Ops.Cal.Atty.Gen. 138(2003)

85 Ops.Cal.Atty.Gen. 60 (2002)

82 Ops.Cal.Atty.Gen. 83 (1999)

81 Ops.Cal.Atty.Gen. 327 (1998)

80 Ops.Cal.Atty.Gen. 320 (1997)

69 Ops.Cal.Atty.Gen. 255 (1986)

68 Ops.Cal.Atty.Gen. 171 (1985)

65 Ops.Cal.Atty.Gen. 606 (1982)

63 Ops.Cal.Atty.Gen. 868 (1980)

#### Management Resources:

#### CSBA PUBLICATIONS

Conflict of Interest: Overview of Key Issues for Governing Board Members, Fact Sheet, July 2010

#### FAIR POLITICAL PRACTICES COMMISSION PUBLICATIONS

Can I Vote? A Basic Overview of Public Officials' Obligations Under the Conflict-of-Interest Rules, 2005

#### INSTITUTE FOR LOCAL GOVERNMENT PUBLICATIONS

Understanding the Basics of Public Service Ethics: Personal Financial Gain Laws, 2009

Understanding the Basics of Public Service Ethics: Transparency Laws, 2009

#### WEB SITES

CSBA: <http://www.csba.org>

Fair Political Practices Commission: <http://www.fppc.ca.gov>

Institute of Local Government: <http://www.ca-ilg.org>

GAMUT Online : Soledad USD : Conflict Of Interest BB 9270

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Bylaw SOLEDAD UNIFIED SCHOOL DISTRICT

adopted: December 10, 2014 Soledad, California

<http://gamutonline.net/displayPolicy/952736/3>

1/3/2016

## Appendix D: Business Office Procedures – Travel (12-23-14)

12/23/14

### SOLEDAD UNIFIED SCHOOL DISTRICT

#### Business Office Procedures

## TRAVEL

#### Travel and Conference Guidelines

Employees must follow these guidelines when considering travel:

- All travel must be approved in advance by Department or Division Head; Superintendent's and Board approval is required for all out of state travel.
  - The number of personnel attending a given function requiring travel will be held to a minimum.
  - Transportation will be the most economical in terms of direct cost to Soledad Unified School District (SUSD) and the employee's time away from the office. All commercial air travel will be by the least expensive service available.
1. Employees, with approval of their administrative supervisor, may select the method of transportation that best meets the needs of the employee and SUSD.
  2. For trips in excess of 200 one-way miles, travel by air is authorized as the most cost-efficient mode of travel.
  3. If trips over 200 one-way miles are taken by car, train, or bus the reimbursement is limited to the amount that would normally be reimbursed for air travel.
  4. If you elect to drive a personal vehicle rather than fly, you must complete the [Claim for Reimbursement for Travel and Other Expenses form](#). See page 2
  5. In the event an employee-purchased airfare ticket is not used, the ticket will not be reimbursed unless it is used for another conference.

#### TRAVEL REQUEST

- Travel Request Forms are used for conferences, workshops or other meetings that require Supervisor and/or Superintendent's approval.
- All travel out of the state requires prior approval from the Superintendent and the Board.

## SOLEDAD UNIFIED SCHOOL DISTRICT

### Business Office Procedures

# TRAVEL

#### TRAVEL REQUEST (Continued)

- Each employee attending the conference/meeting/workshop must complete a separate [Request for Participation at a Conference, Workshop, Seminar, Meeting form \(S-102\)](#).
- Submit the completed and approved Form and the conference flyer and/or agenda with your reimbursement claim.

#### Conference Request Procedure

1. For conference attendance submit the completed [Request for Participation at a Conference, Workshop, Seminar, Meeting Form](#) and supporting document(s) (e.g. conference flyer or agenda) to your Supervisor for approval.
2. Retain the approved [Request for Participation at a Conference, Workshop, Seminar, Meeting Form](#) to submit with your reimbursement claim.

#### REIMBURSABLE EXPENSES

Employees who incur travel expenses while conducting official Soledad Unified School District (SUSD) business may be reimbursed for all reasonable and necessary expenses in accordance with established policies and procedures.

#### Travel

##### REIMBURSABLE EXPENSES

#### Mileage Reimbursement

Reimbursement will be from the work location to the destination. The mileage reimbursement rate is periodically adjusted based on IRS guidelines. [Please contact the Business Office for the current mileage reimbursement rate.](#) Use the MapQuest™ website to determine the mileage and attach a printout to your claim.

12/23/14

## SOLEDAD UNIFIED SCHOOL DISTRICT

### Business Office Procedures

# TRAVEL

#### REIMBURSABLE EXPENSES (Continued)

##### Meals

The authorized allowance for meals will be reimbursed provided the travel time meets the following requirements:

Breakfast: Depart before 7:00 a.m.

Lunch: Depart before 11:00 a.m. and return after 2:00 p.m.

Dinner: Return after 5:00 p.m.

##### Per Diem

- The following per diem rates are in effect:

Breakfast \$ 7.00

Lunch \$ 10.00

Dinner \$20.00

Incidentals \$ 5.00 (For each 24 hour overnight stay)

TOTAL \$37.00

- Per Diem allowances may be reimbursed without receipts.
- Actual and necessary, reasonable expenses for meals shall be reimbursed if accompanied by an itemized receipt.
- If the conference provides a meal, the employee cannot be reimbursed for the meal because it was already paid for as part of the registration fee.

## SOLEDAD UNIFIED SCHOOL DISTRICT

### Business Office Procedures

# TRAVEL

#### REIMBURSABLE EXPENSES (Continued)

##### Lodging

- Reasonable and necessary amounts are allowed for lodging.
- If requested by hotel, complete the Hotel/Motel Transient Occupancy Tax Waiver Exemption Claim Form and present it to the hotel/motel at the time of registration or when prepaying reservation.
- Employee is required to obtain the itemized lodging receipt when checking out. The receipt is to be submitted with the Request for Participation At A Conference, Workshop, Seminar, Meeting (Form S-102).

##### Other Expenses

- Employees are eligible for incidental allowance for trips of twenty-four (24) hours or more. Incidental expenses include fees and tips given to porters, baggage carriers, hotel maids, taxi drivers, etc.
- No receipts are required for incidental expenses but are limited to the per diem rate of \$5.00 per day.
- Parking Fees – Receipts must be provided.



12/23/14

## SOLEDAD UNIFIED SCHOOL DISTRICT

### Business Office Procedures

# TRAVEL

#### REIMBURSABLE EXPENSES (Continued)

##### Claims for Reimbursement for Travel and other Expenses

- Claims for Reimbursement for Travel and other Expenses district form (S-161) is to be turned in to the Business Office monthly for payment.
- Print legibly, type, or use the fill-in PDF form to allow accurate and timely processing of claim
- Provide Name of Claimant, current mailing address, date.
- Date(s) of travel along with time of departure and return.
- Location & Purpose of trip or meeting (From/To – Purpose), Private auto miles.

##### Other Expenses

- Fee for lodging: request receipt from hotel when checking out and attach to form.
- Fee for seminar or workshop registration: flyer and receipts are required.
- Other fees that may be considered, describe in full detail.

#### TRAVEL & EXPENSE REIMBURSEMENT CLAIMS

##### Claim Processing Tips

- Verify that each claim is signed by the employee and approving administrator, with a complete account string provided on the district forms
- Conference, meeting, and workshop reimbursements require verification of attendance (agenda, completion of training, or other evidence of attendance)
- Verify all columns are totaled and amounts are carried over; the Business Office verifies what was submitted and does not prepare the calculations.

## SOLEDAD UNIFIED SCHOOL DISTRICT

### Business Office Procedures

# TRAVEL

#### TRAVEL & EXPENSE REIMBURSEMENT CLAIMS (continued)

- Original itemized receipts are required. Missing receipts are the primary reason claims are returned to the approving department, which can result in a significant delay in reimbursement.
- Payment of claims—Allow 21 days from the date the form is accepted for processing for the auditing, approval, and payment process.

#### Superintendent's approval.

- All travel out of the state must have prior approval from the Superintendent and Board.
- Requests should be submitted with as much advance notice as possible.
- Each individual must complete a separate request.

## Appendix E: Study Agreement





**FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM  
AB139 STUDY AGREEMENT  
November 18, 2015**

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

**1. BASIS OF AGREEMENT**

The team provides a variety of services to school districts and county offices of education upon request. Pursuant to the provisions of Education Code Section 1241.5 (b), a county superintendent of schools may review or audit the expenditures and internal controls of any school in his or her county if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. The extraordinary audits conducted by the county superintendent shall be focused on the alleged fraud, misappropriation of funds, or other illegal fiscal practices and shall be conducted in a timely and efficient manner.

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

**2. SCOPE OF THE WORK**

**A. Scope and Objectives of the Study**

The Monterey County Superintendent of Schools has requested FCMAT to assign professionals to conduct an AB 139 Extraordinary Audit. This audit will be conducted pursuant to Education Code Section 1241.5 (b). The COE has received documentation of possible misappropriation of funds at the Soledad Unified School District and is requesting that FCMAT review the internal controls and specifically the use of credit cards on behalf of the district.

The primary focus of this review is to advise the COE and the district with reasonable assurance, based on the testing performed, whether (1) adequate management controls are in place regarding the district's reporting and monitoring of financial transactions, and (2) based on that assessment, whether fraud, misappropriation of funds or other illegal fiscal practices may have occurred. Management controls include the processes for planning, organizing,

directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. Specific audit objectives will include evaluating the policies, procedures, internal controls established and financial transactions recorded by the district related to the following:

- Purchases conducted using district credit cards
- Expenditure of funds for meals during local meetings
- Expenditure of funds for travel and conference
- Hiring procedures

The team will review and test transactions for fiscal years 2013-14 through 2015-16 to determine if fraud, misappropriation of funds or other illegal activities may have occurred. Testing for this review will be based on a sample of transactions and records for this period. Testing and review results are intended to provide reasonable but not absolute assurance regarding the accuracy of the district's financial transactions and activity to accomplish the following:

1. Prevent internal controls from being overridden by management.
2. Provide reasonable assurance to management that the internal control system is established, implemented and monitored.
3. Help identify and correct inefficient processes.
4. Ensure that employees are aware of the proper internal control expectations.

The team will:

1. Evaluate the district's internal control structure, policies and procedures and perform substantive tests of transactions to determine if adequate procedures are in place to safeguard assets.
2. Evaluate the reliability and integrity of financial transactions.
3. Determine if authorization procedures are appropriate and consistently followed.
4. Evaluate whether proper segregation of duties exists.
5. Evaluate policies and procedures:
  - a. Review compliance with policies and procedures including, but not limited to, those in the areas of human resources, finance and purchasing.
  - b. Review procedures for recording and tracking assets to determine whether adequate controls are in place for safeguarding district assets.
6. Assess internal control monitoring processes:
  - a. Evaluate monitoring procedures and verify that controls are operating properly.
  - b. Evaluate controls to determine that they are designed to prevent management from overriding internal controls to detect or deter misappropriation of funds.
7. Evaluate whether the organizational chart reflects clearly established lines of authority and responsibility within and between the district's departments.

**B. Services and Products to be Provided**

1. Orientation Meeting - The team will conduct an orientation session at the district to brief management and supervisory personnel on the team's procedures and the purpose and schedule of the study.
2. On-site Review - The team will conduct an on-site review at the district office and at school sites if necessary; and will continue to review pertinent documents off-site.
3. Progress Reports - The team will inform the COE of material issues as the review is performed.
4. Draft Reports – When appropriate, electronic copies of a preliminary draft report will be delivered to the COE's administration for review and comment on a schedule determined by the team.
5. Final Report - Electronic copies of the final report will be delivered to the COE and/or district following completion of the review. Printed copies are available from the FCMAT office upon request.
6. Follow-Up Support – If requested, the team will meet with the COE and/or district to discuss the findings and recommendations of the report.

**3. PROJECT PERSONNEL**

The study team will be supervised by Michael H. Fine, Chief Administrative Officer, Fiscal Crisis and Management Assistance Team, Kern County Superintendent of Schools Office. The study team may also include:

- |    |                  |  |
|----|------------------|--|
| A. | Marisa Ploog     | FCMAT Fiscal Intervention Specialist, CPA, CFE, CICA, CGMA |
| B. | To Be Determined | FCMAT Consultant   |
| C. | To Be Determined | FCMAT Consultant   |
| D. | To Be Determined | FCMAT Consultant   |

Other equally qualified staff or consultants will be substituted in the event one of the above individuals is unable to participate in the study.

4. **PROJECT COSTS**

The cost for studies requested pursuant to E.C. 42127.8 (d) (1) shall be:

- A. \$800 per day for each staff team member while on site, conducting fieldwork at other locations, presenting reports, or participating in meetings. The cost of independent FCMAT consultants will be billed at their actual daily rate.
- B. All out-of-pocket expenses, including travel, meals and lodging.

**Based on the elements noted in Section 2A, the total estimated cost of the study will be \$25,000.**

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

Payments for FCMAT services may be reimbursed from funds pursuant to EC 1241.5 set aside for this purpose. Other payments, when deemed necessary, are payable to Kern County Superintendent of Schools - Administrative Agent.

5. **RESPONSIBILITIES OF THE COE AND/OR DISTRICT**

- A. The district will provide office and conference room space during on-site reviews.
- B. The district will provide the following if requested:
  - 1. Policies, regulations and prior reports addressing the study request
  - 2. Current or proposed organizational charts
  - 3. Current and two (2) prior years' audit reports
  - 4. Any documents requested on a supplemental list. Documents requested on the supplemental list should be provided to FCMAT only in electronic format; if only hard copies are available, they should be scanned by the district and sent to FCMAT in an electronic format.
  - 5. Documents should be provided in advance of fieldwork; any delay in the receipt of the requested documents may affect the start date of the project. Upon approval of the signed study agreement, access will be provided to FCMAT's online SharePoint document repository where the district shall upload all requested documents.
- C. The COE and/or district's administration will review a preliminary draft copy of the study. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the team prior to completion of the final report.

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



6. **PROJECT SCHEDULE**

The following schedule outlines the planned completion dates for different phases of the study:

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

7. **COMMENCEMENT, TERMINATION AND COMPLETION OF WORK:**

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

8. **INDEPENDENT CONTRACTOR:**

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

9. **INSURANCE:**

During the term of this agreement, FCMAT shall maintain liability insurance in an amount not less than \$1 million unless otherwise agreed upon in writing by the COE, automobile liability insurance in the amount required under California state law, and workers compensation as required under California state law. FCMAT shall provide certificates of insurance, with additional insured endorsements, indicating applicable insurance coverages prior to the commencement of work.

10. **HOLD HARMLESS:**

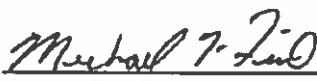
FCMAT shall hold the COE, its board, officers, agents and employees harmless from all suits, claims and liabilities resulting from negligent acts or omissions of its board, officers, agents and employees undertaken under this agreement. Conversely, the COE shall hold FCMAT, its board, officers, agents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

11. **CONTACT PERSON**

Contact: Garry Bousum, Associate Superintendent  
Telephone: (831) 755-0307  
E-mail Address: [gbousum@monterey.k12.ca.us](mailto:gbousum@monterey.k12.ca.us)

  
\_\_\_\_\_  
Nancy Kotowski, Superintendent  
Monterey County Office of Education

  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Michael H. Fine  
Chief Administrative Officer  
Fiscal Crisis & Management Assistance Team

November 30, 2015  
\_\_\_\_\_  
Date