



CSIS *California School Information Services*

Kern County Superintendent of Schools

**Extraordinary Audit
of the**

Bakersfield City School District

December 13, 2011

Joel D. Montero
Chief Executive Officer





CSIS California School Information Services

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Christine L. Frazier, Superintendent
Kern County Superintendent of Schools
1300 17th Street
Bakersfield, CA 93301

Dear Superintendent Frazier:

In September 2011, the Kern County Superintendent of Schools and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement to provide an Assembly Bill 139 extraordinary audit of the Bakersfield City School District. Specifically, the agreement states that FCMAT will perform the following:

1. Kern County Superintendent of Schools requested the team to provide for the assignment of professionals to conduct an extraordinary audit of the Bakersfield City School District Maintenance, Operations and Transportation Department. Pursuant to Education Code Section 1241.5(b), the superintendent of the Kern County Superintendent of Schools may review or audit the expenditures and internal controls of any school district if the county office has reason to believe that fraud, misappropriation of funds, or other illegal practices may have occurred. The FCMAT Team will review policies and procedures and specific aspects of the Maintenance, Operations and Transportation Department, policies and procedures related to accounts payable and accounts receivable processing, cash management including bank deposits and other accounts.

FCMAT will review vendor invoices, receipts, purchase orders, financial statements, and other documents to determine if instances of fraud, misappropriation of funds or other illegal practices occurred that would warrant further investigation.

This report includes the study team's findings and recommendations.

On behalf of FCMAT, we appreciate the opportunity to serve the county office and extend our thanks to all the staff of the Kern County Superintendent of Schools in conjunction with the Bakersfield City School District for their assistance during fieldwork.

Sincerely,

Joel D. Montero
Chief Executive Officer

FCMAT

Joel D. Montero, Chief Executive Officer

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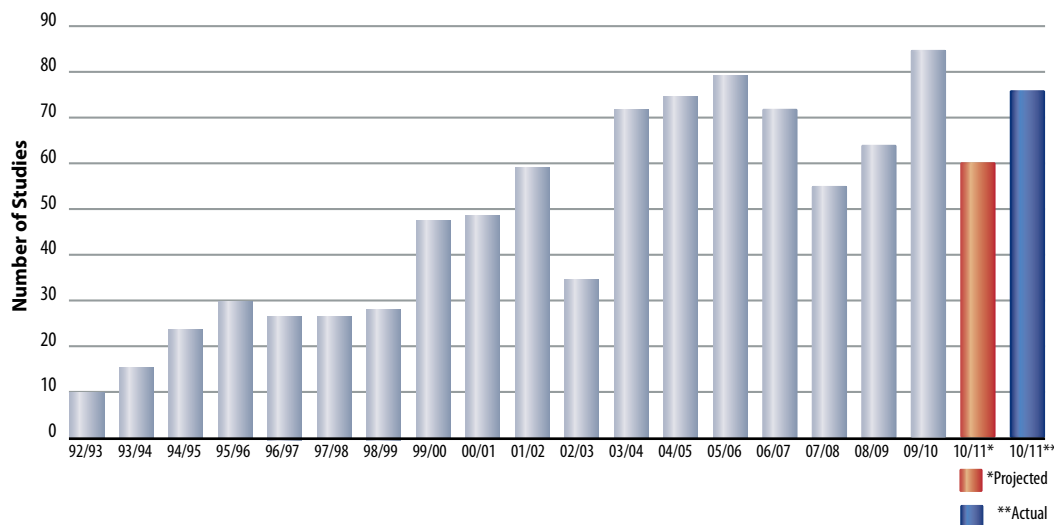
About FCMAT

FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial 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 and efficient operations. FCMAT's data management services are used to help local educational agencies (LEAs) meet state reporting responsibilities, improve data quality, and share information.

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 local education agency 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.

Studies by Fiscal Year



FCMAT also develops and provides numerous publications, software tools, workshops and professional development opportunities to help local educational agencies operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) arm 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 1200 in 1992 to assist LEAs to meet and sustain their financial obligations. Assembly Bill 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide data management work. Assembly Bill 1115 in 1999 codified CSIS' mission.

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

In January 2006, SB 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 nearly 850 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

In September 2011, the Fiscal Crisis and Management Assistance Team (FCMAT) received a request from the Kern County Superintendent of Schools for an Assembly Bill (AB) 139 extraordinary audit of the Bakersfield City School District Maintenance, Operations and Transportation Department. The county office had become aware that Bakersfield City School District experienced a discrepancy between cash collections and vendor receipts for recycled materials. The county superintendent was concerned that these transactions may have violated various California Education Code sections regarding fraud and/or misappropriation of assets. This review was conducted to determine whether sufficient evidence exists to further investigate the findings, or if there is evidence of criminal activity that should be reported to the local district attorney's office for further investigation.

FCMAT reviewed vendor invoices, receipts, purchase orders, financial statements, and other documents to determine if instances of fraud, misappropriation of funds or other illegal practices occurred that would warrant further investigation.

Study Guidelines

FCMAT provides a variety of services to school districts and county offices of education upon request. Education Code Section 1241.5(b) permits a county superintendent of schools to review or audit the expenditures and internal controls of any school district in that county if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination.

In accordance with Education Code Section 1241.5(b), the review or audit conducted by the county superintendent will focus on the alleged fraud, misappropriation of funds, or other illegal fiscal practices and is to be conducted in a timely and efficient manner. The county superintendent shall report the findings and recommendations to the governing board of the district within 45 days of completing the audit. The governing board of the school district shall notify the county superintendent within 15 days after receipt of the report of its proposed actions regarding the county superintendent's recommendations.

Pursuant to Education Code Section 42638 (b), 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.

The FCMAT study team's review focused on the allegations of misappropriation of assets to determine whether the school district's Maintenance, Operations and Transportation Department (MOT) and/or its personnel were involved in or committed fraudulent activities, including the misappropriation of funds or any other illegal activities.

Audit Fieldwork

Investigating allegations of fraud requires a number of sequential steps that include interviewing potential witnesses and assembling evidence from both internal and external sources. The FCMAT study team visited the district in September and October 2011 to conduct interviews, collect data and review documents. Specifically, FCMAT reviewed, analyzed and tested records that included receipts for purchases, recycle receipts from various vendors, department hand-

book, board policies, administrative regulations, general ledger reports, cash deposits, vendor master files, payroll master files, financial reports and internal documents secured from district departments and from independent third party sources. The review process also included interviews with board members, the interim superintendent, management personnel, business office staff and other district employees to evaluate information concerning any alleged mismanagement, fraud, or abuse.

The focus of the fieldwork was to determine whether there is sufficient information to ascertain that fraud exists and if the misappropriation of funds through the mismanagement of cash from the sale of surplus materials occurred. Although there are many different types of fraud, skimming is a form of misappropriation of assets involving cash. Skimming schemes are commonly referred to as off-book frauds and leave difficult audit trails. Skimming can occur at any point where funds enter the district, so any employee who deals with the process of receiving cash may be in position to skim money. Because skimming is removal of cash from the organization before the corresponding data is entered into an accounting system, detection in the normal course of business is difficult.

All fraud has common elements including the following:

- Intent, or knowingly committing a wrongful act
- Misrepresentation to accomplish the act
- Reliance on weaknesses in the internal control structure
- Concealment to hide the act

This report is the result of that investigation and is divided into the following sections.

- I. Background
- II. Scope and Procedures
- III. Findings and Recommendations
 - Internal Control Elements
 - Surplus Property - Recycling Proceeds
 - Personal Use of District Assets
 - Internal Controls-Material Weakness, Prevention and Detection
 - Conclusion

Study Team

The FCMAT study team was composed of the following members:

Deborah Deal, CFE	Jim Cerreta, CPA
FCMAT Fiscal Intervention Specialist	FCMAT Consultant
Los Angeles, California	Roseville, CA
Leonel Martínez	
FCMAT Public Information Specialist	
Bakersfield, CA	

Background

The Kern County Superintendent of Schools requested the Fiscal Crisis & Management Assistance Team (FCMAT) to provide for the assignment of professionals to conduct an AB 139 extraordinary audit and study specific aspects of alleged fraud, misappropriation of funds or other illegal activities in the Maintenance, Operations and Transportation Department of the Bakersfield City School District. The county office requested the study after receiving written allegations from the district interim superintendent describing several irregularities in that department.

In July 2011, the district learned of a potential misappropriation of funds in the Maintenance and Operations Department involving numerous sales of surplus materials for cash to local recycling vendors. Based on these allegations, the business office performed a test that involved one local recycling vendor, determining that the receipts from this vendor did not match those recorded in the district's general ledger accounts and subsequent deposits from the recycling of scrap metal, wiring and other materials from the Maintenance Department.

In addition to these allegations, it was reported that employees in the Maintenance Department, including managers, routinely used district equipment for personal reasons, including the dump truck, skip loader, and tractors along with the use of the district facilities to repair personal vehicles and utilized the specialty shops for woodworking and painting.

It was alleged that the director of maintenance and operations was aware of the recycling activities and directed employees to take scrap materials to the recycler and deliver the cash to his office. Furthermore, employees contend that this same manager made personal use of district vehicles and equipment at his residence and the multiple rental properties he owned.

In July 2011, district officials conducted a preliminary investigation that was concluded in August 2011, and based on the results of their initial findings, reported the incident to the Bakersfield Police Department and county superintendent of schools. After the police report was made, the business office staff discovered that several recycling vendors regularly did business with the Maintenance Department. Receipts from these vendors and receipts from the vendor previously tested greatly exceeded the cash and receipts recovered from the director's office.

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.

Scope and Procedures

The fraud investigation consisted of gathering adequate information regarding specific allegations, establishing an audit plan, and performing various audit test procedures to determine whether fraud occurred, and if so, evaluate the loss, determine who was involved, and determine how it occurred. During the interviews, FCMAT study team members asked questions pertaining to policies and procedures, job responsibilities, authorization levels and questions related specifically to the instances of recycling activities; collection and disposition of cash or checks; and the use of district equipment by MOT employees.

To accomplish the objectives of this audit, a number of audit test procedures were developed to provide an in-depth analysis and understanding of the allegations and potential outcomes. Many vendor records did not cover the entire period from January 2007 through October 2011 and therefore cannot be verified by the FCMAT study team as a complete listing of sales made between the vendors and the district. As a result, actual sales during the three-year time period could be higher. Specifically, audit tests were performed on 100% of the records received from local recycling vendors related to the collection and disposition of cash and/or checks received from various recyclers in the Bakersfield area. Various audit tests and/or procedures include the following:

- Review of the prior district accounting records and supporting documentation for cash receipts, depositing and reconciliation for disposition of surplus property.
- Compilation of cash and check collections by district employees from local recyclers.
- Analysis of receipts obtained from various recyclers to classify materials sold, dates of sales and method of payment.
- Comparison of vendor receipts to district general ledger records.
- Comparison of payroll overtime records to dates recorded on the recycler's receipts.
- Review of district board policies, administrative regulations and internal handbooks including the authorization to dispose recyclable materials on behalf of the district in accordance with state law.
- Review of district board policies, administrative regulations and internal handbooks, including the authorization to use district equipment.
- Comparison of the district's employee and vendor master files.
- Review of the district's internal controls related to cash handling and compliance with state law, board policies and administrative regulations.
- Review of the district's internal control structure to determine possible weaknesses in prevention and detection of fraud, and/or abuse.

The following findings and recommendations are the result of the audit procedures performed.

Findings and Recommendations

Internal Control Elements

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 array of irregularities characterized by intentional deception and misrepresentation of material facts. Effective internal control processes provide reasonable assurance that a district's operations are effective and efficient, that the financial information produced is reliable, and that the district operates in compliance with all applicable laws and regulations.

Internal control elements provide the framework for an effective fraud prevention program. An effective internal control structure includes the policies and procedures used by district staff, adequate accounting and information systems, the work environment and the professionalism of employees. In addition, the organization should include the following elements in its internal control plan:

Internal Control Element	
Control Environment	Includes a code of conduct; policies for ethics, hiring and promotion guidelines; oversight by management, the board or an audit committee; and investigation of reported concerns.
Fraud Risk Assessment	Establishes fraud risks for fraudulent reporting, asset misappropriations, improper receipts or expenditures, including adequate separation of duties.
Control Activities	Identify actions taken by management to prevent and identify misuse of the district's assets, including the prevention of override of controls in the system by any employee.
Information and Communication	Establish effective fraud communication. Ensure that employees receive information regarding policies and opportunities to discuss ethical dilemmas.
Monitoring	Conduct ongoing monitoring including periodic performance assessments for fraud deterrence.

Examples of improper internal controls include, but are not limited to, the following:

- Failure to adequately segregate the duties and responsibilities of authorization.
- Failure to limit access to assets or sensitive data.
- Not recording transactions, resulting in lack of accountability and the possibility of theft.
- Unauthorized transactions, resulting in skimming, embezzlement or larceny.
- Lack of monitoring or implementing internal controls by management.
- Collusion among employees where little or no supervision exists.

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

The internal control environment also includes the integrity, ethical values and competence of personnel; the philosophy and operating style of management; the way management assigns authority and responsibility and organizes and develops its people; and the attention and direction provided by the governing board and executive management. Internal controls can provide reasonable but not absolute assurance that the district will succeed in achieving its goals and objectives.

Surplus Property - Recycling Proceeds

The Bakersfield City School District operates Maintenance and Operations and Transportation departments. Both departments have directors that oversee operations, and both recycle district materials at various local recycling companies; however, upon review of the recycling receipts from vendors, it is clear that the majority of recycling activity took place in the Maintenance and Operations department. Therefore, the primary scope of this report focuses on the Maintenance and Operations Department, which has recycled the vast majority of district surplus materials over the past several years.

Supporting documentation provided to the business office by these recycling companies indicates that a total of \$84,744.87 in proceeds from recycling generated by both departments was paid to the district from January 26, 2007 through October 17, 2011.

To date, \$34,156.88 of these proceeds is accounted for in the district's financial records. The table below provides a summary of the various documents provided by the district to the FCMAT study team.

Documents	Amount
Maintenance Cash Box - District Count and Verification	\$28,957.09
Receipts in Maintenance Cash Box	\$947.90
Recycling Deposits per District General Ledger-Both Departments	\$22,947.48
Total Accounting for Recycling Proceeds	\$52,852.47
Recycling Disbursements Verified by Vendors/District	\$84,744.87
Recycling Receipts Found in the Cash Box-Not on Vendor Listings Dating From 2003 – 2005	\$2,264.48
Total Vendor Receipts	\$87,009.35
Unaccounted Proceeds	\$34,156.88

District Investigation

In July 2011, an employee reported to the chief business official (CBO) that proceeds from recycling of district surplus material and equipment was being retained at the Maintenance Department. When asked by the CBO if this was a true statement, the director acknowledged that the information was correct. The director was directed to bring the receipts to the business office, which confirmed that the receipts were not recorded in the district's cash receipts records or deposits to the bank.

The director of fiscal services was directed to contact one local vendor on record, Sierra Recycling, and request copies of receipts for district transactions that were on file for the 2010-11 fiscal year. These receipts totaled \$29,732.85. Business office staff members telephoned the director on August 8, 2011 and, without disclosing the total of the receipts, asked the location of the money from recycling activities with Sierra Recycling. The director responded that the cash was in his office, and he would take it to district office when he was told the amount.

Upon consulting with the Personnel Department and the district's legal counsel, district management determined an investigation was warranted.

The district conducted a preliminary investigation and determined that unauthorized recycling had taken place. Noting that a test sampling of the resulting proceeds were not deposited with the business office in accordance with board policy 700.5, the district notified the county superintendent that potential fraud had occurred. District recycling was suspended immediately subject to comple-

tion of a full investigation and on August 12, 2011, the director was placed on administrative leave at the direction of the interim superintendent as directed by the board of trustees.

The director indicated that he telephoned the CBO the same evening and disclosed the location of the cash box in his office at the Maintenance Department. On August 16, 2011, two business office employees obtained the cash box, which contained \$28,957.09 in cash, including \$24,400 in \$100 bills.

Recycling receipts included in the cash box totaled \$2,264.48 dated between 2003 and 2005, and another \$3,672.40 dated between April and July 2011. The staff could not trace these amounts to deposits made with the district business office. Miscellaneous receipts for small departmental purchases totaling \$947.90 were also found in the cash box, and the director indicated these were supporting documentation showing that a portion of the recycling proceeds was used for small purchases. Even though \$2,264.48 in receipts was dated between 2003 and 2005, the director explained to FCMAT that he kept receipts for a period of time before discarding them.

California Code of Regulations Title 5, Section 16020 - 16027 classifies records for school districts as either permanent, optional or disposable records and defines the retention requirements for each classification. Business or financial statement records such as purchase orders, invoices, warrants, ledger sheets, cancelled checks invoices, approval documents, bank statements, deposit slips, cancelled checks are disposable records. These records shall not be destroyed until after the third July 1 after "the completion of the annual audit required by Education Code Section 41020 or of any other legally required audit, or after the ending date of any retention period required by any agency other than the State of California, whichever date is later."

District board policy and administrative regulation 300.11 Filing System – Retention of Records, dated January 28, 1992 offers guidance to school staff on various types of records to be retained as permanent or optional records, but does not delineate records that can be destroyed or the retention period. The district should update the existing board policy and administrative regulation so that they provide the staff with comprehensive guidance in this area, including the changes in law that started January 1, 2000 governing alternative methods of retaining permanent records in electronic formats.

After placing the director on administrative leave, staff members requested from a variety of local recycling companies the supporting documentation for any recycling activity for the previous three years. Some vendors provided detailed information that covered the three-year period while others provided limited information that covered a shorter time span.

The recycling documented from vendor records significantly exceeded the amount of cash found in the director's cash box, and the district's interim superintendent requested that the Kern County Superintendent of Schools conduct a full investigation for possible misappropriation of assets, illegal activity and fraud.

Department Recycling Process and Procedure

According to several employees, the director periodically directed employees to gather, sort, prepare and transport recyclable materials to the various local recycling companies. These materials were gathered from a variety of sources, however, during the last two years, they came primarily from scrap material derived from several facility construction and modernization projects.

Recycled materials were initially gathered and recycled through a third-party contractor, who would collect them and process a check to the district. This process was mainly used for the sale of various obsolete vehicles. However, this usually resulted in fewer proceeds because the materials were not separated and therefore generated a lower recycling rate. During interviews, several district staff members indicated that the director instructed them to process materials into separate components so that the district could generate a higher recycling rates. Because this process generated better rates but was time-consuming, the director began authorizing overtime on Saturdays for select staff members to gather and deliver the surplus material to local recyclers. School construction sites are fenced and secured from students; therefore, maintenance employees could access these areas during school hours.

District employees loaded this material in district vehicles for transport to local recyclers, and according to information provided by employees, the recycling process was consistent from vendor to vendor. Employees drove their loaded vehicles onto a scale, where the gross weight was recorded, and the vendor's staff recorded the vehicle license plate and the district employee driver's license number, although this information sometimes was not recorded. The district employee was provided with a ticket indicating the nature of the material and directed by the weigh master to unload it at the appropriate location. After unloading, the district employee returned the vehicle to the scale where another "tare" weight of the empty vehicle was recorded. The weigh master provided the district employee with a ticket that included the date, time, quantity and description of the recycled material including gross, tare and net weights. The net weight was the basis for the recycling material payment.

The district employee presented the completed ticket to the recycler's cashier, who gave the employee a cash payment based on the rate corresponding to the material recycled and a receipt that was signed by the district employee. The cashier placed the cash and signed recycling receipt in an envelope that was sometimes sealed and other times left unsealed.

Several employees involved with the recycling reported to FCMAT that they were concerned they might appear to be conducting these activities as individuals and not as district representatives or employees because their names and identification were usually recorded. However, they continued to recycle for the district in the manner in which they were directed by the director.

After leaving the recycling facility, the district employee returned to maintenance and provided the envelope with cash and receipt to the accounting technician, the administrative assistant, other supervisors or the director. Employees receiving the envelopes indicated there was no procedure or protocol to validate that the cash in the envelope matched supporting receipts, or that all cash was submitted. If obtaining a check from the recycler is not an option, the district should initiate proper cash handling procedures to validate that the amount of cash received matches supporting documentation.

In some cases, these activities were conducted on a Saturday or nonwork day; if no staff member was available to receive the recycle proceeds that day, the employee kept the proceeds at home and submitted them the following business day.

District employees who conducted the recycling indicated they did not know where the envelopes and their contents were placed once they submitted them to the office staff or the director. Several employees said they were directed to receive and return cash only; if the recycling vendor provided a check, the director told them to return it and obtain cash. When a check is an option, employees should be instructed to return the check to the authorized individual in the department and not accept cash.

The district provided FCMAT with overtime records for three employees who recycled district surplus material and property from July 10, 2010 through June 25, 2011. Of the 42 recycling tickets processed on a Saturday during this time, all but two were processed on dates that overtime was claimed by one or more of these employees. The two Saturday tickets that did not correspond to overtime records both occurred on August 31, 2010 and totaled \$240. Cash payments were provided for both of these recycling tickets.

One Transportation Department employee stated that the Purchasing Department staff indicated that surplus items with a value of less than \$500 should be placed in trash bins for collection by the district's waste disposal company. The Transportation Department implemented recycling as an alternative way to dispose of these items and generate proceeds that the department utilized for the bus rodeo, an annual training event.

During interviews, no staff member from either the Maintenance or Transportation departments acknowledged the surplus property procedures included in district board policy and administrative regulations. When questioned about such policy and procedure, staff members seemed unconcerned and indifferent about the board policy and administrative regulation. Several employees referred to the Maintenance and Operations Department handbook, even though the handbook states that surplus property will be subject to auction. Auctions authorized by board policy were occasionally used to dispose of obsolete vehicles. Management personnel should be provided with information on Education Code provisions that govern district policies and procedures within their areas of oversight. These provisions should be followed, and any department handbooks or manuals should be aligned appropriately.

Education Code sections 17545 and 17546 details procedures for the disposition of surplus school district property, and it is the district management's responsibility to administer state laws. FCMAT observed that most district employees, including department management personnel, were not aware of state law provisions, district policy, or administrative regulations in this area. Lack of familiarity with district policy and state law contributed to a culture that resulted in the disposal of surplus property in a manner that was inconsistent with the Education Code.

Maintenance Department employees stated that most department staff members knew this activity was not authorized by the district, but they continued to perform it because they feared losing their jobs. According to one employee, previous attempts to discuss concerns about the large sums of recycling money were ignored by district administration. Many employees expressed anxiety and fear of retaliation by the director. This was substantiated in several interviews with Maintenance Department staff members, who indicated that some employees were treated unfairly and demeaned in front of other employees. Several of those interviewed perceived that the director deliberately used methods that would obtain cash for the recyclable materials so that the business office would not learn of the recycling activity and the existence of the cash box. They perceived that the director was concerned that these funds would not be credited to the Maintenance Department if recycling proceeds were submitted to the district.

The following table represents the amount recorded by the local vendors for recyclable materials from both departments, including a forklift, tractors, a school bus and other unidentified vehicles.

Material Type	Total Paid per Itemized Ticket
2 tractors	\$3,800.00
5 vehicles, 3 tractors	\$4,474.87
Aluminum heavy contaminated	\$81.60
Bright & shiny copper	\$5,712.00
Cardboard (occ)	\$106.50
Clean aluminum	\$906.00
Clean stainless steel 18/8	\$461.00
Coax / TV cable	\$12.00
Cont YB 70%	\$52.00
Copper	\$2,670.80
Copper breakage	\$497.80
Copper- Insulated	\$10,725.00
Copper tubing	\$1,675.00
Copper tubing/wire	\$600.00
Dirty cast iron	\$105.60
Forklift	\$1,500.00
HM steel unprepared	\$7,238.00
HMS unprepared tin	\$9,547.50
Painted aluminum	\$420.00
Prepared #1 H M S	\$1,118.80
Prepared Materials	\$3,471.09
Refinery brass 50%	\$200.25
Small Appliances	\$94.13
Tin	\$1,966.95
Tin/Irony Aluminum	\$3,147.80
Unidentified	\$12,049.01
Unprepared Materials- Includes one bus	\$4,589.62
Various-Scrap Metal	\$7,138.75
Yellow Brass	\$382.80
Grand Total	\$84,744.87

The table below shows the total amount paid by individual vendors, who voluntarily provided the records based on the district's request. Many vendor records do not cover the entire three-year period and therefore cannot be verified as the complete listing of sales made with the district. The amounts paid are represented for the exclusive time period noted in the table. Actual sales during the three-year time period could be higher.

Vendor	Total Paid per Itemized Ticket	Time Period Covered
Ricks Recycling	\$8,033.55	2/ 23/ 2011 through 4/11/11
SA Recycling	\$9,079.04	7/7/10 through 7/18/11
Sierra Recycling	\$46,822.00	1/31/07 through 7/26/11
Action Recycling	\$7,138.75	2010-2011
Gould Auction	\$5,974.87	2010-2011
Unidentified Vendor	\$3,896.66	2010-2011
Unidentified – Auction	\$3,800.00	2010-2011
Grand Total	\$84,744.87	

Recycling of Precious Metals

As a result of a significant increase in thefts of certain precious metals, new metal theft laws in California became effective December 1, 2008. The new laws, adopted from AB 844, went into effect under the Business and Professions Code 21600-21609. Customers (sellers) and scrap metal dealers and recyclers (buyers) are required to provide and record certain information for recycling of certain nonferrous materials:

- Copper
- Copper alloys (brass)
- Stainless steel
- Aluminum – with the exception of beverage containers subject to a redemption payment

The information required is as follows:

- The place and date of each sale or purchase
- The name, valid driver's license number and state of issuance or California-issued identification card number, and vehicle license number including the state of issuance of any motor vehicle used in transporting the material
- The name and address of each person
- A description of the items purchased or sold, including the type, quantity, and identification number, if visible
- A statement as shown on a signed document indicating that the seller of the junk is the owner of it, or the name of the person from whom it was obtained
- A photograph or video of the seller and material being purchased
- A copy of the valid driver's license of the seller containing a photograph and an address of the seller or a copy of a state or federal government-issued identification card containing a photograph and an address of the seller
- A thumbprint of the seller

AB 844 requires a waiting period of three business days before the seller can receive payment for nonferrous material. This rule does not apply if the seller completes five or more transactions on five or more different days each month for three consecutive months on or after December 1, 2008. The seller is required to continue to complete five or more transactions on five or more different days each month to continue receiving immediate payment.

According to the legislation, the three-business-day waiting period, photograph, driver's license copy, and thumb print are not required under the following circumstances:

On the date of sale, the buyer has on file all of the following information:

- (A) The name, physical business address, and business telephone number of the seller's business. The seller's business license number or tax identification number. A copy of the valid driver's license of the person delivering the non-ferrous material, and
- (B) The non-ferrous material has a value of not more than twenty dollars (\$20) in a single transaction, and the primary purpose of the transaction is to redeem beverage containers.

In reviewing supporting documentation provided by the various recycler vendors that do business with the district, FCMAT found that significant quantities of nonferrous material were recycled. In interviews with FCMAT, employees who conducted recycling acknowledged that some or all these procedures were implemented when nonferrous metal recycling was involved.

FCMAT interviewed representatives of the two largest recycling companies that do business with the district to determine if there were any concerns about the nature of recycling activity conducted by the district staff. No concerns were expressed.

Recycling Activity Data

During the district investigation, several Bakersfield-area recycling companies provided the district with supporting documentation of recycling activity. FCMAT analyzed this data and found the following information.

Vendors and the district financial system provided documentation for January 26, 2007 through October 17, 2011. The documents support that during this time, \$84,744.87 in recycled material proceeds was paid to district staff from both departments. Of this amount, \$61,797.39 was paid in cash provided to the employee who recycled the material, \$19,231.97 was paid by check made payable to the school district, and \$3,715.51 was paid by either check or cash but the form of payment could not be determined from the vendor record. District office management should instruct department managers to request that all payments be made by check to the Bakersfield City School District and that they should not accept any cash for these types of transactions.

FCMAT compiled a total of 387 transactions. The table below represents the number and percentage of transactions that resulted in cash, check or undetermined (cash or check):

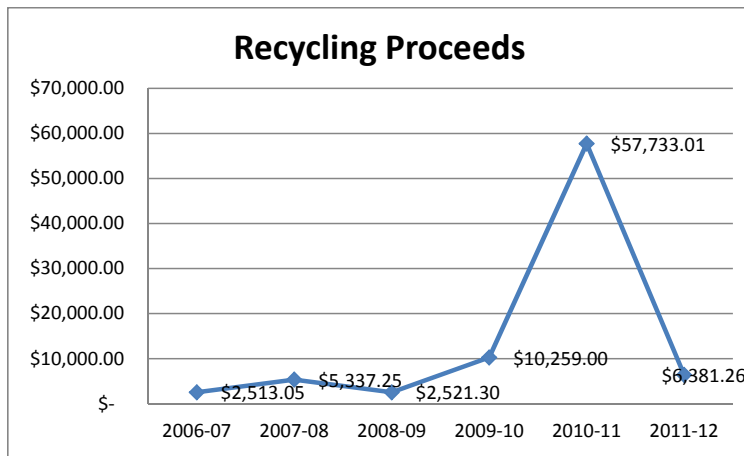
Payment Type	Amount	Percentage	Number of Transactions
Cash	\$61,797.39	72.9%	355
Check	\$19,231.97	22.7%	20
Undetermined (Cash or Check)	\$3,715.51	4.4%	12
Total	\$84,744.87	100%	387

The table below provides a summary of this activity by fiscal year for both departments.

Fiscal Year	Recycling Proceeds
2006-07	\$ 2,513.05
2007-08	\$ 5,337.25
2008-09	\$ 2,521.30
2009-10	\$ 10,259.00
2010-11	\$ 57,733.01 *
2011-12	\$ 6,381.26
Total	\$ 84,744.87

**Recycling activity increased significantly beginning in the 2009-10 fiscal year due to district construction and modernization programs.*

The line graph below provides a comparison of the proceeds collected by year from 2006-07 to October 2011.



The increase in recycling activity for the 2010-2011 fiscal year coincided with increased facility construction and modernization program activity. District voters passed Measure G in November 2006, a \$100 million Proposition 39 general obligation bond that provided funding for district facility construction and modernization programs. An initial \$34 million bond sale was completed in February 2007, according to a financial audit report prepared by the district's external auditing firm in November 2010. A status report prepared by district staff dated July 18, 2011 indicates 16 facility construction and modernization projects were completed through March 15, 2011. According to the maintenance and operations director and department staff, these projects provided much of the source material for the recycling, and accounted for the increase in recycling proceeds in 2009-10 compared to previous years. The sharp decline in the 2011-12 fiscal year is the result of a partial year representing activity for July, August and one transaction in October 2011. District management stopped all recycling activity pending a complete investigation by FCMAT.

Other recycling activities occurred in the 2010-11 fiscal year that contributed to the significant increase in recycling proceeds. Various obsolete items of district property were auctioned to the highest bidder through a third party contractor, including five vehicles, five tractors and one forklift. Significant amounts of other materials were also recycled, including a school bus replaced to obtain a local air quality management district grant. The proceeds of recycling these items comprised \$19,098.77 of total recycling receipts for that year, all of which were fully supported, paid by check and subsequently deposited with the district business office.

Use of Proceeds

During FCMAT interviews, several employees including the maintenance and operations director stated that recycling proceeds were used for several purposes, including purchasing small items for the department and the annual barbecue. The director indicated that the past practice of recycling and retaining the cash in the department continued after his appointment to the position approximately 10 years ago. He stated that this activity had occurred for at least 20 years, and that he received no cash from the previous director when he took over that position.

Employees reported it was common knowledge among the departmental staff and district office administrators that maintenance kept recycling proceeds and how the proceeds were spent. However, the current district administrators interviewed by FCMAT indicated they were unaware of these practices until they were reported in July 2011.

The business office staff members located the key and cash box, which contained receipts totaling \$947.90, and cash totaling \$28,957.09. According to the CBO, the count of the cash box contents was conducted in the presence of district office administrators and two Bakersfield police officers.

The receipts spanned six years from 2004 to 2011 and were represented by the director as the only supporting documentation available to substantiate how the recycling proceeds were utilized. The following table shows that the receipts appear to be typical of items that otherwise would be funded from a petty cash fund operated by a Maintenance Department.

Receipt Vendor	Date	Description	Quantity	Amount
Target	1/14/2004	Label maker	1	\$21.44
Costco	1/19/2004	Label maker	1	\$20.38
Kern County Waste Management	3/18/2004	Cardboard – pounds	3200	\$57.60
Big O Tires	3/20/2004	Flat tire repair	1	\$15.00
Target	1/3/2004	Cleaning/office supplies	Various	\$26.04
Bill Ray Ceramic Tile Center	6/8/2004	AC 106	1	\$1.25
Bill Ray Ceramic Tile Center	6/15/2004	AC 106	4	\$4.98
Floyds General Stores	7/21/2004	Nylon 1/2 inch pipe strap	1	\$1.28
Michaels Crafts	10/15/2004	Picture Frame	2	\$24.11
Office Max	10/1/2004	Half- inch binders	4	\$8.54
Fastrip Food Store	10/30/2004	Pump pre-pay	1	\$4.00
Tacony Corporation	12/9/2004	F5P+ Switch 25A	6	\$60.06
H&S Hose	1/13/2005	2.5 NS7G	2	\$1.91
Lowe's	4/3/2005	9/16" metal staple	1	\$1.76
Orchard Supply	1/28/2005	Bulbs	1	\$5.35
CSC	4/19/2005	O rings	2	\$3.86
Mesa Marin Chevron	6/15/2005	Pump pre-pay	1	\$40.00
Home Depot	9/22/2005	Super Soil (2), Pot (1), Saucer (1)	4	\$79.15
JW Fitch, Kern County Recorder	10/11/2005	Copies – NOC	2	\$6.00
Denny's Market	7/13/2007	Ziploc bag	1	\$3.21
Wal-Mart	9/4/2007	Air pump	5	\$37.38
JW Fitch, Kern County Recorder	10/21/2009	Copy CPD	1	\$9.00
National Building Materials	4/20/2010	Illegible	2676	\$202.77
Mitchells Blind Cleaning	11/29/2010	Blind cleaning (3), Blinds (12)	15	\$308.51
Harbor Freight Tools	6/24/2011	Paint mixing cup	1	\$4.32
Total				\$947.90

Other than the \$947.90 in receipts and \$28,957.09 in cash found in the cash box, the director provided no further documentation to substantiate the balance of the missing recycling proceeds. When the total receipts from one of the local vendors did not match the deposits recorded in the district's general ledger, the business office contacted the director, who acknowledged the discrepancy and told the business office that he had additional money in his office. When the business office staff requested that all funds be delivered to the business office, the director told the business office "to let him know how much that was and he would bring it right in."

(Staff members referred to the cash box receipts as “petty cash receipts,” but district management contends that a petty cash fund was not authorized for any district department.)

Transportation Department Cash Box

During interviews, staff members indicated that once a cash box was discovered in the Maintenance Department, the director of transportation acknowledged his department also kept one to hold cash generated by recycling proceeds. The department recycled surplus nonfunctioning equipment, unusable vehicle parts, old engine blocks and other materials in a manner similar to the Maintenance Department.

Transportation staff members told the FCMAT that the department conducted recycling three to four times per year and funds never exceeded \$1,500 in any given year. This amount of recycling was insignificant compared to the total amount of the district’s recycling. These funds were used exclusively to support the annual bus rodeo for bus drivers. Bus rodeos are common in the school transportation industry and provide bus drivers an opportunity to develop skills, build camaraderie, and improve staff morale.

The director of transportation reported to FCMAT that the practice of depositing recycling proceeds in a cash box preceded his tenure and had been conducted for many years. The director of this department was also unaware of the state law or the district’s board policy and administrative regulations governing the sale of surplus property. FCMAT found minimal activity in this department.

Proceeds from the recycling activity conducted in the Transportation Department were substantially accounted for by receipts and checks recorded in the district’s general ledger.

State Law, Board Policy and Administrative Regulations

During FCMAT interviews of district staff members, several employees indicated that administrators at the district office and department level were well aware of the recycling activities conducted by both the Maintenance and Transportation departments, and that these activities had been conducted for many years.

District board policy and the accompanying administrative regulation 900.5 were approved in November 2001, years before the documented recycling activity conducted by the Maintenance and Transportation departments. These documents provide the staff with guidance in this area, including the requirement that all surplus property be disposed of in a manner consistent with state law. They provide two methods of accomplishing this; a school board declaration that the combined value is less than \$2,500, and the property can be sold without bids (Education Code Section 17546), or that bids are required (Education Code section 17545). A public auction is included as an acceptable way to dispose of property if it is conducted in a manner consistent with the code. No evidence was provided to FCMAT that either of these two methods were utilized regarding the recycled scrap materials.

In June 2003, the Maintenance Department issued a policy and procedures handbook that indicates it was authored by the director and assistant director of maintenance. The preface of the handbook indicates the identified procedures are supplementary to school district board policy and regulation as follows:

The contents of this Handbook and the policies and procedures contained herein, are supplementary to the policies and procedures adopted by the Bakersfield City

School District Board of Education. All employees of the Maintenance and Operations Department are held responsible for the contents of this document.

Section 4.1 of the handbook indicates the following:

4.1 District materials and equipment removed from school district sites, i.e., cabinets, shelving, or machinery, will be stored and put up for auction to the public.

Almost all the documented recycling activities of the two departments did not involve placing materials in a public auction, and no school board authorization was requested to surplus and sell district property according to these guidelines.

Therefore, it appears these recycling activities were conducted not only in violation of the department handbook and school district policy and regulation but also of state law. These activities should not have been authorized by the department directors.

District board policy and administrative regulation 700.5 were approved in April 1995, years before the documented recycling activity conducted by the two departments. These documents provide guidance to staff, including the requirement that all cash collected throughout the district be submitted in a timely manner to the Finance Department for deposit in the county treasury. The recycling activity clearly violated this policy and regulation and should have been terminated by both department managers. The district office management should provide all management personnel with training in the district policies and procedures within their individual oversight areas and periodically review compliance.

In August 2011, the business office distributed a memorandum reiterating the guidance found in these policies and regulations. Additional training, as well as periodic audits at the schools and departments, would be warranted to establish the proper tone regarding the appropriate methods to dispose of district-owned surplus property and timely deposit of cash collections.

Recommendations

The district should:

1. Establish cash-collection procedures that validate the cash received to the supporting documentation.
2. Require employees not to accept cash and to return checks to the authorized individual in the department.
3. Assign management to provide guidance to all employees regarding the deposition of surplus or obsolete materials including any dollar limits.
4. Provide management personnel with information regarding the Education Code provisions that govern district policies and procedures within their areas of oversight. These should be followed, and any department handbooks or manuals should be appropriately aligned.
5. Ensure district management administers state laws and makes certain that all departments are in compliance.

6. Direct district office management to instruct department managers to request that all payments be made by check to the Bakersfield City School District and not to accept cash for these types of transactions.
7. Assign district office management to provide all management personnel with training in the district policies and procedures within their individual oversight areas and to periodically review compliance.
8. Update the existing board policy and administrative regulation so that they provide the staff with comprehensive guidance regarding records retention, including the changes in law that started January 1, 2000 governing alternative methods of retaining permanent records in electronic formats.

Personal Use of District Assets

During FCMAT's interviews with the district staff and school board members, several allegations were made that district assets were misappropriated for many years in the Maintenance and Operations Department, including personal use of district property. The team reviewed board policy and administrative regulations that prohibit this activity; however, a Maintenance Department handbook authorizes personal use of district assets.

Board policy and administrative regulation 900.1 provides the following:

The use of school equipment or supplies for any other than school purposes, approved civic center activities, and approved recreation activities is *forbidden* (emphasis added.) No employee or any other person shall make personal use of any school equipment or supplies.

These directives and guidance were adopted by the school board in 1984 and most recently revised in August 2010.

However, Section 21.2 of the Maintenance Department Policies and Procedures Handbook, dated June 2003, provides the following guidance to department employees:

21.2 Employees will be allowed to borrow small power tools, i.e., saws, electric hammers, etc., for their personal use if they have approval from their supervisor.

This section of the handbook directly conflicts with and therefore violates board policy and administrative regulation 900.1. District administrators appear not to have properly vetted the maintenance and operations handbook, or the conflict between the two documents would have been discovered. According to district office administrators, the personal use of district property in the Maintenance Department would have been prohibited. The district should ensure that all handbooks and manuals created in the individual departments comply with board policies and administrative procedures.

Because it was a common practice among management and other staff members, any department employee would have perceived the personal use of items identified in the handbook ("...small power tools, i.e. saws, electric hammers, etc...") as authorized. In fact several employees indicated during interviews that these practices are common among other school districts in the area.

However, during interviews, some department employees expressed an understanding that this use was not authorized by board policy, and that certain personal use was well beyond the limits provided by the handbook and "...everyone was aware." These employees reported that large items of district equipment, such as dump trucks, skip loaders, tractors, lawn mowers and passenger trucks were routinely used by department employees for personal reasons. In addition, some employees were instructed to transport landscaping materials or large pieces of equipment to the home or rentals owned by the director, including the district dump truck, skip loader, welder, jack hammer, tractor and trailer. Employees should never be required to provide personal services to managers in the organization. The district should also strictly prohibit the personal use of district tools, equipment and vehicles by employees.

The director confirmed his personal use of district equipment at his residence and in the maintenance facility for his rental properties and stated that he delivered the bobcat to another employee's personal residence. The director also confirmed that he utilized the district shop facilities to spray paint cabinets after normal work hours and/or on weekends on at least three occasions. Several employees were aware of this practice and provided many examples, including

the repair of cabinetry, doors and drawers that were the director's personal property in the district wood shop using district tools and district employees. Statements by employees indicated most of this work was performed at one employee's home business or after normal work hours.

Other maintenance employees also utilized the district shop for personal benefit, according to statements made during FCMAT interviews. The director told FCMAT that employees performed work, including changing oil, on their personal vehicles using the district shop and equipment. When asked about concerns for the safety of employees during nonwork hours, the director indicated he had no concerns because there was never an accident.

District management has a responsibility to ensure the safety of its employees while on district premises or while utilizing district equipment. The fact that employees could access the maintenance facility at any time and use power tools and other pieces of equipment creates a potential liability for the district and should be strictly prohibited.

Some employees reported that a district form was to be completed before the tools or equipment could be used, while others indicated a sign-out sheet was maintained on a wall of the maintenance and operations facility. After an employee filled out a line on the form, it was understood the use was authorized. Still other employees reported that no form or sign out sheet was required or used, and employees simply borrowed the items they wanted and returned them whenever they pleased.

Employees also stated that district tools and equipment were sometimes returned in disrepair or damaged, and no effort was made to hold the borrower accountable. For example, one employee complained that someone dulled the saw blade over the weekend, but the director was unable to identify the person(s) involved.

Employees also reported the use of district surplus materials at a personal residence, including metal beams for a carport, landscaping materials, fencing, and district materials utilized to construct a barbecue grill for business and personal use. Others indicated that staff members used department equipment to cater food on weekends.

Other activities were routine such as work performed by district employees for the personal benefit of other employees, according to statements provided during FCMAT interviews. Employees acknowledged that it was common practice to sell services to other district employees as long as the work was performed on personal time. Several employees reported that the director used district employees and equipment for projects at his residential rentals and personal residence. These employees indicated that the director compensated them for these services and materials, and that the services were not provided while on district duty.

District vehicles reportedly were assigned to various employees for personal purposes. By standard district and industry practice, vehicles are assigned to employees designated for on-call duty, meaning they were expected to respond to emergency or other calls for assistance while not on district duty. These assignments typically cover holidays, weekends and evenings. Several employees stated that district vehicles assigned to individual Maintenance Department employees were observed parked at various locations on weekends, including home improvement stores and restaurants. One employee reported seeing the director's truck at a central coast beach parking lot one weekend.

The district required a logo be placed on all district-owned vehicles earlier this fiscal year, but the director placed his where it could not be easily observed, according to employees. Only after additional direction from district administration was the logo placed in plain view.

FCMAT was not provided with any documentary evidence of the above statements or allegations that could be verified except through direct interviews.

The handbook preface indicates that this document's contents are supplementary to the policies and procedures adopted by the district. The department director nonetheless allowed provisions to be included in the handbook that authorized him and all other department employees to personally benefit from use of district property even though this activity was expressly prohibited by board policy. This contributed to a department culture in which it was permissible to ignore district rules, regulations and policies, setting a tone that internal controls were unimportant. This type of tone is very unhealthy for any organization, and management is responsible for ensuring that district assets are protected, and unauthorized use or misappropriation does not occur.

Recommendations

The district should:

1. Ensure that all handbooks and manuals created by individual departments comply with board policies and administrative procedures.
2. Ensure employees are never required to provide personal services to managers in the organization.
3. Strictly prohibit the use of district tools, equipment and vehicles for personal reasons by employees.
4. Emphasize to district management that it has a responsibility to ensure the safety of its employees while on district premises or utilizing district equipment. Therefore, management should not allow employees access to the use of district equipment, tools, vehicles or facilities during nonworking hours.

Internal Controls - Material Weakness, Prevention and Detection

Material Weakness

Several internal controls elements have led to an environment where there is a potential for fraud, misappropriation of assets and misuse of district assets. Of the five internal control elements, the district should strengthen the following areas:

- Control Environment The district management has not established oversight procedures to ensure internal controls are in place and that departments follow board policies and administrative regulations. Previous concerns reported by employees were largely ignored by the previous administration.
- Control Activities: Management did not take actions to prevent and identify the misuse of the district's assets. This allowed a manager to override existing board policies and administrative regulations, providing the opportunity for fraud and misuse of district assets.
- Information and Communications: The district has not provided employees with information regarding fraud policies or methods to discuss ethical dilemmas with senior management where employees feel there will not be retaliation.
- Monitoring: Management has not initiated a monitoring system that includes periodic performance assessments for fraud deterrence.

The following represent examples of improper internal controls that leave the district vulnerable to misappropriation of assets, illegal activities and fraud:

- Unrestricted access to assets.
- Not recording transactions (skimming), resulting in lack of accountability and the possibility of theft.
- Unauthorized transactions, resulting in possible fraudulent schemes.
- Lack of implementing and monitoring internal controls by district management.

Based on these findings, FCMAT found significant material weaknesses in the district's internal controls related to cash management, oversight by district level management, and lack of enforcement of policies and procedures governing the handling of cash. The lack of internal controls outside of the business office has increased the probability that fraud and/or abuse and the misappropriation of funds has occurred.

Prevention and Detection

Increasing the perception of detection is a strong deterrent and effective fraud prevention method. For controls to be effective, employees must be aware of their existence in the organization and that the controls are periodically monitored and tested.

As previously mentioned, the internal control environment includes ethical values and integrity displayed by management as well as the underlying tone set by individual managers. The tone of the organization set by management through its words and actions demonstrate to others that dishonest or unethical behavior will not be tolerated. An atmosphere in which employees feel safe

to communicate concerns is a fundamental component of a strong and effective internal control environment.

The control environment is an essential element and provides the foundation for other internal controls to be effective in achieving the goals and objectives to prevent and/or deter fraud or illegal acts.

Regular external audits are a strong deterrent to mismanagement and fraud, but they cannot serve as the only method of ensuring accountability. It is imperative for the district, the superintendent, and governing board to review the findings and recommendations of this audit to implement the appropriate internal controls and hold the responsible parties accountable for their actions.

Recommendations

The district should:

1. Ensure management implements oversight procedures to ensure internal controls exist and departments follow board policies and administrative regulations.
2. Provide employees with information regarding fraud policies and methods to discuss ethical dilemmas with senior management. The district should create an atmosphere in which employees feel safe to communicate concerns.
3. Initiate a monitoring system that includes periodic performance assessments for fraud deterrence.
4. Increase the perception of detection as a strong deterrent and effective fraud prevention method.
5. Ensure management creates a tone throughout the organization that dishonest or unethical behavior will not be tolerated.
6. Conduct regular internal audits to ensure that internal controls exist and function as intended.
7. Ensure that policies and procedures are followed as intended.

Conclusion

Internal controls clearly are among the most important aspects of any fraud prevention program. Managers are in a position of authority and therefore have a higher standard of care to establish the ethical tone and serve as examples to other employees. Employees with supervisory responsibility have a duty to monitor all the activities of their subordinates in the course of their employment to ensure that those activities are conducted in compliance with all applicable board policies, laws, regulations, and standards of conduct. Management personnel are entrusted to safeguard the district's assets and ensure that internal controls function as intended.

While all employees in the organization have some responsibility for internal controls, the director of maintenance and operations had the authority and responsibility to account for the money collected by his department staff and made no effort to accomplish this. His failure to implement controls led to several thousands of dollars in proceeds that were unaccounted for from the sale of recyclable materials. Management has the ultimate responsibility as the supervisor of the department for the proper custody and accounting for these funds.

Based on the evidence presented to FCMAT, it was not possible to determine if fraud was committed by any specific district employee. However, there is sufficient evidence to demonstrate mismanagement and possible misappropriation of district funds and assets and significant material weaknesses in the district's internal control environment, which increases the probability of fraud and/or abuse. These findings should be of great concern to the district and require immediate intervention to limit the risk of fraud and/or misappropriation of assets.

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.

Recommendations

The county superintendent should:

1. Notify the governing board of the school district, the state controller, the superintendent of public instruction, and the local district attorney that fraud or misappropriation of district funds and/or assets may have occurred.

Appendix

A. Study Agreement



CSIS California School Information Services

**FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
AB139 STUDY AGREEMENT
September 22, 2011**

The FISCAL CRISIS AND MANAGEMENT ASSISTANCE TEAM (FCMAT), hereinafter referred to as the Team, and the Kern County Superintendent of Schools, hereinafter referred to as KCSOS, 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. Based on the passage of Senate Bill 430 and 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 district 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.

KCSOS has requested that the Team provide for the assignment of professionals to study specific aspects of the Bakersfield City School District. These professionals may include staff of the Team, County Offices of Education, the California State Department of Education, school districts, or private contractors. 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 scope and objectives of this study pursuant to the provisions of Education Code Section 1241.5:

1. Kern County Superintendent of Schools has requested the team provide for the assignment of professionals to conduct an extraordinary audit of the Bakersfield City School District Maintenance, Operations and Transportation Department. Pursuant to Education Code section 1241.5 (c), the superintendent of Kern has reason to believe that fraud, misappropriation of funds or other illegal practices may have occurred. The FCMAT team will review policies and procedures and specific aspects of the Maintenance, Operations and Transportation Department, policies and procedures related to accounts payable and accounts receivable processing, cash management including bank deposits and other accounts.

FCMAT will review vendor invoices, receipts, purchase orders, financial statements, and other documents to determine if instances of fraud, misappropriation of funds or other illegal practices occurred that would warrant further investigation.

B. Services and Products to be Provided

- 1) Orientation Meeting - The Team will conduct an orientation session at the district to brief district management and supervisory personnel on the procedures of the Team and on 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 KCSOS and district of material issues as the review is performed.
- 4) Draft Reports – When appropriate, sufficient copies of a preliminary draft report will be delivered to KCSOS and district administration for review and comment on a schedule determined by the Team.
- 6) Final Report - Sufficient copies of the final study report will be delivered to KCSOS and district following completion of the review. The final report will be published on the FCMAT website.
- 7) Follow-Up Support - Subsequent to the completion of the study, the Team will meet with KCSOS and/or the district at their request, to discuss the findings and recommendations of the report

3. PROJECT PERSONNEL

The study team will be supervised by Anthony Bridges, CFE, Deputy Executive Officer, Fiscal Crisis and Management Assistance Team, Kern County Superintendent of Schools Office. The study team may also include:

- | | | |
|----|-------------------|--------------------------------|
| A. | Deborah Deal, CFE | Fiscal Intervention Specialist |
| B. | To Be Determined | FCMAT Consultant |

Other equally qualified consultants will be substituted in the event one of the above noted 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 FCMAT Team Member while on site, conducting fieldwork at other locations, presenting reports, or participating in meetings.
- B. All out-of-pocket expenses, including travel, meals, lodging, etc.

Based on the scope of work identified in section 2 A, the estimated total cost is \$25,000.

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

5. **RESPONSIBILITIES OF THE DISTRICT**

- A. The district will provide office and conference room space while on-site reviews are in progress.
- B. The district will provide the following (if requested):
 - 1) A map of the local area
 - 2) Existing policies, regulations and prior reports addressing the study request
 - 3) Current or proposed organizational charts
 - 4) Current and two (2) prior years' audit reports
 - 5) Any documents requested on a supplemental listing
 - 6) Any documents requested on the supplemental listing should be provided to FCMAT in electronic format when possible.
 - 7) Documents that are only available in hard copy should be scanned by the district and sent to FCMAT in an electronic format.
 - 8) All documents should be provided in advance of field work and any delay in the receipt of the requested documentation may affect the start date of the project.
- C. KCSOS and district management 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 key study milestones:

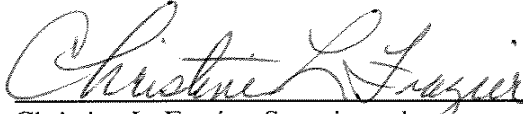
Orientation:	September 29, 2011
Staff Interviews:	To be determined
Exit Interviews:	To be determined
Preliminary Report Submitted	To be determined
Final Report Submitted	To be determined
Board Presentation	To be determined

7. CONTACT PERSON

Name of contact person: Christine L Frazier, Superintendent of Schools

Telephone: (661) 636-4624 FAX (661) 636-4130

E-mail Address chfrazier@kern.org



Christine L. Frazier, Superintendent
Kern County Superintendent of Schools

9/22/11
Date



Anthony L. Bridges, CFE
Deputy Executive Officer
Fiscal Crisis and Management Assistance Team

September 22, 2011

Date