

# Extraordinary Audit

of the  
Round Valley Unified  
School District



Commissioned by the Mendocino  
County Office of Education

September 9, 2009

Administrative Agent  
Christine Lizardi Frazier  
Office of Kern County  
Superintendent of Schools

Chief Executive Officer  
Joel D. Montero





September 9, 2009

Paul Tichinin, Superintendent  
Mendocino County Office of Education  
2240 Old River Road  
Ukiah, California 95482

Dear Superintendent Tichinin:

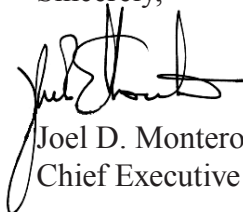
In June 2009, the Fiscal Crisis and Management Assistance Team (FCMAT) and the Mendocino County Office of Education entered into an agreement for FCMAT to conduct an AB 139 extraordinary audit of the Round Valley Unified School District. Specifically, the study agreement specifies that FCMAT will perform the following:

1. Examine the use of cash resources for the class of 2009 during the 2008-09 fiscal year and identify any misappropriation of funds or other illegal fiscal practices which may have occurred that merit examination.
2. Document any instances of noncompliance with district policies, procedures, or administrative directives related to ASB fund raising and use of funds.
3. Reconcile the ASB bank statement to confirm whether cash generated from ASB activities or the sale of assets was deposited.
4. Review the farm account to ensure that it follows ASB laws and processes.

The attached final report contains the study team's findings and recommendations regarding these areas.

On behalf of FCMAT, we appreciate the opportunity to serve you and extend our thanks to all the staff of the Mendocino County Office of Education and the Round Valley Unified School District.

Sincerely,



Joel D. Montero  
Chief Executive Officer

FCMAT

Joel D. Montero, Chief Executive Officer

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# Foreword

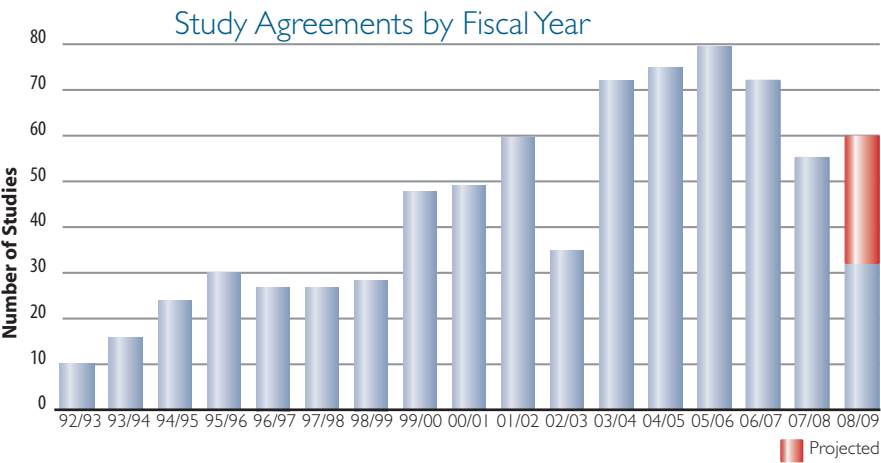
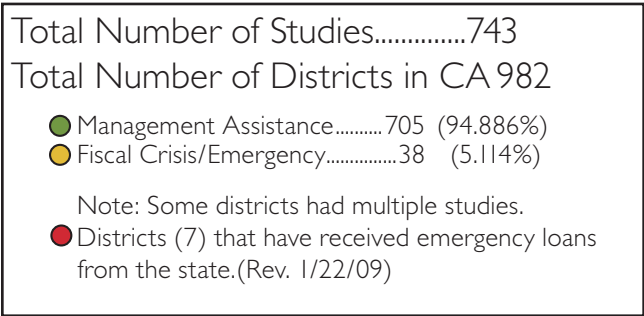
## FCMAT Background

The Fiscal Crisis and Management Assistance Team (FCMAT) was created by legislation in accordance with Assembly Bill 1200 in 1992 as a service to assist local educational agencies in complying with fiscal accountability standards.

AB 1200 was established from a need to ensure that local educational agencies throughout California were adequately prepared to meet and sustain their financial obligations. AB 1200 is also a statewide plan for county offices of education and school districts to work together on a local level to improve fiscal procedures and accountability standards. The legislation expanded the role of the county office in monitoring school districts under certain fiscal constraints to ensure these districts could meet their financial commitments on a multiyear basis. AB 2756 provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans. These include comprehensive assessments in five major operational areas and periodic reports that identify the district’s progress on the improvement plans.

Upon request, FCMAT also provides extraordinary audits in accordance with Assembly Bill 139 and Education Code Section 1241.5 (b) and (c), which authorize county superintendents of schools to conduct or request a review or audit of the expenditures and internal controls of any school district or charter school in their county if there is reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred.

Since 1992, FCMAT has been engaged to perform more than 700 reviews for local educational agencies, including school districts, county offices of education, charter schools and community colleges. Services range from fiscal crisis intervention to management review and assistance. FCMAT also provides professional development training. The Kern County Superintendent of



Schools is the administrative agent for FCMAT. The agency is guided under the leadership of 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

## *Background*

The Mendocino County Office of Education works closely with the Round Valley Unified School District to provide specialized needs and services. The district contracts with the county office for the services of an intervention team that includes a recovery specialist, business manager and high school principal.

In December 2007, the district received notice from the State Superintendent of Public Instruction (SPI) that it had been placed in the Immediate Intervention/Underperforming Schools Program (II/USP). The MCOE Superintendent of Schools worked with the SPI to provide the intervention and leadership necessary to re-establish high performing schools while fulfilling the fiscal, personnel, facilities and academic oversight responsibilities required by Education Code section 1240. This included appointing the intervention team.

The recovery specialist, county office and district governing board work in partnership. The recovery specialist fills the superintendent role, assuming responsibility for the day-to-day operations of the district, including stay-and-rescind power over financial matters. Stay-and-rescind authority is used only when the governing board's action is inconsistent with the designated fiscal and academic recovery plan or when board actions are illegal or inconsistent with sound governance.

In August 2004, the Fiscal Crisis and Management Assistance Team (FCMAT) issued a report on the Round Valley Unified School District that focused on the Future Farmers of America (FFA), associated student body (ASB) account and whether ASB procedures and controls were adequate. That 2004 report and its recommendations for improvement formed the foundation of the present audit, which covers the same areas as well as some new areas of concern.

In June 2009, FCMAT received a request from the Mendocino County Office of Education for an Assembly Bill (AB) 139 extraordinary audit of the district. The county office received complaints and allegations regarding the alleged misuse of public funds and other illegal fiscal practices and subsequently requested an expedited audit.

FCMAT and the county office subsequently entered into a study agreement that specifies that FCMAT would perform the following scope of work:

1. Examine the use of cash resources for the class of 2009 during the 2008-09 fiscal year and identify any misappropriation of funds or other illegal fiscal practices which may have occurred that merit examination.
2. Document any instances of noncompliance with district policies, procedures, or administrative directives related to ASB fund raising and use of funds.
3. Reconcile the ASB bank statement to confirm whether cash generated from ASB activities or the sale of assets was deposited.
4. Review the farm account to ensure that it follows ASB laws and processes.

## *Study Guidelines*

FCMAT provides a variety of services to local educational agencies upon request. Based on Assembly Bill 139 and Education Code Section 1241.5(b), a county superintendent of schools may review or audit the expenditures and internal controls of any school 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 review or audit conducted by the county superintendent must focus on the alleged fraud, misappropriation of funds, or other illegal fiscal practices and must be conducted in a timely and efficient manner. The basis of this review is to determine whether sufficient documentation 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.

Education Code Section 42638 (b) requires action by the county superintendent to include the following:

If the county superintendent determines that there is evidence that fraud or misappropriation of funds has occurred, the county superintendent shall notify the governing board of the school district, the State Controller, the Superintendent of Public Instruction, and the local district attorney.

In this audit, FCMAT focuses on the policies, procedures and directives related to ASB fund raising and use of funds specifically related to the FFA farm account, class of 2009 account, and related transactions.

## *AB 139 Extraordinary Audit Findings & Classifications*

Each audit finding is classified as a material weakness, a reportable condition or an area for management improvement. These classifications are provided to assist the district in developing a corrective plan of action. The district's plan should first address the material weaknesses, then the reportable conditions, and finally the areas for management improvement.

### **Material Weakness**

A material weakness is a significant deficiency in the district's internal controls that could result in a material misstatement of the financial statements that will not be prevented or detected in a timely manner by employees during the normal course of business. A material weakness may also be a violation of current laws or regulations. It is the most serious type of finding.

### **Reportable Condition**

A reportable condition is a significant deficiency in the design or operation of the district's internal control processes that could adversely affect the district's ability to record, process, summarize and report financial data.

**Management Improvement**

A management improvement is not a material weakness or reportable condition, but suggests improvements to the district's operations to conform to industry best practices.

FCMAT visited the district in June 2009 to conduct interviews, collect data and review documentation. FCMAT specifically reviewed business records related to student body activities including board policies, board minutes, administrative regulations, and financial reports and documents obtained from the high school, district office and independent sources. The review process also included interviews with district staff members, parents, and administrators to develop information concerning any alleged mismanagement, fraud or abuse related to student body activities.

***Study Team***

The FCMAT study team was composed of the following members:

Michelle Plumbtree  
FCMAT Chief Management Analyst  
Petaluma, CA

Leonel Martínez  
FCMAT Public Information Specialist  
Bakersfield, CA



## Executive Summary

A county superintendent who becomes aware of an alleged misuse of public funds is responsible for determining whether sufficient evidence exists to support the allegations. The county superintendent is authorized to request a review or audit of the allegations and to report the results of the review or audit to the governing body of the LEA and to the local district attorney and law enforcement. AB 139 (2001) amended Education Code section 1241.5(b). This section defines the role of a county superintendent under these circumstances as follows:

At any time during a fiscal year, the county superintendent may review or audit the expenditures and internal controls of any school 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 review or audit 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.

In June 2009, FCMAT entered into an agreement with the Mendocino County Office of Education to conduct an AB 139 extraordinary audit of the Round Valley Unified School District. The county office had concerns about specific associated student body (ASB) accounts, especially after a 2004 FCMAT management review included findings and recommendations that have not been implemented. FCMAT visited the district on June 30, 2009 to review documentation and conduct interviews with district and county office staffs. As the report was drafted, FCMAT continued to correspond with the school district and county office for clarification of the documentation provided and to seek additional information.

In addition to high school classes on agricultural subjects, the district has a local chapter of a club named the Future Farmers of America (FFA) that holds numerous fund-raisers and other events to raise money and educate students. The FFA program is an integral part of the district's curriculum. As is the case in many schools throughout the state, a local agricultural teacher serves as the club's advisor. This AB 139 audit focuses on the activities and oversight of the district advisor who is responsible for the FFA program and the graduating class of 2009.

Based on the several reportable conditions and weaknesses identified during this audit, and the failure to implement the recommendations of the previous FCMAT's review, the district should consider appointing a different certificated employee as FFA ASB advisor. If the current FFA advisor holds any other ASB advisor assignments, the district should reconsider appointment in 2009-10 and future years. Historical documentation demonstrates a pattern of noncompliance with ASB processes and procedures, suggesting that this responsibility might be best assumed by another individual.

The 2004 FCMAT report recommended that the farm account follow all ASB laws, policies and procedures, but this has not occurred. This account is used to sell livestock for profit and is part of ASB. The account has material weaknesses regarding deposits that lacked sufficient detail to confirm that the correct amount of money from sales was deposited in a timely manner and identify the buyer. FCMAT has serious concerns about activity in this account and recommends that the district transfer the remaining balance to the district account for the Agricultural Vocational Education Incentive Grant. All district policies and procedures should be followed. Following best practices, an inventory of all animals being raised on the farm should be taken as soon as possible and updated at least once per year.

The FFA ASB advisor should provide additional documentation for farm receipts that were deposited in his personal account and later transferred to the district via a personal check. Because of poor backup documentation for sales receipts over the past several years, FCMAT could not verify that all funds received were deposited with the school. Backup documentation is minimal and in most cases, does not provide adequate information to determine the buyer and the purchase price.

In accordance with the district's board policies, it is imperative to make only allowable ASB expenditures from district and student body funds. Various rules and regulations define an allowable expenditure and detail the conditions for such an expenditure to be considered legitimate, such as proper approval. It is critical for all ASB advisors to understand these rules and ensure they are followed even if an advisor disagrees with them.

During the 2008-09 school year, parents and board members became aware of numerous problems regarding the 2009 senior trip. These problems concerned the location of the trip and the use of any remaining funds. The staff, parents and students were provided with clear directives prohibiting the funds from being disbursed to individual students who did not attend the trip since this would constitute a gift of public funds, which may constitute a criminal act. Instead, a check was written from the ASB account to the Sober Grad Committee, which is a parent group. These funds were then distributed to individual students based on whether they attended the senior trip. This action was essentially the same as disbursing the funds from the ASB account to students. The ASB should not write a check to any outside organization, including Sober Grad. Because funds are raised through the ASB using the district's tax identification number, they should not be donated to another entity. The students should use any remaining ASB funds for allowable expenditures.

The district should request that Sober Grad reimburse the ASB for the \$4,029.79 issued for the senior trip. If that is not possible, Sober Grad must provide the ASB organization with a detailed receipt of how the ASB funds were used since these receipts should be part of the auditable records.

## Findings and Recommendations

### *Internal Controls*

On August 12, 2004 the Fiscal Crisis and Management Assistance Team (FCMAT) issued a report on the Round Valley Unified School District that covered the following scope and objectives:

1. Review the Future Farmers of America account to determine if all deposits have been made.
2. Determine if Associated Student Body procedures and controls are adequate, and provide recommendations for changes, if necessary.

While many of the report recommendations were implemented, the current AB 139 audit found that the following recommendations were not:

### High School ASB Accounting

- Ensure that proper controls are followed for fund-raising activities, including documentation of revenues. Copies of the cash receipt documentation should be submitted to the school secretary for each deposit.
- Implement a process for club advisors and students to bring cash receipts to the secretary after fund-raising events to ensure strong internal controls are in place.
- Discontinue the practice allowing individuals other than current students and approved adult supervisors to participate in ASB funded activities.
- Ensure that the farm account follows ASB laws and processes.

Other incidents of noncompliance may have occurred under other advisors, but the Mendocino County Office requested this review to focus specifically on areas that are the responsibility of the current ASB advisor of the FFA, farm account and class of 2009, who will be referred to as the “ASB/2009 advisor” for purposes of this audit.

In reviewing district documentation, the following letters were identified that led up to the initial 2004 FCMAT review:

- An employee complaint was filed on October 16, 2003 against the ASB/2009 advisor, including the concern that he was asking her to write a check without the proper documentation (receipts).
- The ASB/2009 advisor then filed a complaint against that employee on May 25, 2004.
- On June 17, 2004 a letter from the administrator in charge to the ASB/2009 advisor acknowledged receipt of the advisor’s complaint, stating “As you are aware, all student funds must be managed in compliance with applicable laws and regulations governing same. It is my determination that an independent auditor should be retained to conduct an audit of the Round Valley High School Associated Student Body Accounts.”

- On July 13, 2004 the district superintendent wrote a letter to the ASB/2009 advisor saying “This letter is in reference to the letter of June 17, 2004, from the administrator in charge. Please be advised that the District has contracted with an independent Auditing firm for a review of ASB accounting practices. The auditing team is requesting that staff members be available on July 26 and 27. Would you please advise me as to which of these dates you would be available to interview?”

The ASB/2009 advisor was interviewed during FCMAT’s 2004 review along with other high school and district employees.

On June 30, 2009, the ASB/2009 advisor reported to FCMAT that he never received a copy of the FCMAT’s 2004 final report and therefore was unable to implement any recommendations. However, his district personnel file included a memorandum from his prior superintendent, dated September 7, 2004, stating the following:

“I have enclosed a copy of the FCMAT Audit conducted in August. Please review the audit report. After your review, I would like to talk with you about the ASB accounting requirements. I am also in the process of scheduling the first staff training session with regard to the ASB accounting procedures, as recommended in the report.”

ASB organizations offer students the opportunity to learn about business principles and practices. Student organizations are no different from other organizations in that they must follow sound business and accounting practices to ensure confidence in their governance and financial management and to ensure success. As a business is responsible to its owners and a school district is responsible to the public, student organizations are responsible to all students and must ensure that funds generated are used effectively and accounted for in accordance with the student council governing body. Sound business practices help ensure compliance, effectiveness and accountability.

Internal controls are the foundation of sound financial management. They include policies and procedures established by an organization to provide the following:

- Ensure operations are effective and efficient.
- 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.
- Ensure compliance with applicable laws and regulations.



- Illegal acts, misappropriation of funds or fraud can include an array of irregularities characterized by intentional deception and misrepresentation of material facts. The principal mechanism for deterring fraud or illegal practices in an organization is a strong system of internal controls. 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. The internal control structure includes the policies and procedures used by district staff, accounting and information systems, the work environment and the professionalism of employees.

Ineffective internal controls include, but are not limited to, the following:

- Failure to segregate duties and responsibilities of authorization.
- Unrestricted access to assets or sensitive data (such as cash, fixed assets, or personnel records).
- Failure to record transactions, resulting in lack of accountability.
- Failure to reconcile assets with the appropriate records.
- Unauthorized transactions.
- Unimplemented controls because of unqualified personnel.
- 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.

Effective internal controls are designed to ensure the following:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

Internal controls can provide only reasonable assurance, not absolute assurance, that the district will be successful in achieving its goals and objectives.

## Material Weaknesses

In reviewing accounts that are the responsibility of the ASB/2009 advisor, FCMAT found significant material weaknesses in the district's internal controls related to student body activities, which increase the probability of fraud and/or abuse. These material weaknesses include the following:

- Some ASB accounts have no budgets.
- An inventory of farm animals has not been implemented despite prior recommendations and reminders that this should occur.
- The farm account remains in an ASB account, but continues to disregard ASB protocol.
- Former students attend the annual ski trip funded with ASB money.
- FFA field day lacks clear documentation detailing how many tickets and meals are sold. Cash controls are lacking in this event.
- Cash receipts are not counted in the presence of a second person when received.
- Appropriate backup does not accompany receipts to ASB accounts.
- Farm account fund-raisers are not properly approved.
- Several ASB purchase orders were issued after an expenditure had occurred instead of holding a student meeting and approving them prior to the expenditure.
- Some expenditures could be considered unallowable.

Every organization faces several internal and external risks that must be identified, assessed and managed. All employees bear some responsibility for maintaining internal controls, demonstrating high ethical values and integrity, and setting an example for the organization. Employees with responsibilities such as those of an ASB advisor, coach or other positions that work with students and advise them have an additional responsibility. They must set an example for students.

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 that the district review the documentation and allegations disclosed during the audit so that additional documentation can be developed to hold the responsible parties accountable, restore the diminished morale of district personnel and re-establish the community's confidence in the district.

Audit reports from the district's independent auditors are also an important source of concerns regarding internal controls in district operations. Reportable conditions were found during the external auditor's initial review of the district's 2008-09 financial records. Although the annual audit will not be finalized for some time, and the initial findings may change, some of the initial conditions regarding the ASB are as follows:

- Internal control procedures are insufficient.
- There is a lack of inventory counts and cash receipting procedures.

FCMAT has strong concerns regarding the ASB/2009 advisor's continuance as ASB advisor with responsibility over the ASB funds. These concerns are based on documented support that this employee has not provided the recommended internal controls over the ASB despite district mandates and recommendations from the 2004 FCMAT report. ASB advisor positions are a vital contributor to the success of ASB operations. Students look to those district staff members for guidance and direction. Therefore, the advisor position that is being reviewed should be filled by an employee who will follow district processes and procedures. The ASB should be supervised by individuals who are willing to ensure that all findings and recommendations are implemented so that student-raised funds are protected and expended in accordance with all applicable laws.

### ***Recommendations***

*The district should:*

1. Review the findings and recommendations of the current FCMAT report and consider removing the ASB/2009 advisor from his FFA advisor assignment and any other ASB assignments.
2. Assign certificated employees to be ASB advisors who will implement the FCMAT/district recommendations and adhere to internal controls, policies and procedures.



## Farm Account

The ASB checking account includes a trust account used to accumulate funds from FFA animal sales and purchase additional animals for the FFA. During FCMAT's 2004 review, the FFA advisor indicated he did not believe this account, titled the farm account, required student approval. The advisor indicated the farm account might not be a student body account because no formal club or student officers were assigned to the funds. The 2004 FCMAT report indicated that the farm account appeared to be a student body trust account related to the FFA and should be subject to the same rules and processes as regular student body accounts. The report also stated that as an alternative, those involved in the farm account could consider forming a nonprofit 501(c)(3) organization to account for some of the FFA activities that occur outside the school. However, the recommendation at that time was to ensure the farm account followed ASB laws and processes instead of forming a separate nonprofit organization.

The June 2009 audit found that neither option regarding the fiscal oversight of the farm account had been implemented. The farm account has not been made a separate nonprofit 501 (c)(3) organization, and no improvements have been made concerning policies, procedures or internal controls. The farm account is still operated like an ASB account, but this does not comply with ASB laws and processes. In fact, the noncompliance appears to be worse than previously identified. FCMAT's review also found material weaknesses in the district's internal controls related to deposits. A material weakness is the most serious type of finding that can occur.

The following deposits were made in the farm account in the past four years:

Date	Amount	Event	Additional Info	FCMAT's Comments
6-19-09	\$450	Pig Sale	Butcher	The check is from the ASB/2009 advisor's personal checking account, not from the actual buyer of the pigs. The only backup is a copy of the cash count form and a copy of the ASB/2009 advisor's check. There is no receipt with the date of the sale or a copy of the original check or amount paid to the ASB/2009 advisor. Although the notation "butcher" is included on the cash count form, there is no indication of who made the purchase.
4-30-08	\$525	Hog Sale	3 @ \$175	The cash count form indicates that cash was received for three hogs. The only backup is a copy of the cash count form. There is no receipt with the date of the sale or the name of the person(s) making the purchase.
7-11-06	\$240	Hogs		There is no copy of the check, and no notation of the date of purchase or the person that made the purchase. The only backup is a copy of the cash count form without any detail.
4-11-06	\$350	Pigs	Buyer's name	There is no copy of the check or the date of the purchase. The only backup is a copy of the cash count form. One deposit has a name on the form, although there is nothing to prove this is the buyer.

There are numerous concerns regarding these deposits included in the above table. In all four deposits, only the cash count form with very basic information was submitted with the deposit. Documentation such as a receipt or a copy of the check or cash was not submitted. Because of this lack of documentation, it is impossible to confirm the purchase amount, date, and the number of animals purchased. The school farm does not keep an inventory of farm animals, births, deaths and purchases. As a result, there is no way to confirm that the purchases were made and that the amount submitted to the district for deposit in the ASB account was the same as the amount collected by the purchaser.

In one of the above cases (June 19, 2009), the deposit was based on a check written by the ASB/2009 advisor. The ASB/2009 advisor deposited the money from the original purchase in his personal bank account and wrote a check to the ASB instead of depositing the sale proceeds directly into the ASB account. The district has no record of the purchase date and amount. The purchase could have been made earlier in the year, and the ASB/2009 advisor could have earned interest on this transaction. There is no proof that the check written to the ASB for the purchase was for the same amount as that paid for the animals.

Although the farm account resides in an ASB account, ASB policies and procedures are not followed, including the following:

- All ASB accounts are required to have student involvement. Student signatures are not on any cash count forms reviewed. This violates district policy and ASB provisions.
- Education Code section 48932 allows the governing board to authorize student body organizations to conduct fund-raising activities. At Round Valley Unified, that approval has been designated to the principal. All ASB fund-raisers are to be approved by the ASB representative and the principal with a district-approved form called a “Request for Approval: Fund-Raising Event.” Since animal sales are accounted for in an ASB account, rules and procedures for the ASB must be followed. The “Request for Approval” form was not completed for any animal farm sales, which violates district policy and ASB provisions.
- The farm sales account has no club associated with it. With limited exceptions such as scholarship accounts, all ASB accounts must have a formal club associated with them. Club meetings are required to be held to vote on fund-raisers and/or expenditures. Minutes must be taken for documentation. All fund-raisers are to be approved through student government. Failure to perform any of these actions violates ASB provisions.
- No student officers are associated with the farm account. All ASB accounts, with limited exceptions (such as scholarship accounts) must have student officers in the club. Failure to accomplish this violates ASB provisions.
- The farm sales account lacks an annual budget approved by students. All ASB accounts with limited exceptions must have an annual budget. Failure to have a budget violates ASB provisions.

- The school student council and each club must prepare and adopt an official constitution. The constitution must state the name and purpose of the organization and must present the framework for operating the organization. This document should clearly state all the policies and rules for student governance of the student organization or club. Failure to have a constitution violates ASB provisions.
- Because there is a formal process of student governance for organized student groups, the student council and each club must prepare and maintain minutes as a record of each meeting. The minutes serve as the record of each meeting and the actions taken during the meeting and demonstrate that the student council or club follows policies and procedures for ASB organizations. Minutes were not located for the farm account, which violates ASB provisions.

The district opened the farm account several years ago after receiving an Agricultural Vocational Education Incentive Grant from the California Department of Education. The grant provides local educational agencies (LEAs) with funds to improve agricultural vocational education programs. The goal is to maintain a high-quality, comprehensive agricultural vocational program in California's public school system to ensure a constant source of employable, trained, and skilled individuals. Appropriated funds may be used only to improve a site's agricultural education program. Funds can be used only in the 4000, 5000, and 6000 budget categories and matching funds are required from nonsalaried agricultural expenditures.

At Round Valley Unified, grant funds are used to purchase animals and feed with few exceptions (e.g., a March 2007 expenditure was charged to the farm account). With few exceptions, the activity in the ASB farm account consists of revenues from the sale of animals. Expenses associated with raising the animals, such as the purchase of feed, are charged against grant funds. FCMAT believes all transactions related to the animals should be recorded in the same account. Instead of depositing the sales in a separate ASB account, the farm account funds should be transferred to the grant account, which is in a district account. When new revenue from animal sales is received, it should be recorded in the grant account as local revenue, which is allowed in the California State Accounting Manual. The ASB farm account should be closed.

ASB organizations have many benefits including raising funds for student activities, teaching students about business operations, and to provide them with business experience. Student organizations must follow sound business practices to ensure confidence in their governance and financial management. As a business is responsible to its owners, and a school district is responsible to the public, student organizations are responsible to all students. Therefore, these organizations must ensure that funds generated are used effectively and accounted for in accordance with the student council governing body. Sound business practices help ensure compliance, effectiveness and accountability.

The Round Valley Unified ASB farm account has not been used effectively, correctly or as a learning opportunity for students. Therefore, the ASB farm account should be closed, and the Grant account should be used for all fiscal operations associated with the farm.

### **Recommendations**

*The district should:*

1. Transfer the balance of the farm account to the district budget used for the Agricultural Vocational Education Incentive Grant.
2. Ensure funds are deposited in the ASB account only if an approved ASB club is in existence with an approved constitution, budget, club, officers and regular meetings that include minutes.
3. Ensure that ASB fund-raisers occur only after receiving appropriate approval according to Education Code section 48932.
4. Ensure that deposits made in any account, whether an ASB account or a district account are accompanied by appropriate back-up documentation. This includes documents such as a detailed receipt containing the name of the buyer, the date of the purchase, and the item purchased. A copy of the check and/or cash should be kept with the receipt. The cash count form should also be completed and be a part of the deposit backup.
5. Develop more stringent guidelines on inventory practices and procedures, ensuring there is an accurate record of farm animals purchased, sold and born annually.
6. Require the ASB/2009 advisor to provide a copy of the deposit to his account that matches the check for \$450 he wrote to the farm account on June 16, 2009. This will verify the sale was for the actual amount deposited as well as ensure he did not benefit monetarily by earning interest on the sale in his personal account.
  - a. If interest was made on the transaction, the ASB/2009 advisor should transfer the amount of interest to the ASB account.
  - b. If the amount deposited in the ASB/2009 advisor's account for the purchase is not the same as the amount on his check to the ASB, he should pay the difference, and the county office may take additional action against him since this is a material weakness.
7. Consider prohibiting the ASB/2009 advisor from handling district or ASB money because of poor accounting practices and internal controls.



## *Class of 2009*

Round Valley Unified has historically begun raising funds for their senior trip as incoming freshmen. Funds raised are deposited in a trust account in the ASB account and are used specifically for the senior trip. This is a common practice in high schools throughout the state.

In several interviews, FCMAT received communication that in prior years, any funds remaining in the eighth-grade ASB account at the end of the school year were transferred to the high school ASB account for use in the senior trip. The eighth grade class of 2009 had no remaining funds to transfer.

The practice of transferring funds from one school to another should be discontinued since it does not conform to proper ASB practices. Although funds should be spent on the students that raised them, they should also be expended at the school where they were raised. Education Code section 48930 indicates that the purpose of ASB is to “conduct activities on behalf of the students,” so ASB funds are only for current students. If cash balances exist for classes that have already graduated, whether from eighth or twelfth grade, those accounts should be cleared. If there is no provision in the ASB constitution or board policy indicating where to transfer the remaining funds after a class graduates, the funds should be transferred to the general ASB account at the same school. The ASB constitution or board policy should be revised to provide guidance for similar circumstances in the future.

Outstanding balances should be reviewed a few months before a class graduates. If a balance remains, the graduating class should do one of the following:

- Spend the remaining funds on allowable expenditures before graduation.
- Gift the funds to another ASB club at the same school.
- Gift the funds to the general ASB. This will also occur if the graduating class does not select an option, especially if the ASB constitution and policy include no provisions for this issue.

Several plans were formulated for the class of 2009 senior trip. The following outline was developed from information provided to FCMAT in several interviews. The information was verified whenever possible through board meeting minutes and memorandums.

- April 10, 2009: The high school principal received a request for a senior trip with a brief itinerary stating that 23 students and eight chaperones planned to travel to Los Angeles for a one-week stay at a beach house. No other details were provided. The principal declined to approve submission of the request to the governing board because of lack of information and planning.
- April 20, 2009 regular board meeting: The approved minutes of this meeting included item 08-180: Board to approve overnight travel for the senior class of 2009.
  - According to discussion at the meeting, a plan was submitted to travel to Los Angeles May 31 to June 6, 2009, including a list of students attending,

chaperones, lodging (a beach house) and activities (mainly visiting theme parks). This plan had more details than originally submitted to the high school principal on April 10 and was developed by parents rather than the ASB/2009 advisor.

- The board declined to approve the trip because of insufficient information and insufficient funds to complete the planned activities. The students had raised \$10,220 with two additional fund-raisers scheduled on April 24 and May 2. Comments indicated that parents had to complete the task, taking longer than anticipated, because the ASB/2009 advisor didn't gather the necessary information and details about the trip. A special board meeting was scheduled for April 27, 2009 contingent on sufficient information being collected and delivered to the principal by noon April 24.
- A comment in the minutes of the April 20, 2009 board meeting indicates "the board had previously requested that somehow the senior trip become unassociated with the school. This needs to be worked out."
- Also at the April 20 meeting, the superintendent "wants to emphasize that this is about kids." The board president said "that because the funds were raised in the class's name, all students have to have the opportunity to participate."
- April 27, 2009 special board meeting: The approved minutes of this meeting included item 08-180: board to approve overnight travel for the senior class of 2009.
  - This proposal was developed by a group of senior parents and was presented by the senior class president. The proposal was presented to parents and students at 5 p.m. that day and was developed for "safety, accountability and responsibility." The board unanimously approved the trip as proposed.
  - The minutes clearly show there was much controversy leading up to this meeting and that not everyone "was happy." There appeared to be "hurt feelings among students and parents." Lack of sufficient planning seems to have made it difficult to "put together an acceptable trip that would work this late in the game."
- April 29, 2009: A senior class meeting was held to discuss the senior trip. Parents attended as well as students. A parent who was a district employee filed a written complaint stating "A motion was made by students to divide the Senior Trip money equally among the class, which would be approximately \$450 per senior. That way the kids going on the trip could spend the money towards the trip, and those not going on the trip could spend the dollars however they wished (examples given were laptops, a party, sober grad—basically, however they decide to spend it)." This employee/parent said it was "not legal to purchase lap tops or gifts." The ASB/2009 advisor for the senior class disagreed with the parent, stating "yes you can; you don't know." That employee/parent did not speak after this, according to her complaint.

- April 30, 2009: The ASB/2009 advisor for the senior class filed a complaint against the district employee/parent who filed a complaint against him and spoke in the April 29 senior class meeting. Part of the ASB/2009 advisor's complaint states that the other employee "... made comments during the meeting that we were illegal and now we can't go on the senior trip."
- May 7, 2009. Memorandum from the principal to the ASB/2009 advisor. This memo was about a conversation on May 6, 2009, 9:15 a.m. to 10:21 a.m., senior class meeting in the agriculture classroom regarding the use of ASB funds.
  - The principal stated "I came to the class meeting to discuss appropriate use of ASB funds for the upcoming Sober Grad event on graduation day June 13, 2009." In that memo the principal gives two examples of seniors stating that they were promised ASB funds since they were not going on the senior trip. One student wanted to purchase a computer, and another wanted new work boots.
  - The principal stated, "I informed you, both boys and all the seniors in your classroom that individual gifts of any kind are not permitted use of ASB funds. Later on, the same day, I gave you the attached document specifically stating individual gifts of any kind are not an allowed use of ASB funds. You acknowledged in a conversation with me understanding of the current ASB guidelines, rules and regulations."
- The document referred to above is from the FCMAT ASB Accounting Manual, Chapter 14 on Allowable and Questionable Expenses, which specifically states "The law clearly regards the misappropriation of public funds as a criminal act, with no minimum monetary limit specified, so it is best to avoid gifts of any amount."
- May 11, 2009 regular board meeting: Approved minutes state in the information section 11: "There are 15 kids going on the senior trip." The certificated chaperone is listed in the minutes, as well as the three parent chaperones."
- June 1, 2009: A memorandum from the principal to the ASB/2009 advisor refers to an incident that occurred during the weekly senior class meeting on April 29, 2009 with respect to verbal remarks made by the ASB/2009 advisor to a parent/employee.
  - The memo includes a directive to the ASB/2009 advisor that "you refrain from any further discussion about the distribution of senior funds for inappropriate expenditures."
- June 11, 2009: A check for \$4,029.79 is written from the Round Valley ASB fund to Sober Grad.
  - The students, ASB/2009 advisor, and principal approved a purchase order to Sober Grad for the funds remaining in the account after the senior trip was funded. The purpose of the check was listed as "prizes."

- A copy of the endorsed check was requested from the bank on June 30. The check was endorsed by a parent, but no evidence has been obtained to date that the check was deposited in the Sober Grad account.
- June 15, 2009: A memo from the high school secretary/bookkeeper includes a comment regarding distribution of funds directly to students. That comment is as follows:
 

“June 16, 2009, the ASB/2009 advisor inquired again about the balance of the senior account, and how the kids can get their money. I informed him that we can not give the kids money, he agreed, but then stated that he would have the seniors meet and approved taking the money out for the kids.”
- Numerous interviews between FCMAT and district parents focused on Sober Grad and the purpose of the \$4,029.79 check written from ASB to the Sober Grad committee. Except for the ASB/2009 advisor, all interviewees indicated that the ASB check was used to purchase prizes during the Sober Grad event. These prizes were distributed in cash and ranged in amount depending on whether the student participated in the senior trip. This was the same money distribution system that the ASB/2009 advisor was prohibited from using.
  - The money was placed in envelopes and distributed to the students. Several parents went into a separate room with the ASB/2009 advisor to allocate the money.
  - None of those interviewed knew exactly how much money each student received. However, the general understanding was that students who participated in the senior trip received \$100, and those who did not received \$100 as well as an additional amount of at least \$300.

The above information raises several concerns. The ASB account is part of the school district and must follow applicable rules and regulations, including those related to gifts of public funds. However Sober Grad is a separate entity and is not required to follow gift-of-public-funds laws.

The ASB should not write checks to outside organizations. Donations to nonprofit organizations and students or families in need generally are not allowable because they are considered a gift of public funds, no matter how worthy the cause. ASB funds are legally considered public funds because they are raised through the district's tax identification number and under its nontaxable status. These funds must remain with the district/ASB. In general, fund-raising that occurs on campus should benefit the ASB and not other organizations. The only exception to this rule should be when a fund-raising event is clearly identified as being for another group.

In the case of the class of 2009, the funds were raised specifically for the senior trip and not for Sober Grad, so the check should not have been approved in the first place. Since some funds remained after the senior trip, students should have voted on an appropriate

expenditure, with the ASB advisor guiding them in this decision. It may have been appropriate for the students to vote to add to the Sober Grad activities if the ASB paid for the expenditures directly.

Fund-raising proceeds cannot be attributed to specific students based on what they raised. Funds are raised to benefit the entire club or student group. For this reason, the concept of students receiving a larger “prize” if they did not attend the senior trip is problematic. This opinion stems from the Free School Guarantee in the California Constitution, as well as court cases that construe that provision.

Since student organizations operate under the tax-exempt status of the school district, the funds deposited in bank accounts are not subject to state or federal taxes or reporting. Booster and parent groups have different tax and reporting responsibilities.

In the best-case scenario, Sober Grad should repay the funds to ASB if they are available, and the \$4,029.79 should be used for ASB-allowable expenditures. If a similar situation occurs in the future, an acceptable solution would be for the club to pay for specific expenditures related to Sober Grad. The normal processes and procedures should be followed related to processing and approval. This would be an allowable expenditure unless the district office or auditors disagreed.

The law clearly regards the misappropriation of public funds as a criminal act, with no minimum monetary limit specified. In the absence of a statute granting public school entities the legal authority to make a special expenditures (e.g., for food, clothing, awards), the legality of any expenditure is determined by the gift-of-public-funds provision in the California Constitution, Article 16, section 6. This constitutional provision prohibits making any gift of public money to any individual (including public employees), corporation, or other government agency. It states, “. . . the Legislature shall have no . . . power to make any gift, or authorize the making of any gift, of any public money or thing of value to any individual . . . whatever . . .”

Article 16, Section 6, of the California Constitution provides that the State Legislature cannot authorize any county, city, or other political subdivision to make any gift of public funds to an individual or corporation. Article 16, Section 6, may appear to apply only to the legislature’s actions, and not directly prohibit a subdivision, such as a school entity, from making a gift of public funds. However, this issue has been argued in the courts, and several cases seem to imply that the prohibition also applies directly to school entities (i.e. *Albright v. City of South San Francisco* (App. 1975) 118 Cal.Rptr. 901).

Section 6 exempts certain specified types of expenditures, two of which may apply to school entities.

1. Section 6 does not prohibit a political subdivision, such as a school entity, from joining with other such public agencies to enter a joint exercise of powers agreement (JPA), joining a publicly owned nonprofit corporation, or joining another public agency as authorized by the legislature in order to provide for payment of workers’ compensation, unemployment compensation, tort liability, or public liability losses. Many school entities enter a JPA to pool legal costs or

- insurance for Workers' Compensation, unemployment compensation, tort liability, or public liability losses. Even if a JPA arrangement results in one school entity paying more than the share of services it uses, the payment is not considered a gift of public funds.
2. Section 6 allows a political subdivision to provide aid to private persons for the purpose of clearing debris during a period of disaster, if found to be in the public interest and if the aid is eligible for reimbursement.
  3. If a school entity's expenditure does not fall under one of the two exemptions, it may be a gift unless the expenditure is for a public purpose. The purpose of the expenditure, not the recipient, is the important factor. If the funds are to be used for a public purpose, they are not a gift within the meaning of the constitutional prohibition (*California Teachers Assn. v. Board of Trustees* (1978) 146 Cal.Rptr. 850, 855). Even if a private party benefits from the expenditure, it is not a gift if it serves a public purpose (*Paramount School District v. Teachers' Assn.* (App. 1994) 32 Cal.Rptr. 2d 311).

To avoid an expenditure being defined as a gift, expenditures of school funds must be for a direct and primary public purpose. An approved public purpose must be within the scope of a school entity's jurisdiction and purpose. This excludes purposes such as aid to the indigent and the like or the promotion of social welfare although these may be lawful public purposes for other agencies.

It is also well established that expenditures of public funds that involve a benefit to private persons (including public employees) are not gifts within the meaning of the California Constitution if those funds are expended for a public purpose. This means that public funds may be expended only if a direct and substantial public purpose is served by the expenditure and private individuals are benefited only incidentally to the promotion of the public purpose. To justify the expenditure of public funds, a school entity's governing board must determine that the expenditure will benefit the education of students in its schools. Expenditures that most directly and tangibly benefit students' education are more likely justified. Expenditures driven by personal motives are not justified even if they have been a longstanding local custom or are based on benevolent feelings.

If the school entity's governing board has determined that a particular type of expenditure serves a public purpose, courts may defer to that finding. For example, in the city of Paramount, the court found that an arbitration award arising from a union grievance did not constitute a gift of public funds. The school district challenged a binding arbitration award granted according to provisions of the Education Employment Relations Act (EERA), arguing that such an award constituted a gift of public funds. The court, however, found that the legislature had determined that binding arbitration is an acceptable procedure for resolving disputes involving employer-employee relations in public schools. Because the court inferred that the legislature had determined that binding arbitration served a public purpose, it found that an arbitration award was not a gift of public funds.



**Recommendations**

*The district should:*

1. Discontinue the practice of transferring remaining eighth-grade ASB funds to the high school to be used for that class's senior trip.
2. Ensure that a graduating class (whether eighth grade or twelfth grade) spend all of its raised funds before graduation. Otherwise, the funds will revert to the general ASB unless the ASB constitution or board policy state otherwise.
3. Discontinue the senior trip as a district activity because of liability issues as well as board concerns.
4. Ensure that all ASB and district expenditures cannot be considered a gift of public funds.
5. Ensure that ASB does not approve expenditures to outside organizations, including parent groups.
6. Request a copy of the June and July Sober Grad bank statements to ensure the \$4,029.79 check was deposited in the Sober Grad account.
7. Request that the Sober Grad reimburse the class of 2009 ASB account for any remaining funds.
8. Request that the Sober Grad committee provide a detailed list of expenditures made with the \$4,029.79 check for ASB records. At present, there are no receipts or documentation to back up that expenditure.
9. Ensure that the ASB does not spend its funds on items that could be considered a gift of public funds.





# Appendix

## *Study Agreement*



# FCMAT

FISCAL CRISIS & MANAGEMENT  
ASSISTANCE TEAM

CSIS California School Information Services

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## FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM STUDY AGREEMENT June 26, 2009

The FISCAL CRISIS AND MANAGEMENT ASSISTANCE TEAM (FCMAT), hereinafter referred to as the Team, and the Mendocino County Office of Education, hereinafter referred to as the COE, mutually agree as follows:

### 1. BASIS OF AGREEMENT

The Team provides a variety of services to school districts and county offices of education upon request. Based on the provisions of Education Code Section 1241.5 (b), a County Superintendent of Schools may review or audit the expenditures and internal controls of any school 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 review or audit 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.

The COE has requested that the Team provide for the assignment of professionals to study specific aspects of the Round Valley Unified 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 are to:

- 1) Examine the use of cash resources for the Class of 2009 during the 2008-09 fiscal year and identify any misappropriation of funds or other illegal fiscal practices which may have occurred that merit examination.
- 2) Document any instances of non-compliance with district policies, procedures, or administrative directives related to ASB fund raising and use of funds.
- 3) Reconcile the ASB bank statement to confirm whether cash generated from ASB activities or the sale of assets was deposited.

- 4) Review the farm account to ensure that it follows ASB laws and processes.

**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 the District and COE of material issues as the review is performed.
- 4) Draft Reports - Sufficient copies of a preliminary draft report will be delivered to the COE administration for review and comment.
- 6) Final Report - Sufficient copies of the final study report will be delivered to the COE following completion of the review.
- 7) Follow-Up Support - Subsequent to the completion of the study, the Team will meet with the COE as requested by the COE to discuss the findings and recommendations of the report

**3. PROJECT PERSONNEL**

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

- A. Michelle Plumbtree, FCMAT Chief Management Analyst

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. \$500.00 per day for each Team Member while on site, conducting fieldwork at other locations, preparing and presenting reports, or participating in meetings.
- B. All out-of-pocket expenses, including travel, meals, lodging, etc. Based on the elements noted in section 2 A, the total cost of the study is estimated at \$2,400. The COE will be invoiced at actual costs, with 50% of the estimated cost due following the completion of the on-site review and the remaining amount due

upon acceptance of the final report by the COE.

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

Payments for FCMAT services are payable to Kern County Superintendent of Schools-Administrative Agent.

## 5. RESPONSIBILITIES OF THE COE

- A. The COE will provide office and conference room space while on-site reviews are in progress.
- B. The COE 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 organizational charts
  - 4) Current and four (4) prior year's audit reports
  - 5) Any documents requested on a supplemental listing
- C. The COE Administration will review a preliminary draft copy of the study. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the Team prior to completion of the final report.

Pursuant to EC 45125.1(c), representatives of FCMAT will have limited contact with District pupils. The COE 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:

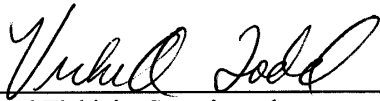
Staff Interviews:	June 30, 2009
Preliminary Report Submitted	To be determined
Final Report Submitted	To be determined
Board Presentation	To be determined

7. CONTACT PERSON


Please print name of contact person: Vicki Todd, Associate Superintendent  
Business Services

Telephone 707 467-5030 FAX

Internet Address vtodd@mcoe.us

  
Paul Tichinin, Superintendent  
Mendocino County Office of Education

7/8/2009  
Date

  
Barbara (Dean) Murphy  
Deputy Administrative Officer  
Fiscal Crisis and Management Assistance Team

June 26, 2009  
Date