



**CSIS California School Information Services**

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April 12, 2007

Randy Palomino, Superintendent  
Anderson Union High School District  
1469 Ferry Street  
Anderson, California 96007

Dear Superintendent Palomino:

The purpose of this management letter is to report the findings and recommendations developed by the Fiscal Crisis and Management Assistance Team (FCMAT) for your district.

In January 2007, the Anderson Union High School District contacted FCMAT with a request to assist the district in the area of associated student body funds. The district and FCMAT entered into an agreement to perform the following:

1. Conduct a review of the districts Associated Student Body (ASB) accounts and internal controls and provide recommendations for improvements, as needed.
2. Present a four (4) hour ASB workshop on May 8, 2007 for staff at the school sites and district office.

The information in this management letter is a result of the team's visit to the district on March 26 and 27 2007, subsequent document review and FCMAT's expertise in this specific area. The letter is organized as follows:

- Overview of Student Organizations
- Anderson Union's AB Structure
- Roles and Responsibilities
- Formation of New Clubs
- Minutes of Meetings
- Internal Controls
- Budgets
- Fund-Raising Events
- Equipment Purchases and Management

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# Findings and Recommendations

## *Overview of Student Organizations*

Students in California's public schools may legally raise money and make decisions on how to spend it through groups called Associated Student Body organizations (ASBs), which must be made up of current students. The existence of ASB organizations and the management of ASB funds also represent an opportunity for students to learn leadership skills and some of the principles of operating a small business while contributing to their school and benefiting fellow students.

Student organizations in middle schools and high schools are called organized student body organizations (organized ASB) because the students organize their activities around student clubs and a student council. These students are primarily responsible for their organizations and, through the student council and student club leadership, are to develop budgets, plan fundraisers, decide how the funds will be spent, and approve payments. The school Principal, ASB Bookkeeper and club advisor(s) assist and advise, while the students make the actual decisions with the assistance of adults. Unorganized ASBs are primarily for elementary sites, adult education sites and K-8 schools, and will not be addressed in this letter since this information does not apply to the specific district.

In addition to what is mandated by laws and regulations, ASB operations must also use good business practices, sound internal controls, and practical information based on current ASB operations in other California schools. Some ASB responsibilities are not addressed by law. Most are based on processes and procedures necessary to protect the assets raised and the various people involved in ASB operations.

## *Anderson Union's ASB Structure*

The Anderson Union High School District has a general student council with the appropriate officers at each school site. Various other clubs also exist. With the exception of the charter high school, the clubs do not meet regularly or keep minutes of meetings. Neither the council nor any of these clubs adopt and maintain budgets as the year proceeds. In most cases, students approve expenditures only after they have occurred, which is when the check is being issued. While there are exceptions, the level of noncompliance in these areas suggests that the adults and not the students make most decisions on ASB funds. Unless the students become more involved in the process and fulfill their suitable roles, the funds currently in ASB accounts more appropriately belong in district site accounts, where it is appropriate for adults to exercise control over them.

## *Roles and Responsibilities*

Many people are involved in administering and supervising student organization activities. They include the following:

Governing Board - The Governing Board is ultimately responsible for everything that happens in the district, including the activities of student organizations. Education Code § 48930 grants the Governing Board authority to approve the formation of district student body organizations. However, governing boards *are not required* to approve the formation of these organizations. As a last resort, some districts have chosen to terminate student organizations and fund-raising because of continuous and severe out-of-compliance issues that included fraud.

The Education Code also grants governing boards the authority to establish the parameters of district operation through board policies and regulations. These policies and regulations must contain information specifying how a student body organization will be established, how the organization's activities will be supervised, and how the organization's finances will be operated and managed. The district administration is responsible for establishing and monitoring procedures that implement the governing board's policies and regulations.

A comprehensive board policy is the cornerstone of sound practices in student organizations. Districts should also develop and implement a comprehensive ASB manual for all schools that have student organizations. While Anderson Union lacks an ASB manual, the district has several approved board policies, including the following:

- Board policy 6145.5(a), Student Organizations and Equal Access, dated January 20, 2004
- Board policy 6145.8 (a), Activity Funds Management, dated August 15, 1988
- Board policy 3450 (a), Money in School Buildings dated August 15, 1988
- Board policy 1321 (a), Solicitation of Funds From and by Students, dated October 19, 2004

The district should review these board policies, comparing them with examples of more current and informative board policy. Samples of these policies will be provided at the FCMAT workshop scheduled for May 8, 2007 and include the following:

- Solicitation of funds from and by students
- Advertising and promotion
- Student activity funds
- Management of district assets/accounts
- Other food sales

Superintendent - The district Superintendent ensures the implementation of board policies and makes certain that district staff members follow them. In addition, the Superintendent is responsible for establishing the procedures to be utilized by the staff in complying with board policy. This is normally accomplished through administrative regulations. The Superintendent should communicate the importance of the following issues and ensure that they are carried out:

- The Superintended functions as the “supervisor” of the student body organization activities.

- All district staff members are familiar with and understand the importance of following all policies established by the Governing Board, including those on ASBs.
- All district staff members understand the importance of the problems noted in the annual audit.
- Immediate action is taken to investigate any allegations about improprieties regarding ASB funds. Appropriate action is taken if the allegations are confirmed.

Anderson Union has approved one administrative regulation related to board policy 6145.8(a), Activity Funds Management, dated August 15, 1988. However, because the district lacks an ASB manual, this administrative regulation is insufficient to provide adequate guidance to the many people involved in ASB operations.

The district should review its administrative regulations, comparing them with examples of more current and informative regulations. Samples will be provided at the FCMAT workshop scheduled for May 8, 2007 and include the following:

- Solicitation of funds from and by students
- Management of district assets/accounts
- Other food sales

Business Office Staff - The district business office staff is responsible for the general oversight of student body activities. In this capacity, the business office staff should perform the following:

- Serve as a resource and answer questions from the site staff.
- Develop and update the district's ASB manual based on input from the site staff, student organizations and district auditors. The questions that are asked throughout the year and the findings noted by the auditors should also be taken into consideration when updating the manual.
- Provide training at least annually on the district's ASB manual or procedures. This includes providing new staff members and student council members with training and copies of the manual.
- Make periodic visits to sites to review the procedures in operation and answer questions. It is a good practice to visit each site at least once a year and more often for sites that appear to be having problems or continue to have audit findings.
- Obtain and review financial reports from the school sites at least quarterly.
- Review reconciled bank statements for all the school sites regularly, preferably monthly.
- Work with the site staff to respond to the problems noted in the annual audit and develop corrective actions to resolve these problems.
- Follow up on all issues regarding the administration of student organizations.
- Develop accounting procedures for recording and controlling the financial transactions of the student body organization.
- Periodically review procedures to make sure they conform to the prescribed accounting procedures.

The district carries out most of these responsibilities. Staff members indicated that they felt supported by the district office when they had questions or concerns. One exception was a perceived lack of timeliness in purchase order processing, and a concern that all payments to people are required to go through the district office. However, purchase order issues seem to occur infrequently, and the district recently assumed responsibility for paying all people through the payroll system for ASB, with the sites paying actual vendors/companies. This practice will provide for additional monitoring of those being paid to perform certain duties. Additional oversight in this area is important because many staff members and students were being paid from the ASB system without adherence to internal revenue rules and regulations.

The business office should either develop its own ASB manual or use FCMAT's ASB manual and desk reference. The chief business official (CBO) uses FCMAT's manual, and this document could be provided to all site staff members associated with ASB. In addition, the district should provide staff members with annual training either internally or through an outside organization. FCMAT has been contracted to provide a workshop on ASB issues in May 2007, and a FCMAT ASB manual will be distributed to each attendee. The district should continue to mandate that staff members attend this type of training in the future even if they attended in the past. The business office staff should also perform regular site visits as a type of internal audit to ensure adherence to proper procedure.

Principal/Site Administrator - The role of principals/site administrators varies by school level and size. While the principal has ultimate responsibility for all activities at the school site, many responsibilities for ASB management functions may be delegated to other staff members. The principal is directly responsible for student body organization financial activities and must ensure that they conform to established policies and procedures. At the secondary level, the designee generally is an assistant principal or ASB advisor.

For organized ASBs like those at Anderson Union, the responsibilities of the principal/site administrator are different from those at "unorganized" entities because the students more actively govern ASB activities. The principal/site administrator is responsible for the following major duties, many of which are delegated to an ASB advisor:

- Communicating and enforcing student organization policies and procedures to the staff and students.
- Ensuring that a student council is established and that each club has a certificated advisor.
- Providing supervision to the ASB advisors.
- Ensuring that minutes are kept of all ASB and club meetings.
- Providing supervision to the ASB bookkeeper. This includes reviewing monthly bank statements and financial statements.
- Ensuring that ASB funds are raised and expended in accordance with applicable laws and district policies and procedures.
- Deciding how many fund-raising events will be held each year, and ensuring that they are appropriate.
- Receiving proper approval and scheduling the fund-raising events.
- Reviewing and approving all club constitutions.

- Working with the district’s business office regarding training, implementation of good business practices, internal controls and resolution of audit findings.
- Reporting any suspected fraud or abuse to the district business office.

The principal/site administrator may delegate some or all of these activities to a site employee such as a vice-principal or teacher. Although Anderson Union utilizes this approach, one principal is more involved in the process than the other. Even if some responsibilities have been delegated to other staff members, the principals should review the monthly financial statements and bank reconciliations to monitor the type of funds flowing through these accounts. This is not occurring on an ongoing basis at all the district’s schools.

ASB Advisor – At secondary schools, a certificated employee must be assigned as an advisor to the general student council and each club. As the principal’s designee, the ASB advisor is usually responsible for all the previously mentioned functions and also ensures that all required procedures are followed. The advisor works daily with students in clubs and the student council, supervising the activities of these groups and serving as the link with the ASB bookkeeper and the principal/site administrator. When any ASB organization or club holds fund-raising events, the advisor is responsible for ensuring that adequate planning and internal controls are established, that all the funds are properly accounted for, and that these funds are forwarded to the ASB bookkeeper along with all the appropriate paperwork. The advisor(s) also works with students to prepare the annual budget and revenue projection estimates, ensuring that only valid expenditures are made and authorized from the different club funds.

At Anderson Union, these advisors do not assist in scheduling regular meetings, keeping adequate minutes, and adopting and maintaining budgets. This information should be compiled and forwarded to the general student council, which should review it monthly and maintain a general schedule of meetings, minutes, and budgets.

Each club should also have its own constitution. While the general student council at each district school has a constitution, the individual clubs do not. FCMAT has included a sample constitution with this management letter.

ASB Bookkeeper/Clerk -At each school site, a staff member is responsible for maintaining accounting records for ASB funds. Each site visited also has a clerk that is responsible for maintaining the accounting records for student organizations.

The ASB Bookkeeper/Clerk is responsible for ensuring the following:

- That all ASB funds are safeguarded while at the school site and deposited in the ASB’s bank account in a timely manner (within a few days, but no less than weekly).
- That accurate financial records are maintained of all ASB financial transactions in accordance with established procedures.
- That bank reconciliation is completed each month.

- That laws, district policies and procedures related to ASB funds are followed. Business policies and procedures related to ASB must also be followed, including those for accounting, purchasing, budget, and payroll.
- That any suspected fraud or abuse is reported to the school principal/administrator or district business office.

The ASB Bookkeeper/Clerk is fulfilling these obligations satisfactorily. However the clerk does not receive several pieces of information that would facilitate this process, including club budgets, minutes and constitutions. The clerk should be provided with these documents as soon as the district begins to generate them.

Only the charter school notifies the clerk about upcoming fund-raisers. This makes it impossible for the clerk to ensure that funds from the other schools are received in a timely manner and that all anticipated receipts have been submitted. This is a significant internal control weakness.

The forms used by each site are thorough and understandable. However, as was previously mentioned, students must approve expenditures prior to purchase.

The district issues a number of reimbursements to parents and staff members for items purchased. In most cases, students do not approve these reimbursements beforehand, and no purchase order or other documentation is processed that grants anyone authority to make the purchase. For sound internal controls, the district must draft an internal purchase order to generate proof of previous approval, regardless of whether the vendor requires one.

Student Council - In middle, junior and high schools, a student council must oversee all the school's student clubs. In an organized ASB, the student council represents the students and has primary authority on how to expend funds raised. Primary responsibilities include the following:

- Developing and adopting the annual budget,
- Authorizing fund-raising events,
- Approving expenditures from student funds.

Student councils at the two comprehensive high schools do not perform these functions. These councils also do not receive minutes, fund-raising information and budgets from all school clubs. This area requires immediate attention.

## *Formation of New Clubs*

In middle, junior and high schools, organized ASBs normally have many individual clubs, each with a specific focus and its own requirements, functioning under the primary student body organization. Primary guidance is shared by the principal, faculty advisors, and student body. To become a recognized part of the student body organization, a club must be composed entirely of students currently enrolled at the site. For financial purposes, these clubs are known as trust accounts, and they must have the approval of the student council and the principal, at the board's direction. All aspects of a student organization must be included in one of its trust accounts. All clubs should follow regulations stated in the ASB constitution on the formation of school clubs. Any group of students may apply for permission to form a club by submitting a proposed charter of constitution to the ASB, or by submitting an application. The general ASB constitution should detail the necessary steps to accomplish this.

To promote good governance, the principal should require students interested in forming a new school club to submit a formal application that is endorsed by a teacher or other school faculty member who agrees to serve as the club advisor for the entire school year. The Education Code requires club advisors to be certificated employees of the school district. Additional information should include the title, powers and duties of the officers and the manner of their election, scope of proposed activities, and name of the organization. FCMAT will provide the district with a sample application form for student clubs at its May 8 workshop.

Some school districts require all ASB organizations to submit an application each year. This ensures the district has on file the most current constitution and bylaws and is apprised of the club's current officers, members and advisor.

The general student council and each club must prepare and adopt an official constitution that includes the organization's name and purpose as well as the framework for its operation. This document should include clear policies and rules for student governance of the student organization or club. A set of bylaws that identifies operational parameters is also an important component although it is required only of the student council.

At a minimum, the constitution should include the following:

- Background information on the organization.
- The name of the organization.
- The purpose of the organization.
- The type of activities that the organization will conduct.
- The membership requirements for the organization, including the eligibility requirements.
- The definition of a quorum.
- How the constitution is amended.
- Information on the officers and meetings.
- The titles and terms of office of officers.
- The duties of officers.



- How officers are elected and requirements of eligibility.
- Whether the club/organization will be represented on the student council.
- How representatives to the student council other than officers will be selected.
- How representatives to the student council will be selected.
- The qualifications for eligibility on the student council.
- The term limits on the student council.
- How club advisors will be appointed.
- The time, frequency, and place for meetings.
- Financial information.
- How and when the budget is prepared.
- How expenses are approved.
- The person who will monitor the budget.
- What types of financial statements and reports will be generated and distributed.
- How committees will be appointed.
- How clubs in the student body organization will be formed, including their purpose, method of organization and discontinuance, financial activities and requirements for constitution and/or bylaws.

A set of sample constitutions and bylaws will be provided at FCMAT's May 8 workshop.

Because all student clubs and trust accounts are part of the general ASB, their funds should be transferred to the general ASB when a club becomes inactive unless there are specific instructions to do otherwise. The district's board policy on ASB or the ASB constitution and/or bylaws should define an inactive club, state what will occur with funds from these clubs, and indicate where these funds will be transferred. An inactive club could mean any club that has no financial activity for more than 18 months unless the district has a different definition.

## *Minutes of Meetings*

Because organized student groups follow a formal process of student governance, the student council and each club must prepare and maintain at each meeting a record of proceedings, which is called the minutes. Minutes also demonstrate that the student council or club has followed the ASB organization's policies and procedures.

Minutes should include financial matters pertaining to the budget, approval of fund-raising ventures, and expenditure authorizations. Minutes are not a verbatim transcript of the meeting, but a concise summary of the essential matters discussed. Using abbreviations for special projects or groups reduces the value of minutes in the future.

Although the form of the minutes might vary from organization to organization, at a minimum, the following information should be documented in the minutes:

- The name of the club or organization holding the meeting.
- The date, time, and place of the meeting.
- The names of those in attendance.
- The name of the presiding officer.
- An approval of the minutes from the previous meeting.
- The items discussed or reported on during the meeting.
- A report on activities of standing committee(s) or special committee(s).
- Any action taken during the meeting such as whether the budget was amended or the expenses were approved.
- The results of any votes taken, including who made a motion, who seconded the motion, and anyone in opposition, if applicable.
- Reports on any communication to the ASB.
- A listing of any unfinished business.
- The date and time of the next meeting.
- The time the meeting adjourned.
- The person who prepared the minutes.

Any information introduced at the meeting, such as project outlines and letters, should be attached to the original copy of the minutes and maintained on file. The club secretary or person who took the minutes should also sign them when they are completed.

At its May 8 workshop, FCMAT will provide the district with a minutes form that may assist the clubs as they begin to fulfill this requirement.

At a regularly scheduled student council or club meeting, students should review and approve the minutes of the previous meeting. The secretary should maintain a binder of all the approved minutes for the school year.

A document titled “Let’s Get the Meeting Moving” will be provided at the May 8 workshop. Some districts use this document to inform club members about appropriate topics of discussion as well as a method of discussion.

## *Internal Controls*

Internal controls are the policies and procedures that an organization establishes to perform the following:

- Safeguard and preserve the organization’s assets.
- Promote successful fund-raising ventures.
- Protect against improper fund disbursements.
- Ensure that unauthorized obligations cannot be incurred.
- Provide reliable financial information.
- Reduce the risk of fraud and abuse.
- Protect employees and volunteers.

Establishing effective internal controls for fund-raising events significantly decreases the risk that event participants will be accused of impropriety. Disagreements between principals, advisors, teachers, parents and/or students or community members sometimes result in false accusations that are difficult to disprove without sound internal controls.

Internal controls include segregating duties by employee functions so that one person does not handle a transaction from beginning to end. The individuals performing functions that need to be segregated include the following:

- Those who initiate or authorize transactions
- Those who execute the transactions
- Those with the responsibility for the item resulting from the transaction

The basic components of internal controls include the following:

- Policies and procedures that are based on laws, regulations, and sound business principles are established, implemented and maintained.
- Policies and procedures are communicated to those involved, e.g., advisors and students.
- All individuals who are expected to carry out the policies and procedures are trained. More than one person is trained for each job.
- Adequate documentation of all procedures is prepared and maintained, such as any manuals and forms.
- Periodic monitoring is performed throughout the year, including oversight by the principal, ASB advisor, district business office, and completion of the annual audit.

Other controls include internal audits of ASB operations at different sites, and the independent annual audit that is performed at the end of each year.

Effective internal controls do not eliminate the possibility of errors or fraud but they can decrease them. Since few entities have perfect internal control structures in place, it is imperative that management develop techniques to offset any weaknesses. FCMAT attached to this letter a checklist that principals, advisors, students, and district officials can use to evaluate the internal controls of their ASB organizations.

The district's sites use effective internal controls overall, but weaknesses exist in the areas of handling cash and authorizing expenditures. Teachers, coaches and other staff members sometimes handle excessive amounts of cash without requiring tickets or other receipts. These funds are then forwarded to the clerk or another staff member.

The district must also ensure that three signatures of approval are obtained before making an expenditure. Student signatures are not currently obtained prior to purchase, but they should be.

## ***Budgets***

The school district Governing Board must establish procedures for the preparation and control of student body organization budgets. A budget is a financial plan for a specific period of time. A budget allows the ASB organization to estimate at the beginning of the school year its financial condition at the end of the year.

In middle, junior and high schools, the student council may have to make commitments and enter into contracts at the beginning of the year, before any funds are raised. A budget allows the organization to estimate its revenues for that year and compare them with planned expenses.

Budgets are usually prepared for a one-year period. Both the general student council and each individual club should develop their annual goals and include a plan to reach those goals in the budget document by determining the following:

- Estimated Revenues: The fund-raisers that will be held.
- Estimated Expenses: The cost for these fund-raisers and any planned programs or activities.
- Estimated ending reserves and club carryover: The amount left after expenses are paid and whether this will be sufficient to accomplish the stated goals.

Developing and managing budgets should be a part of the process of teaching students about business operations. Budgeting is also a valuable life skill that can help students manage their personal finances.

Budget monitoring is the process of regularly comparing actual revenues and expenses to the budget. Students and the advisor should monitor the budget at least monthly. This will allow for adequate time to adjust plans if the budget is not realistic or if the planned goals will not be met because of lower revenues or higher expenditures.

If any problems are noted during budget monitoring, the students can revise the budget. Significant changes should be made for variances of 10 percent or more. The advisor and/or principal should also approve all budget changes. Anderson Union may want to establish a specific time line for budget revisions and include this in board policy.

The principal, advisor and students should ensure that funds raised by students during a given school year are spent on behalf of those students. Reasonable carryover balances often are used as seed money for a project that will be completed in another year, and a club may work toward a large project that takes more than one year to fund. However, large carryover balances are inadvisable. Carryover balances should also be reviewed regularly to ensure funds are appropriately expended.

## ***Fund-Raising Events***

Education Code § 48932 allows the Governing Board to authorize student body organizations to conduct fund-raising activities. This code section makes clear that the Governing Board is responsible for approving all fund-raising events. Before approval, the board must consider several issues such as student safety, insurance coverage and appropriateness. Board members may also have concerns about the number and type of fund-raising events and whether they will interfere with the normal conduct of the school's operations.

The Governing Board should review and approve the ASB fund-raising events at the beginning of each school year or designate an administrator to accomplish this task. As an alternative, the board could approve policies and administrative regulations that delineate what is allowable at fund-raising events.

Nondistrict organizations such as boosters clubs and the Parent Teacher Association (PTA) should coordinate the timing of fund-raisers with the school sites so that these fund-raisers do not compete with student body fund-raisers.

The district's process for fund-raising approval is as follows. A form is filled out by the advisor, who obtains approval from the principal. To keep track of events, the fund-raiser is added to a calendar that includes other events at the site. The form is not shared with the ASB clerk or the business office. Since a board policy detailing the handling of ASB fund-raisers was not available, FCMAT believes several steps are necessary to strengthen controls in this area.

At the beginning of each school year, the principal or ASB advisor should fill out documentation indicating the number and types of fund-raising events that are scheduled by each school's student organizations (A sample form will be made available at the May 8 workshop). The business office can compile these forms and forward them to the board along with a resolution so that the board can authorize fund-raising events for the fiscal year. This information also could be forwarded to the governing board's designee, based on board policy. If the number or types of events change during the year, the principal should submit a revised form to the board or designee for approval. Alternatively, the business office can review the lists of additional fund-raisers and verify that they comply with board policy. The business office can also contact the insurance company to determine whether the event would be covered by the district's policy and whether there are any limitations. This step should be completed when fund-raising ideas are first being developed.

To help avoid scheduling conflicts, many districts also publish an event schedule listing all the ASB fund-raisers planned in any given year. The business office usually maintains this schedule since it often receives the paperwork required for approval.

Student organizations should have adequate internal controls over fund-raising events, evaluate the effectiveness of these events and resolve any conflicts regarding activity requests. Revenue potential forms help the district achieve these goals and account for a fund-raiser's financial activity. These forms, which assist with planning and budgeting, basically serve as sales plans that include expected sales levels, sale prices per unit, expected cost, and net income. Since Education Code section 48932 requires the Governing Board to approve fund-raising events, a revenue potential form can also function as the event approval request. It can also serve as an internal control since most external audits will include a finding if some type of revenue reconciliation is not being performed for each fund-raiser. Lastly, the form can help ensure that the site administrator is aware of and approves all fund-raising activity at the site. An example of a revenue potential form will be provided at the May 8 workshop.

It is important to remember that students should participate and make contributions to fund-raising events voluntarily. They cannot be required to participate in fund-raising events and cannot be excluded from an ASB-funded activity because they did not participate in raising funds. Fund-raising proceeds also cannot be attributed to individual students since the funds are raised to benefit the entire club or student group.

Booster and Parent Group Fund-Raising - The funds of student body organizations and nonstudent groups such as booster and parent groups are never to be commingled. Student body funds are never to be used to cover nonstudent body fund-raising expenses. Nonstudent organizations shall be responsible for the collection of their own money, tickets and other items.

Nonstudent organizations, including teachers and other staff members, are not to solicit funds on behalf of a school or its students during the school day without prior approval by the school board or its designee. Permission is to be requested for each individual fund-raising event. At Anderson Union, some staff members held their own fund-raisers and donated the proceeds to the ASB or district. This raises several concerns. For example, the staff members holding the fund-raiser should have been taxed on the amount earned since it is considered taxable income regardless of whether it was donated to ASB. The district should circulate a memorandum among the staff indicating that these types of transactions are not allowable.

Unless board policy or practice states otherwise, students *are permitted* to assist in nonstudent organization fund-raisers. However, the donors should understand that nonstudent fund-raisers are bound by the state disclosure law (Business and Professions Code 17510. to 17510.7). This law requires volunteers 11 years old and older to present potential donors or buyers with certain information, including the purpose of the solicitation and an address to obtain further information about revenues and administrative expenses.

ASB Accounts are not Pass-Through Accounts - Many school sites use the ASB account as a pass-through or clearing account. In this practice, a deposit is made into the ASB account and journaled out when the funds are moved to another district account. Examples of these deposits

are donations from local businesses to pay for extra compensation for the music teacher or a donation from a local vendor for classroom art supplies. Only actual ASB funds should be deposited into ASB accounts.

It is also relatively common to place ASB funds in the discretionary account of a teacher or principal. However, placing ASB funds in an account with an adult's name indicates that the funds will be expended based on the decision of that adult and not a student. ASB funds are meant to benefit students and not supplement an adult's budget.

Cash Control Procedures for Fund-raising Events - It is important to be able to tie all proceeds back to the specific fund-raiser that generated them and to ensure that the appropriate parties properly turn in and account for all proceeds from an event. To accomplish this, student organizations or club advisors and school administrators must ensure that proper internal controls exist including the following:

- Ticket control procedures
- Proper inventory of concession items
- Proper cash handling and physical chain of custody for all cash receipts
- No commingling of receipts from separate events
- The immediate submission of all event proceeds to the school bookkeeper or secretary
- The use of multipart receipts when submitting all event proceeds

Because each internal control procedure has strengths and weaknesses, different procedures are suited to different types of fund-raisers. However, it is imperative that *some* method be implemented that allows for reconciliation between the money collected and the fund-raiser sales. The district has received audit findings in past years due to inadequate cash control, and although FCMAT's limited review in this area found no major weaknesses, a thorough audit was not carried out. The internal control method that is utilized should also involve two people, one collecting the money and the other handling the ticket/receipt.

When a fund-raising event is scheduled, the advisor is responsible for ensuring that internal control procedures are in place. The advisor should assist students in selecting and developing an effective cash receipt control procedure and implementing the correct internal control procedures once the event begins. No student should perform a task that involves the direct handling of cash without being directly supervised by an adult.

The school administrator responsible for reviewing and approving the activity request must ensure that the club faculty advisor has accomplished this as part of fund-raiser planning.

Internal Controls Over Expenditures/Cash Disbursements - In general, internal controls over cash disbursements should ensure the following:

- That all disbursements are for items that were included in the budget.
- That all disbursements are for items that were authorized by the ASB and recorded in the ASB minutes.
- That the ASB bookkeeper pays only for goods that were authorized and received.
- That the ASB bookkeeper maintains adequate records, including original detailed receipts, of all expenses.

The district's most significant weakness in this area is the fact that purchases are often made with the approval of the advisor and vice principal/principal, but not a student representative.

When an expenditure is anticipated, but sufficient details will not be available in time to follow the normal approval process, the sites can utilize a "contingency" purchase order. This document includes all the available information about the purchase, but establishes limits on the dollar amount, the items that can be purchased, the purpose of the expenditure and the vendors that can be used. This process allows a check to be produced and obtain contingent approval, receiving final approval only after the emergency expenditure is made and more details are available. The established limits allow preapproval while providing sufficient controls.

The ASB is not obligated to pay for an expenditure ordered by a teacher, other staff member, student, or other person who has not first received approval via a purchase order. The principal should ensure that all club members, teachers, and advisors understand that they cannot obligate ASB funds until a purchase order is prepared and approved by the student club representative. For example, if a teacher places an order for materials without a purchase order, the teacher should be responsible for paying for those goods.

At a minimum, the purchase order should include the following:

- The name of the student club or organization that is requesting the materials. This is the group that the ASB bookkeeper will charge for the goods.
- The name and address of the vendor, if known.
- The quantity of goods, including a description and the cost. The requestor should also estimate the sales tax and shipping charges.
- The required signatures. As required in Education Code Section 48933(b), the signatures must include a student representative, a board designee (principal) and a certificated advisor. Because the purchase order has the three required approvals, the check needs only two signatures.

If the vendor will not accept a purchase order, but requires payment by check, the purchase order form can be used to request a check. A pending purchases file could be maintained by the ASB bookkeeper as a reminder to obtain an original receipt once payment is made.



## *Equipment Purchases and Management*

Students occasionally purchase equipment with ASB funds. Equipment is generally defined as moveable personal property of a permanent nature (other than land and building) with a useful life of more than one year and a cost of more than \$500. Examples include machines, furniture, vehicles, and furnishings that are not integral parts of a building or a building service system. Some equipment also requires periodic maintenance and repairs. When purchasing equipment, the ASB needs to consider insurance and various risk exposures, such as vandalism and theft, in addition to understanding inventory listing requirements.

When an ASB organization purchases equipment, the equipment is the property of the ASB. The student club may then donate the equipment to the district. This has several advantages to the student organization because the district generally assumes the responsibility of maintaining the equipment and repairing it in the event of a malfunction. If the student organization does not donate the equipment, current and future students will assume responsibility for all these associated costs.

If the ASB chooses to donate the equipment to the district, the students should stipulate that the ASB club making the donation retains the right to exclusive use of the equipment. The Governing Board should formally accept the donation of the equipment as it would with any other donation. Acceptance of the gift does not necessarily mean that the district will replace the item in the future if it is nonfunctional or out of date. Many districts actually prohibit student organizations from owning equipment or long-term assets of any kind.

Equipment owned by the district is covered by the district insurance policies for various risks. If the ASB prefers to retain ownership of the equipment, it should check with the district's risk manager prior to purchase to determine what type of insurance is necessary. The ASB advisor should inform student leaders about deductibles, replacement value, and depreciated value of equipment.

If the district accepts the donated equipment purchased by the ASB, the staff will tag it so that it can be identified as district property and will include the item on the district's listing of equipment. If the ASB retains the ownership of the equipment, it should ensure that the equipment is marked and identified as ASB equipment. In some districts, the equipment is marked with electronic bar coding. When available, the ASB should also use this inventory marking mechanism.

The ASB organization must maintain a list of all the equipment it owns. This list should include a description of the equipment, the date purchased, the purchase price, and the club that made the purchase. This list functions as the permanent record.

Once a year, the ASB bookkeeper should verify that all items on the list of ASB-owned equipment are still located at the school site. This process is referred to as taking a physical inventory of the equipment. When ASB-owned equipment is sold, the ASB bookkeeper should credit the proceeds of the sale to the club that originally purchased the item and remove the item from the equipment inventory records. Appropriate accounts will need to be established in the student organization's accounting system for all fixed assets.

This management letter concludes FCMAT's review of the Anderson Union High School District's ASB operations. FCMAT would like to express its gratitude to the district and school site staff for its assistance. We look forward to the workshop on May 8, 2007.

Sincerely,

Michelle Plumbtree  
Fiscal Intervention Specialist

C: Jackie Titus, Chief Business Official

## **Internal Control Reference Checklist**

A “No” response to any of the following questions may indicate an internal control weakness within the ASB organization that must be addressed. The district should perform a “self evaluation” and investigate all potential weaknesses and ensure that controls are put into place so that the weakness does not present an opportunity for issues.

### **General Procedures**

1. Has the Governing Board of the district adopted board policy and administrative regulations outlining rules and regulations by which the student body is governed and operated?
2. Does the district have a comprehensive ASB manual with detailed procedures?
3. If the district has a comprehensive manual, is it reviewed and updated, if necessary, at least annually? Does the update address those areas of concern or confusion identified in the previous year’s audit?
4. Is annual ASB training provided for all site and district level employees who work with ASB activities?
5. Do members of the business office staff periodically (at least annually) visit each school site to provide support and to review the ASB procedures used at the site?
6. Do site employees and students know who to call in the district office if they have questions or concerns about ASB and they are not able to get their answer at the school site?
7. Has the business office taken immediate action to correct findings related to ASB activities that are noted in the annual audit? Are the school sites involved in coming up with the action plans to ensure the findings do not reoccur?
8. Are the forms, processes and systems for ASB operations standardized district-wide?
9. Is the software used for ASB finances adequate to meet the needs of the district and clubs? Are the financial reports and other items produced by the system user friendly and informational?
10. Are all bank accounts reconciled within two weeks of receipt of the statement?
11. Is there a clear distinction of income and expenditures between the student body and the district funds?
12. Do procedures ensure that trust funds will not be used to finance general student body activities?
13. Is prompt action taken to recover deficits in trust accounts?
14. Has the Governing Board established a policy for disposing of the trust account balances of inactive student body organizations?
15. Is equipment adequately controlled and recorded?
16. Is the Board’s designee an authorized signatory on all the student body accounts?
17. Is a general ledger maintained?
18. Are minutes of the student body meetings maintained and adequate?
19. Are the minutes of each individual club reviewed by the general student council?
20. Do the minutes contain approval for fund raising activities?
21. Are disbursements of student body funds specifically approved, item-by-item, and recorded in the minutes?

22. Are the activities of the student body reflected in the minutes?
23. Does each recognized club have a constitution or charter on file with the ASB office?
24. Does the general student council have bylaws in place?
25. Are accounting controls for the clubs the same as for the general ASB?
26. Are student store inventories reviewed periodically?
27. Are financial reports prepared on a regular basis? Are they reviewed and included in the ASB minutes?

### **Cash Receipts / Fund-raisers**

1. Are all proposed fund-raising events approved by the governing board or its designee at the beginning of each school year? Is this list updated throughout the year?
2. Are fund raising activities in accordance with those prescribed by the district and approved by the governing board/designee?
3. Are fund-raising activities approved by the school principal and by the general student council?
4. Is adequate control exercised by supervisory personnel over student fund raisers to ensure that the participants are following all district policies and exercising strong internal controls?
5. Is staff aware of the appropriate internal controls for cash receipts on each type of fund-raising event (i.e. prenumbered receipts, tickets, tally sheets)?
6. Is an adequate stock of supplies kept for cash receipt control procures, such as prenumbered tickets and prenumbered receipt books in a safe, locked place?
7. Is control maintained over unused tickets, numbered forms and receipt books when not in use?
8. Are details as to the number of items receipted and the unit price recorded on the receipt or other documentation used for cash receipts?
9. Are all cash receipts from student fund raising activities turned in to the ASB bookkeeper immediately after the event, whenever possible? Is the correct documentation turned in with the collected cash?
10. When cash is turned in by individuals to the ASB bookkeeper, is there any type of acknowledgment signed for receipt of the money?
11. Are undeposited cash receipts kept in a safe?
12. Does the ASB bookkeeper record cash receipts promptly when received?
13. Are deposits to the bank made: on a timely basis (at least weekly)? Intact?
14. Is a summary or detail of amounts making up deposits retained for sufficient audit trail?
15. Are shortages/overages handled as prescribed per established district policy?
16. Is control of associated student body card sales maintained, including the number of cards issued, and the beginning and ending numbers of the cards sold?
17. Are commissions from vending machine sales received promptly when due?
18. Are the profit and loss statements for the student store reviewed periodically? Are prices adjusted when necessary based on analysis of item sales?
19. Are personal checks prohibited from being cashed from ASB funds?

### **Cash Disbursements / Expenditures**

1. Does the business office report the sales and use tax for the student store and other purchases on its sales tax report?
2. Does the business office issue 1099s for all independent contractors paid with ASB funds?
3. Are cash balances reconciled with bank balances monthly, and are detailed items listed on bank statements recorded in the ASB's books?
4. Are prenumbered checks used for cash disbursements?
5. Are voided checks retained?
6. Does the student council pre-approve all expenditures?
7. Are controls established to ensure that expenditures do not occur in excess of budgeted funds?
8. Are purchase orders used?
9. Do purchase orders have the required three signatures?
10. Are approved purchase orders, whether voided or not, retained in a file?
11. Are contractual obligations properly authorized by board designated signors? Are they kept within established limits?
12. Are the signatures of the advisor, student representative, and governing board representative obtained for each disbursement?
13. Do checks require double signatures? Are there back up signors on the account?
14. Are all disbursements supported: by invoice? By adequate receiving documentation?
15. Are all checks drawn to a specific payee, i.e., no checks are written to cash?
16. Are purchases of equipment maintained and properly recorded in an equipment account?
17. Are ASB funds spent to enhance the general welfare, morale and educational experience of the entire student body rather than just one or two students, individuals or a specific group?
18. Are disbursements from petty cash properly supported by vouchers or receipts?
19. Are the checkbook and the check stock stored in a locked file cabinet or safe?
20. Is there a process in place to determine whether a worker is an employee or an independent contractor?
21. Are all employees who perform work for the ASB paid through the district's payroll and then invoiced to ASB?
22. Is a W9 form obtained from each independent contractor/consultant prior to them working?

### **Financial Reporting**

1. Are all bank accounts reconciled monthly? Are they shared with the advisor, principal and district business office?
2. Are profit and loss statements for the student store prepared and reviewed periodically by the general student council, and school principal and the district office?
3. Are monthly reports of financial transactions of various trust and club accounts prepared and submitted to the advisors, school principal, the general student council and the district office?
4. Are periodic financial statements of budgeted and actual revenues and expenditures prepared and submitted to the district business office? Are these reports included in the student council minutes?

5. Does the student council and each specific club adopt an annual budget?
6. Is each club's budget approved by the general student council?
7. Is each club's and the general student council's budget reviewed by the district's governing board, or designee?
8. Is there a policy in place that dictates how much carryover is allowed by individual clubs?
9. Is a balance sheet and statement of revenues and expenditures prepared at least at the end of the year?
10. Are all of the funds and annual financial reports of the student organization audited annually by the district's independent auditor?