



CSIS *California School Information Services*

San Bernardino County Superintendent of Schools Office

Extraordinary Audit of the Hesperia Unified School District

March 25, 2013

Joel D. Montero
Chief Executive Officer





March 25, 2013

Gary Thomas, Ed.D., Superintendent of Schools
San Bernardino County Superintendent of Schools Office
601 North E Street
San Bernardino, CA 92415-0020

Dear Superintendent Thomas:

In September 2012, the San Bernardino County Superintendent of Schools Office and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement to provide an Assembly Bill 139 extraordinary audit of the Hesperia Unified School District. Specifically, the agreement stated that FCMAT would perform the following:

1. The San Bernardino County Superintendent of Schools Office has requested FCMAT to provide for the assignment of professionals to conduct an AB 139 Extraordinary Audit. Pursuant to Education Code Section 1241.5 (b), the Superintendent of the County Office has reason to believe that fraud, misappropriation of funds or other illegal practices may have occurred and shall conduct an audit. The COE is requesting FCMAT to review the Associated Student Body funds on behalf of the Hesperia Unified School District. In addition to the authority granted under 1241.5 (c) and 47604.3, the county superintendent may conduct an investigation of the district and or charter schools based upon written complaints by parents or other information that justifies the review.
2. The primary focus of this review is to provide the COE and the Hesperia Unified School District with reasonable assurances based on the testing performed that adequate management controls are in place regarding the district's reporting and monitoring of financial transactions and that fraud, misappropriation of funds or other illegal activities have not occurred. Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. The receipt of revenues and expenditure of ASB funds is generally a high risk audit area in which potential fraud issues such as fictitious employees or vendors, or misappropriation of assets including cash may be detected. Specific audit objectives will include evaluating the policies, procedures, internal controls and transactions performed by the district related to the following:

FCMAT

Joel D. Montero, Chief Executive Officer

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Administrative Agent: Christine L. Frazier - Office of Kern County Superintendent of Schools

FCMAT will review the revenues and expenditures related to the receipt of funds, transfer and/or disbursement of funds made by the district's Associated Student Body account for the current and two prior fiscal years and determine if fraud, misappropriation of funds or other illegal activities have occurred at the Hesperia Unified School District. The initial assessment is not only to determine if fraud occurred but to differentiate between inadvertent violations versus those that may have been carried out with deliberate criminal intent.

FCMAT will sample test data from the current and two prior fiscal years and include a review of the revenues and expenditures in the Associated Student Body accounts to determine if fraud, misappropriation of funds or other illegal activities have occurred. Testing associated with this review will be based upon sample selection and will not include the testing of the complete list of all transactions and records for this period. Sample testing and review results are intended to provide reasonable, but not absolute assurance as to the accuracy of the district's transactions and financial activity.

This final report contains the study team's findings and recommendations in the above areas of review. FCMAT appreciates the opportunity to serve the San Bernardino County Superintendent of Schools Office and the Hesperia Unified School District and extends thanks to all the staff for their assistance during fieldwork.

Sincerely,

A handwritten signature in black ink, appearing to read 'Joel D. Montero', with a stylized flourish at the end.

Joel D. Montero
Chief Executive Officer

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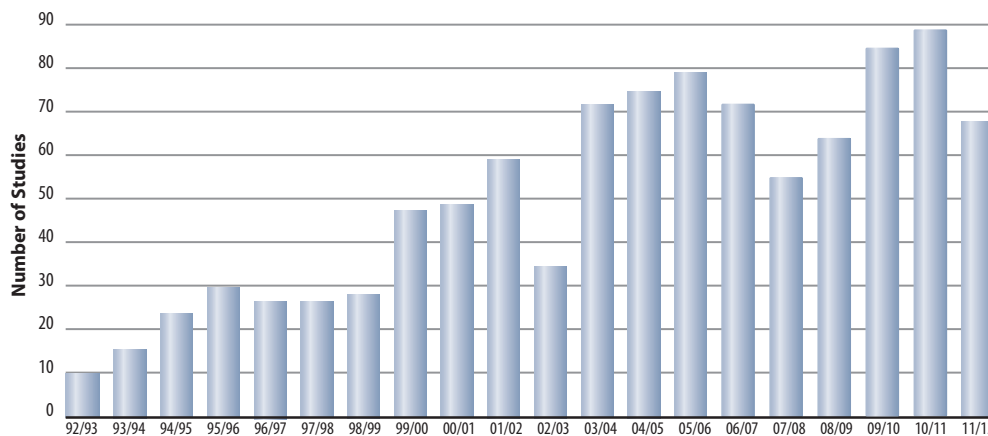
About FCMAT

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 2012 the Fiscal Crisis and Management Assistance Team (FCMAT) received a request from the San Bernardino County Superintendent of Schools Office for an Assembly Bill (AB) 139 extraordinary audit of the Hesperia Unified School District, Oak Hills High School Associated Student Body (ASB). The district notified the county office that several instances of ongoing irregularities existed with the ASB funds at Oak Hills.

During the initial inquiry, the county office learned that ASB club accounts had insufficient cash to make vendor payments; the cash portion of deposits lagged several days; and the new bookkeeper could not locate original records or supporting documentation. Other discrepancies included payments for purchases prior to student council approval, multiple club accounts with negative account balances, and unauthorized purchases and sales of non-nutritional drinks.

Concerned that allegations of inappropriate and excessive spending by the ASB advisor may have violated various education code sections and California Code of Regulations (CCR) related to fraud and/or misappropriation of assets, the county office requested the AB 139 Extraordinary Audit to determine whether sufficient evidence of fraudulent activity exists to report the matter to the local district attorney's office for further investigation.

AB 139 Extraordinary Audit

Education Code Section 1241.5(b) permits a county superintendent of schools to review or audit the expenditures and internal controls of any school district in the county if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. On completion of the investigation, if evidence exists that fraud or misappropriation of funds may have occurred Education Code Section 42638 (b) states that 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 basis of this review is to determine if 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 for further investigation by law enforcement.

Audit Fieldwork

Investigating allegations of fraud requires a number of steps that include interviews with potential witnesses and gathering evidence from internal and external sources. FCMAT team members visited the district on separate occasions in September and December 2012 to interview staff and obtain and review documents. Additional documentation for missing bank and credit card records was obtained as late as January 2013. FCMAT reviewed, analyzed and tested business records including cash receipts, cash disbursements, bank reconciliations, general ledger activity, bank statements, credit card statements, financial reports, board policy and administrative regulations, ASB meeting minutes, and internal documents secured from various departments and from independent sources.

The team also interviewed district office and school site staff to obtain information related to general business practices and events that transpired during the current and preceding four fiscal years to obtain information concerning any alleged mismanagement, fraud or abuse.

This report is the result of FCMAT's investigation.

Study Team

The study team was composed of the following members:

Deborah Deal, CFE
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Los Angeles, California

Julie Auvil, CPA, CGMA
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Bakersfield, California

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Executive Summary

Scope and Procedures

The San Bernardino County Superintendent of Schools Office requested this study under the provisions of Education Code Section 1241.5 to determine whether fraud, misappropriation of funds or other illegal practices may have occurred. Specific audit objectives included evaluation of all ASB club general ledger account transactions, bank deposits, disbursements, and credit card activity. Information was gathered regarding specific allegations and audit test procedures were performed to determine whether fraud may have occurred, evaluate any associated loss, and determine who may have been involved.

Chronology of Events

Hesperia Unified School District opened Oak Hills High School in fall 2009. For several months prior to opening the new school, faculty and support staff were tasked with setting up offices, computer labs, library services, cafeteria, maintenance and the bookkeeping system for ASB.

The ASB advisor and bookkeeper hired at Oak Hills had many years of experience, having held these same positions in another district high school. In fall 2008, a bank account was established and the new ASB bookkeeping system (Blue Bear) was initialized with a chart of accounts for school clubs with startup money from another district school.

The district's business office had procedures in place for ASB reporting as a function of its oversight responsibilities and internal control procedures. These procedures required each school to submit various records to the district office for review, including bank reconciliations and general ledger activity. Based on the findings of these reviews, additional supporting documentation could be requested.

Business office staff made repeated attempts to obtain timely and complete records from the bookkeeper at Oak Hills. Communication to the school principal and ASB advisor failed to produce results. In fall 2010 the district commissioned the first of three independent reviews conducted by certificated public accountants.

Several notable irregularities and discrepancies were identified in the independent auditor reports that caused the district to place the bookkeeper on administrative leave and subsequently reassign the ASB advisor. These included untimely deposits, depositing the cash portion of a deposit several weeks after the initial deposit, large write-offs to balance a deposit, and many other findings of this nature.

Approximately one year after returning from administrative leave, the bookkeeper resigned. A new bookkeeper was hired and noticed several club accounts with negative balances and overall insufficient cash balances to pay vendor bills. The district then contacted the county office requesting an extraordinary audit by FCMAT.

FCMAT interviewed staff members regarding policies and procedures including internal controls; roles and responsibilities; fundraising activities and cash handling practices; purchasing practices and expenditure authorization; the receipt and deposit of cash; and other possible irregularities.

FCMAT performed the following audit procedures to test ASB transactions at Oaks Hills for the 2008-09 through 2011-12 fiscal years and activity through February 2013 of the current fiscal year:

- Review of the detailed general ledger activity.
- Review of bank statements and reconciliations.
- Review of credit card statements.
- Review of all revenue, expenditure transactions, journal entries and available supporting documentation recorded in the ASB checking account from October 2008 through October 2012. Transaction review focused on verification that appropriate supporting documentation and authorization were present.
- Trace of transactions recorded in the ASB accounts from October 2008 through October 2012 to bank records and credit card statements including beginning and ending balances for fiscal years 2008-09, 2009-10, 2010-11 and 2011-12.
- Second interview with ASB advisor regarding transactions where documentation could not be located by district staff.
- Reviewed 2011-12 ASB adopted budget revenue and expenditure forms and compared to results from general ledger.
- Tested a sample of 24 transactions for the 2009-10, 2010-11 and 2011-12 fiscal years.
- Reviewed bank statements from October 2008 to October 2012 for unusual activity.
- Reviewed credit card statements for cards issued directly to the former ASB advisor and traced activity to the ASB accounts and bank statements.
- Reviewed the March 21, 2011 independent auditor's report regarding Oak Hills High School ASB cash receipts, credit card and gift card testing.

Findings and Recommendations

Occupational Fraud

Occupational fraud may have occurred at the district. This type of fraud can be described in an organization as when owners, executives, managers or employees use their position to deliberately misuse or misapply the employer's resources or assets for personal benefit. There are three primary classifications of occupational fraud:

- Asset misappropriation
- Corruption
- Fraudulent financial statements

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

Occupational fraud is one of the most difficult types of fraud and abuse to detect; however, the most common method of detection comes from tips. Tips accounted for three times the number of any other fraud prevention method for this type of fraud scheme. Proper monitoring and effective oversight are also highly effective at preventing fraud.

Internal Controls

Internal controls are the principal mechanism for preventing and/or deterring fraud or illegal acts. Illegal acts, misappropriation of assets or other fraudulent activities can include an assortment of irregularities characterized by intentional deception and misrepresentation of material facts. Effective internal controls provide reasonable assurance that a district's operations are effective and efficient, that the financial information produced is reliable, and that the organization complies with all applicable laws and regulations.

Weaknesses or the lack of many internal control elements have led to an environment where there is potential for fraud, misappropriation of assets and misuse of district assets in the Oak Hills ASB. FCMAT found significant material weaknesses in the district's enforcement of governing board internal controls, operational policies and procedures related to the management and oversight of ASB activities.

A system of internal controls consists of policies and procedures designed to provide the governing board and management with reasonable assurance that the organization 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 established policies, procedures and standards of conduct.

Internal controls provide the framework for an effective fraud prevention program. The five interrelated components of an effective internal control structure include (1) the control environment, (2) fraud risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.



The internal control environment establishes the moral tone of the organization. This is commonly referred to as “the tone at the top.” It is an intangible element that consists of employees’ perceptions of the ethical conduct displayed by the governing board and executive management.

A strong system of internal controls that consists of all five elements can provide reasonable but not absolute assurance that the organization will succeed in achieving its goals and objectives. While all five elements are interrelated, this report will focus on the pertinent control environment and control activities.

The control environment is the foundation necessary for all other components of internal control to be effective in preventing and/or deterring fraud or illegal acts. It provides discipline and control and includes factors such as integrity, ethical values and employee competence.

Control activities are the direct result of the development of policies and procedures designed to prevent and identify misuse of the district’s assets, including the prevention of any employee from overriding system controls. Control activities include:

1. Performance reviews – the action of comparing actual data with expectations. In a district’s business office, this most often occurs by comparing budgeted amounts with actual expenditures, identifying variances and following up with budget transfers to prevent overspending.
2. Information processing – the approvals, authorizations, verifications and reconciliations necessary to ensure that transactions are valid, complete and accurate.
3. Physical controls – processes and procedures designed to ensure the safeguarding and security of assets and records.

4. Segregation of duties – processes and procedures that ensure that no employee or group is in a position to commit and conceal errors or fraud in the normal course of duties. In general, this entails separating the custody of assets, authorizing or approving related transactions affecting those assets, recording or reporting related transactions, and executing the transaction activity. Adequate segregation of duties reduces the likelihood that errors will remain undetected by providing for separate processing by different individuals at various stages of a transaction and for independent review of the work.

The deficiencies and exceptions noted during FCMAT's review of the ASB financial records clearly demonstrate poor financial management and provide sufficient evidence to demonstrate that fraud, mismanagement and misappropriation may have occurred.

The Business Cycle and Purchasing Control Criteria

Fundamental control criteria are applicable for various district business cycles. These basic principles apply to payroll, accounts receivable, accounts payable, purchasing, warehousing and inventory. A control matrix for each area should include authorization, safeguarding, verification and recording. These objectives must integrate input, process and output controls to be highly effective in both fraud prevention and detection.

Following is an example of a control matrix for accounts payable and purchasing:

Control Matrix Objectives

Authorization

- Was the item properly authorized and approved?
- Were the procedures followed?
- Is the item what was approved?

Recording

- Did the recording of the transaction happen timely?
- Does adequate support documentation include receipts, bills of lading and authorized approvals by designated managers or supervisors?

Verification

- Was the purchase from an approved vendor?
- Are related party transactions prohibited?
- Were all the policies and procedures followed with respect to purchasing guidelines and bid limits?
- If a partial shipment was received, are the differences reviewed and reconciled?
- Are proper management review processes in place?

Safeguarding Assets

- Are duties properly segregated?
- Are controls in place to prevent unauthorized access?
- Are levels of confidentiality defined and adhered to?

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

- Failure to adequately segregate the duties and responsibilities of authorization.
- Failure to record transactions, resulting in lack of accountability and the possibility of theft.
- Unauthorized transactions, resulting in skimming, embezzlement or larceny.
- Lack of monitoring, implementing, or enforcing internal controls by the governing board and management.
- Collusion among employees where little or no supervision exists.

An inadequate system of control activities left the district vulnerable to the possibility of fraud/theft. FCMAT found that although the district had board policies and administrative regulations in place and the business office was diligent in monitoring and conducted its oversight responsibilities timely, ultimately, the business office did not have authority to enforce district policy at the school site level. As a result, requests for information were ignored and substantial gaps in support documentation existed. This impeded the district in ensuring its assets were properly managed and safeguarded.

Eventually, senior management requested an external review by certificated public accountants that found many examples of irregularities and serious concerns regarding the internal control environment at Oak Hills. Continued efforts by the district's business office to hold school site staff accountable failed. Two additional reports eventually led to the disciplinary action for the bookkeeper and subsequently the ASB advisor.

Several irregularities surfaced when a new bookkeeper was hired, indicating prior fiscal mismanagement and possible misappropriation of funds may have occurred. The combination of oversight without enforcement left the district severely handicapped in ensuring the assets of the district were properly managed and safeguarded.

Financial Management

Organized Associated Student Body

The district conducts extracurricular student activities with an organized associated student body (ASB) at each high school that includes a designated certificated advisor, bookkeeper, student council, individual clubs and club advisors. Student council members learn to make decisions under the general guidance of the principal and/or certificated advisor.

An organized ASB is formally established with a constitution and operates under existing laws and regulations identified in the education, penal and government codes. Organized ASBs have a student council and student club leaders that conduct formal meetings and vote on the budget, fundraising activities and payments. Students decide how ASB funds should be raised and spent within district established guidelines, and the school administration, bookkeeper and club advisor(s) assist and advise.

As with all other district expenditures, advance approval must be obtained for any ASB expenditure through a proper purchasing structure that includes the signature of a student in the club, the club advisor, and the certificated ASB advisor. Regardless of the operational structure, the school site principal/site administrator is directly responsible for ASB financial activities and must ensure they conform to established district policies and procedures.

The Oaks Hills ASB has an established student council. Each year students campaign for officer positions on the council and serve on the school leadership team. All grade levels are represented on the council.

General Ledger

The district's high schools use a computerized system common to ASB accounting called Blue Bear. This accounting system is specially designed to accommodate individual transactions for multiple club and trust accounts at the school sites. Oak Hills completed construction and opened in the fall of 2009. For several months prior to opening the new school, faculty and support staff were tasked with setting up offices, computer labs, library services, cafeteria, maintenance and the bookkeeping system for ASB.

The advisor and bookkeeper hired at Oak Hills transferred from another district high school with many years of experience in these same positions. A bank account was established in fall 2008, and the new Blue Bear bookkeeping system was initialized with a chart of accounts for school clubs and startup money of \$4,020 from another district school, Sultana High School.

Blue Bear software utilizes three types of account structures – trust, income/revenue and expense accounts. The software is very flexible and allows each user to construct their chart of accounts in whatever logical manner they prefer. The Oak Hills ASB accounts are organized as follows:

- 1000 – 1999 Cash accounts
- 2000 – 2999 Club accounts
- 3000 – 3999 Liability
- 4000 - 5999 Event accounts
- 8000 – 8999 Web store
- 9998 Temporary clearing account

The 1000-3000 and 8000-9998 accounts were all established as trust accounts. Trust account balances carry over from one year to the next whereas expense and revenue accounts in the 4000-5999 group close with each year's activity and start a new year with a zero balance.

FCMAT obtained detailed Blue Bear account analysis reports from October 2008 through October 2012 and found that the ASB club accounting structure was complex, challenging to follow, and inconsistent in the use and structure of the chart of accounts. For example, several original postings would be subsequently transferred to multiple accounts through a series of journal entries without explanation.

Most event accounts in the 4000 and 5000 series were established as either revenue or expenditure accounts. At the end of each fiscal year, most of these accounts were closed and reconciled against each other and the balance was transferred into account 3000, Due to Student Body. However, FCMAT found that some event accounts were treated as trust accounts where balances were carried from year to year:

- Athletic donations (4012)
- Athletic-soda commissions (4015)
- Dances-prom (4029)
- Debts owed to ASB from clubs (5066)

The first digit indicates the type of account, and all accounts in the series typically are handled similarly. For example, all 4000 accounts would be revenue or expenditure accounts and closed at the end of each year. The Oak Hills ASB accounts were not handled in this manner.

Once the event accounts were closed individually from the prior year and collapsed into the Due to Student Body Account (3000) at the beginning of the next year (as represented by the highlighting in the chart on the next page). The account balances were then closed and transferred into the ASB general account (4005).

The total amounts closed from the Student Body Account (3000) into the ASB general account (4005) for the years ending June 30, 2009, June 30, 2010 and June 30, 2011 were (\$98), (\$33,146.19) and (\$35,918.86), respectively. The small negative balance as of June 30, 2009 reflects that the school had not yet opened and the ASB had just been established. The large negative balances indicate that several thousand dollars were missing from fundraising deposits, haphazardly overspent or a combination of both.

One of the basic principles of ASB accounting is that current students raise money for current events. Negative account balances should be avoided except for rare exceptions. Negative balances reflect that a particular club did not raise sufficient funds to cover expenditures posted against the account, or that money raised for activities was never deposited into the bank account. Offsetting account balances and moving negative balances from account to account indicates there may have been intent to make it difficult to trace, especially crossing fiscal years. The table below demonstrates starting and ending account balances for each year. Of particular concern are the large negative balances and the inconsistent accounting treatment for event accounts.

Oak Hills High School ASB

Opening and Closing Account Balances for 2009-10 and 2010-11 Fiscal Years

HESPERIA UNIFIED SCHOOL DISTRICT

OAK HILLS HIGH SCHOOL ASB

Fund Balance Analysis

Account Number	Account Name	2009/10		2010/11		2011/12	
		Beginning Balance	Ending Balance	Beginning Balance	Ending Balance	Beginning Balance	Ending Balance
3000	Due to Student Body	\$ (98.00)	\$ (98.00)	\$ (33,146.19)	\$ -	\$ (35,918.86)	\$ -
4000	ASB CARDS	\$ 450.00	\$ 23,766.60	\$ -	\$ 31,299.00	\$ -	\$ 33,906.00
4003	Credit Card Processing-Web			\$ -	\$ -	\$ -	\$ -
4004	Credit Card Processing	\$ -	\$ (115.37)	\$ -	\$ 4,638.92	\$ -	\$ (842.56)
4005	ASB GENERAL	\$ 9,218.68	\$ (72,564.71)	\$ -	\$ (99,259.73)	\$ -	\$ 19,381.76
4008	ASB - DONATIONS	\$ 7,500.00	\$ 10,259.96	\$ -	\$ 3,802.95	\$ -	\$ 4,532.00
4010	Athletics - General	\$ -	\$ (7,000.16)	\$ -	\$ (11,271.94)	\$ -	\$ (13,166.76)
4011	Athletics - CIF	\$ -	\$ (950.00)	\$ -	\$ (1,858.16)	\$ -	\$ -
4012	Athletics - Donations	\$ -	\$ 5,928.00	\$ 5,928.00	\$ 12,552.60	\$ 12,552.60	\$ 5,500.00
4013	Athletics-Records Banquet	\$ -	\$ (626.18)	\$ -	\$ -	\$ -	\$ -
4015	Athletics-Soda Commissions	\$ -	\$ 404.42	\$ 404.42	\$ 1,112.04	\$ 1,112.04	\$ 2,119.31
4016	Athletics-Tournament/GBkbll	\$ -	\$ 501.41	\$ -	\$ 285.75	\$ -	\$ 501.89
4017	Athletics - Tournament/G Sccr	\$ -	\$ 844.41	\$ -	\$ 2,733.56	\$ -	\$ 445.89
4018	Athletics - Tournament/Vbll	\$ -	\$ -	\$ -	\$ 846.00	\$ -	\$ 191.21
4019	Athletics - Tournament/Wrstlg	\$ -	\$ 464.75	\$ -	\$ 600.00	\$ -	\$ (658.27)
4020	Athletics - Tournament/B Soccer	\$ -	\$ -	\$ -	\$ (673.44)	\$ -	\$ 1,429.21
4022	Community Cards	\$ -	\$ 1,706.85	\$ -	\$ (1,350.00)	\$ -	\$ -
4023	Community Cards-Fantastic Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (3,000.00)
4026	DANCES/End of Year	\$ -	\$ 218.57	\$ -	\$ 103.89	\$ -	\$ -
4029	DANCES/Prom	\$ -	\$ (3,000.00)	\$ (3,000.00)	\$ (6,439.45)	\$ (6,439.45)	\$ (7,356.97)
4030	DANCES/Homecoming	\$ -	\$ (3,592.93)	\$ -	\$ 1,084.56	\$ -	\$ 4,840.73
4031	DANCES-Winter Formal	\$ -	\$ 2,747.40	\$ -	\$ 3,857.20	\$ -	\$ 3,783.32
4032	EVENTS/Activities-Seniors	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4034	EVENTS/Every 15 Minutes	\$ -	\$ -	\$ -	\$ (11,367.30)	\$ -	\$ 9,999.99
4036	EVENT/Grad Nite	\$ -	\$ -	\$ -	\$ 933.07	\$ -	\$ 4,261.00
4038	EVENTS/Mr. Bulldog	\$ -	\$ -	\$ -	\$ (279.54)	\$ -	\$ 115.59
4040	EVENTS/Talent Show	\$ -	\$ 612.12	\$ -	\$ 1,213.44	\$ -	\$ (355.08)
4042	EVENTS/Talent Show All Dist.	\$ -	\$ 1,809.97	\$ -	\$ (298.59)	\$ -	\$ -
4050	I.D. CARD	\$ -	\$ 460.00	\$ -	\$ 465.00	\$ -	\$ 455.00
4053	Interest from Checking	\$ -	\$ 341.73	\$ -	\$ 351.34	\$ -	\$ 174.87
4058	Parking Fees	\$ -	\$ 6.00	\$ -	\$ -	\$ -	\$ -
4060	P.E. Clothes	\$ -	\$ 1,823.99	\$ -	\$ 4,318.31	\$ -	\$ 1,802.80
4200	Renaissance	\$ -	\$ (7,942.98)	\$ -	\$ (13,204.03)	\$ -	\$ (10,463.61)
4290	Soda Commissions	\$ -	\$ 1,866.90	\$ -	\$ 3,216.87	\$ -	\$ 695.22
4300	Spirit Winners	\$ -	\$ (200.00)	\$ -	\$ 20.00	\$ -	\$ (198.04)
5001	ASB GENERAL	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (143,049.03)
5002	A-BASEBALL	\$ -	\$ (3,242.00)	\$ -	\$ (3,491.55)	\$ -	\$ (1,857.42)
5003	A-BASKETBALL - BOYS	\$ -	\$ (2,136.60)	\$ -	\$ 71.81	\$ -	\$ 615.92
5004	A-BASKETBALL - GIRLS	\$ -	\$ (1,023.66)	\$ -	\$ (173.12)	\$ -	\$ (587.67)
5005	A-CROSS COUNTRY	\$ -	\$ (561.51)	\$ -	\$ (1,049.83)	\$ -	\$ (1,377.21)
5006	A-FOOTBALL	\$ -	\$ 16,915.56	\$ -	\$ 33,870.77	\$ -	\$ 37,243.21
5007	A-GOLF	\$ -	\$ (1,428.23)	\$ -	\$ (1,365.00)	\$ -	\$ (685.00)
5008	A-SOCCER - BOYS	\$ -	\$ (4,571.06)	\$ -	\$ (2,295.06)	\$ -	\$ (5,805.10)
5009	A-SOCCER - GIRLS	\$ -	\$ (2,459.06)	\$ -	\$ (4,085.71)	\$ -	\$ (2,959.94)
5010	A-SOFTBALL	\$ -	\$ (3,206.52)	\$ -	\$ (2,257.23)	\$ -	\$ (1,948.00)
5011	A-TENNIS - BOYS	\$ -	\$ (176.55)	\$ -	\$ (218.85)	\$ -	\$ (310.21)
5012	A-TENNIS - GIRLS	\$ -	\$ (554.47)	\$ -	\$ (202.20)	\$ -	\$ (689.27)
5013	A-TRACK - BOYS & GIRLS	\$ -	\$ (1,936.75)	\$ -	\$ (1,759.45)	\$ -	\$ (780.53)
5014	A-VOLLEYBALL	\$ -	\$ (115.81)	\$ -	\$ 1,519.83	\$ -	\$ 1,161.33
5015	A-WRESTLING	\$ -	\$ (4,164.32)	\$ -	\$ (3,267.87)	\$ -	\$ (486.58)
5016	A-WRESTLING CIF TOURN	\$ -	\$ (94.00)	\$ -	\$ -	\$ -	\$ (519.33)
5020	Athletics - General	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (15,236.59)
5030	Band Tournament Fees	\$ -	\$ (1,805.00)	\$ -	\$ (2,395.00)	\$ -	\$ (2,090.00)
5036	Bulldog Café	\$ -	\$ (46.30)	\$ -	\$ -	\$ -	\$ -
5040	Clinics - Athletic	\$ -	\$ (815.36)	\$ -	\$ (432.75)	\$ -	\$ (260.00)
5042	Club Fair	\$ -	\$ (4,000.00)	\$ -	\$ (5,000.00)	\$ -	\$ (2,500.00)
5045	Conferences	\$ -	\$ (1,440.00)	\$ -	\$ (2,431.62)	\$ -	\$ (2,025.00)
5058	Competition - Cheerleading	\$ -	\$ (720.00)	\$ -	\$ (2,400.00)	\$ -	\$ -
5060	Competition - Drama	\$ -	\$ -	\$ -	\$ (1,292.00)	\$ -	\$ (744.00)
5066	Debts Owed to ASB from Clubs	\$ -	\$ (260.00)	\$ (260.00)	\$ (12,475.60)	\$ (12,475.60)	\$ (10,030.18)
5072	Graduation Expenses	\$ -	\$ -	\$ -	\$ 2,786.76	\$ -	\$ (11,756.86)
5080	Parking Fees	\$ -	\$ 284.00	\$ -	\$ 308.19	\$ -	\$ 215.00
5085	Intramurals	\$ -	\$ 5.00	\$ -	\$ -	\$ -	\$ -
5088	Junior Breakfast	\$ -	\$ (895.97)	\$ -	\$ -	\$ -	\$ -
5120	Powder Puff Football	\$ -	\$ (1,001.44)	\$ -	\$ 535.74	\$ -	\$ 565.00
5152	Senior Activities	\$ -	\$ -	\$ -	\$ (1,511.37)	\$ -	\$ 4,561.00
5162	STUDENT STORE	\$ 795.00	\$ 31,703.53	\$ -	\$ 40,409.52	\$ -	\$ 14,929.97
8000	Web Store Clearing Bank	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8010	Web Store Clear for Remittance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,921.35
8020	WebStore Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12.03
9998	Temporary Clearing Account	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL		\$ 107,969.92	\$ 111,093.12	\$ 111,093.12	\$ 129,612.08	\$ 129,612.08	\$ 28,570.00

Basic business practice is that each account title has only one account. FCMAT's review showed that two ASB general accounts were established, accounts 4005 and 5001, beginning with the 2011-12 fiscal year. Only account 4005 was reported in the prior fiscal year.

An analysis of these two accounts revealed that large transfers occurred as follows:

1. The first transfer between these two accounts, for \$66,951.97, occurred on 12/20/11. This brought the 4005 account balance to zero and posted the overexpenditure into account 5001.
2. A second transfer of \$69,257.27 occurred on 1/12/12, giving account 4001 a positive fund balance while incurring an additional overexpenditure in account 5001. Account 5001 thus had a total negative balance of \$136,105.42 on 1/12/12.

Despite FCMAT's repeated requests for documentation of these transfers, no support documentation could be located.

Interviews with ASB staff revealed that funds were raised by Oak Hills staff members, placed in a staff club account (2780) and used for staff events. ASBs are established to raise and spend money on behalf of students. Funds raised by adults should never be placed in an ASB account.

ASB account 2106, established in 2009-10, was used to collect advanced placement (AP) testing fees and purchase test materials. AP testing is not a student fundraising activity. It is a function and responsibility of the curriculum department. The collection of revenues and the expenditures for this function should not be commingled with the ASB accounts.

The ASB bookkeeper did not follow generally accepted accounting principles even though the bookkeeper holds a degree in accounting and had several years of experience with ASB accounting. Sample transactions showed many instances where expenditures such as bank and credit card fees and other adjusting entries were offsets to bank deposits. These fees and adjusting entries should be posted through journal entries not as an offset to the bank deposit.

ASBs are required to adopt a budget each fiscal year. This budget serves as a guideline for anticipated fundraising events to meet expenditure goals. FCMAT compared the adopted budget for 2011-12 with the actual activity. Instead of increasing the ASB fund balance by \$15,845, the actual fund balance decreased by \$86,702 for a total difference between the projected budget and the actual activity of \$102,547. A review of 75 club accounts showed that approximately half ended the year with negative balances.

Oak Hills High School ASB Budget vs. Actual Activity for the Year Ended June 30, 2012

	Adopted Budget	Actual Activity
Revenues	\$868,300	\$799,439
Expenditures	\$852,455	\$886,141
Fund Balance (Increase/ Decrease)	\$15,845	(\$86,702)

Cash Deposits and Bank Reconciliations

Cash is an essential component of ASB operations. However, the cash involved in ASB operations creates many opportunities for fraud to occur. The most common finding in a district's annual audit is the failure of the ASB to follow internal control procedures, especially in cash management and procurement.

Bank statement reconciliations can be easily altered simply by showing an outstanding deposit and subsequently posting a journal entry to write off the missing funds, thereby clearing the outstanding deposit. Timely review of bank reconciliations by management and confirming deposits with cash count sheets can identify and deter this type of fraud.

Sound internal control procedures should be established for the students holding the fundraiser and for the ASB bookkeeper processing the funds received. Regardless of the internal control procedures used, they are designed to protect the ASB's assets (primarily cash) and to protect the students and staff who handle cash from allegations and unintentional errors.

On three different occasions beginning on November 1, 2010, district administration commissioned focused reviews of the Oak Hills ASB by independent auditors after repeated efforts to receive timely ASB general ledger reports, bank reconciliations and support documentation from the ASB bookkeeper and ASB advisor were unsuccessful.

The first report, dated November 1, 2010, was prepared by an independent audit firm. The stated objectives were to review the accounting practices and internal control structure to ensure that the Oak Hills ASB was operating effectively, and to make recommendations. A summary of the findings indicated that:

- Bank reconciliations were not completed timely. Specifically, the October and November 2009 reconciliations were not completed until January 2010. On average, bank reconciliations were not completed for more than two months after the closing of the month.
- Numerous exceptions were noted in cash disbursements, including the lack of proper authorization, inadequate support documentation and questionable expenditures. Examples included:
 - Five disbursements missing at least one signature and no indication of prior approval by the ASB student council
 - Forty-five disbursements made without supporting receipts of goods and/or services
 - Twenty-three disbursements made prior to student council approval
 - Twelve disbursements exceeding the "not to exceed" purchase order

A second report dated March 21, 2011 by an independent audit firm, revealed several instances of bank deposit adjustments, negative club account balances, improper safeguarding of district assets, issuance of a large number of gift cards, lack of itemized receipts to support credit card purchases by the ASB advisor and unusual and suspicious expenditure activity.

Lastly, an ASB management comments worksheet prepared by an independent audit firm on February 16, 2012, revealed numerous cash management irregularities based on a sample test of transactions, with weaknesses in internal controls and reportable conditions. Specific findings included:

- Untimely bank deposits: one out of five tested.
- Bank deposit slips cannot be reconciled to cash receipts: three out of five tested.
- Proper approvals not obtained for cash disbursements.
- Expenditure approvals not documented in the student council minutes: seven out of 25 tested.
- Evidence of receipt of goods lacking: six out of 25 tested.
- Expenditures lack appropriate supporting documentation: 11 out of 25 tested.
- Expenses occurred prior to approval: two out of 25 tested.
- Various club accounts with negative balances.
- Insufficient segregation of duties: seven out of 25 tested.
- Inadequate cash receipt documentation: two out of five tested transactions.
- Deficiencies with Student Council meeting minutes.
- Clubs or trust accounts not appropriate for ASB.

The district's assistant superintendent for business issued a letter dated August 9, 2012 stating that the ASB bookkeeper resigned in January 2012 and the ASB advisor was transferred to another high school based on the numerous deficiencies which could be the result of "a misappropriation of ASB funds." On closing the ASB books, the new bookkeeper discovered that approximately \$130,000 was unaccounted for at year end. This was the first time that the district officially recognized the possibility that a misappropriation of funds may have occurred.

During FCMAT's fieldwork, attempts were made to interview the former ASB bookkeeper regarding bookkeeping procedures and specific transactions where documentation was missing. Those requests went unanswered.

The following deficiencies were noted during FCMAT's review and test of transactions:

- Unconventional chart of accounts to record ASB transactions and reconcile with bank records
- Large reductions or write-downs of the cash portion of bank deposits
- Disregard for district policies, procedures and protocols
- Direct bank debits without supporting documentation
- Questionable use of funds and reimbursements to the ASB advisor
- Inconsistent use of a purchase order system for expenditures
- Lack of student approval
- Lack of supporting documentation for payment
- Excess use of the ASB advisor's personal credit cards
- Gifts, including cash to staff and students
- Expenditures exceeding revenue generated
- Lack of consistent dual signatures on checks
- Overstated budget projections of anticipated revenues and expenditures as well as overspending of expenditure accounts.

Lack of controls over expenditure activities, most significantly cash controls and segregation of duties, presents an opportunity for theft. The lack of detailed accounting and proper supporting documentation associated with cash collected from fundraising activities made it impossible to ensure that all collections were ultimately deposited into the ASB bank account.

Deficiencies in cash controls create an environment conducive to skimming. This type of fraud involves the removal of cash before it can be recorded in the accounting records, leaving no direct audit trail to the theft. FCMAT noted that internal control weaknesses related to cash controls were identified in all three reports commissioned by district management to study irregularities at Oak Hills ASB. Strong internal controls for cash collection are necessary to prevent mishandling of district funds and are designed to safeguard and protect employees from inappropriate charges of mishandling funds by defining their responsibilities in the cash handling process.

“Cash” is defined as coin, currency, checks, money orders, and credit card transactions.

Required procedures for cash collection points include the following:

- Accounting for cash as is it received.
- Adequate separation of duties and checks and balances, which includes cash collecting, depositing, reconciling and reporting.
- Proper pre-numbered receipts given for all cash received.
- Approval of any voided cash receipts by area supervisor.
- Deposit of cash promptly at the county treasurer’s office or into the district’s authorized account.
- Reconciliation of validated deposit forms to supporting documentation and to the account statement.
- Approval by the business office of any changes in cash handling procedures.
- Proper safeguarding of cash.

Specific findings include instances where large cash shortages were deducted from bank deposits and deposits did not include the cash or currency portion for several days or weeks. Well-established internal controls without appropriate levels of enforcement leave the district vulnerable to misappropriation of assets, illegal activities and fraud. Funds received must be reconciled to the cash report or to the total of the temporary receipts at the end of the day or at the end of each shift. Cash must be reconciled separately from checks, credit cards, and money orders by comparing actual cash received to the cash total from the cash report or to the sum of the cash sales from the manual receipts.

Bank Reconciliations

The bank reconciliation process explains the difference between the bank balance shown in the district’s bank statement and the corresponding amount shown in the districts accounting records at a particular point in time. Differences may occur, for example, because a check or a list of checks issued by the district has not been presented to the bank, a banking transaction such as a credit received, or a charge made by the bank, has not yet been recorded in the financial records, or either the bank or the district has made an error.

FCMAT reviewed the bank reconciliations for the month ended June 30 for fiscal years 2009, 2010 and 2011. This revealed that the general ledger balance was forced to agree with the bank

statements for these months, when in fact the bank's balance was greater than that of the general ledger. Inspection of those bank reconciliations revealed the following:

- A fictitious “outstanding” deposit recorded on the June 2009 bank reconciliation of \$632. FCMAT found no evidence that this deposit was recorded in the general ledger in either July or August bank statements. This was, however, the exact amount necessary to balance the ASB general ledger to the bank statement.
- The inclusion of an outstanding check for a *negative* \$750 in the June 2011 bank reconciliation. Tracing this check into the general ledger revealed that it was deducted when it was written on 5/26/11, added back on 6/1/11 and then deducted again on 10/31/11. The proper amount on the bank statement should have been a positive \$750. Using a negative amount to record outstanding checks artificially decreased the total outstanding checks and again forced the bank reconciliation to balance.
- Eight items totaling \$3,247.18 and classified as “checks that didn’t go” were used as “outstanding adjustments” on the June 2011 bank reconciliation. These amounts were used similarly to outstanding deposits. Tracing these items into the general ledger showed that each of the eight items were credited and debited on the same date. This had a net zero effect on the general ledger balance but the items were entered on the bank reconciliation as outstanding, artificially increasing the general ledger balance per the bank reconciliation.

FCMAT's ASB bank reconciliation form is provided in Appendix A. The district should encourage ASB bookkeepers to utilize this form, and management should review the components monthly.

Cash Deposits and Fundraising Activities

Whenever students hold fundraising events or collect cash they should follow established internal control procedures. The ASB bookkeeper should also follow defined internal controls for distributing cash boxes, tickets and receipt books before a fundraiser begins and after it is over to ensure that the monies collected agree with the tickets sold and all cash and checks are promptly deposited to the bank. Internal controls are designed to protect the ASB's assets, primarily cash, and to protect the students, employees and staff who handle cash from accusations or unintentional errors.

Hesperia Unified School District Board Policy 3452 states that the school principal is responsible for “the conduct of the student body financial activities, safeguarding of the student body funds, supervision of their expenditures in accordance with Board adopted policy and procedure.” In addition, the principal “shall assume responsibility for appointing a qualified certificated staff member to serve as an advisor for each secondary organization or club” and ensure that the ASB advisor and students understand they are not authorized to hold a fundraising event unless established cash control procedures are followed. The ASB advisor and club advisors “shall instruct students in procedures that have been adopted by the Board of Education” and ensure that the procedures are followed throughout the event.

There are different cash control procedures for different types of events, but all include these basic principles:

- Proper cash handling and physical chain of custody for all cash receipts.
- No commingling of receipts from separate events.

- Cash is counted in the presence of two people (dual cash counts).
- Proceeds from event immediately delivered to the ASB bookkeeper or designated employee.
- Multipart receipts used for event proceeds.
- Immediate deposit of funds into the bank account (no longer than two to three days after receipt), and all deposits made prior to weekends or holidays.
- Copies of the deposit slip and all supporting documentation of the fundraiser are retained.

Fundraising proceeds deposited into the ASB bank account and recorded in the ASB general ledger totaled \$75,218.81 over the 36 months reviewed. The following deficiencies were noted during FCMAT's review of supporting documentation:

- No revenue projections or budgets prepared for fundraising efforts.
- No use of pre-numbered and pre-printed standard receipts documenting cash collections.
- Infrequent dual cash count procedures documented on cash count sheets supporting deposits.
- Poor segregation of duties and chain of custody related to cash handling.
- Expenditures deducted from cash proceeds prior to deposit.
- Funds for deposit to the district were deposited and pasted through the ASB bank account.

District employees interviewed identified further inconsistencies in policies and procedure in addition to the deficiencies noted above. For example, substitute bookkeepers were trained in proper cash procedures, such as balancing to the penny and performing cash counts in the presence of a second person, while the bookkeeper ignored proper procedures herself. Files on the district-issued computer were not provided to those who would occasionally assist or perform ASB bookkeeping duties in the former bookkeeper's absence. District administrators reported job duties had not been performed properly, with deposits delayed for weeks or months, insufficient documentation for monthly financial reviews and a lack of cooperation by the former ASB bookkeeper regarding district requests to resolve these issues.

Other indicators of potential misappropriation of funds or other fraudulent activities include oddities in accounting records such as cash shortages and overages and missing support documentation.

Between July 1, 2008 and October 31, 2012, there were 42 instances of overages or shortages in deposits totaling \$7,427.39 as shown in the table below. The table also denotes that two of these shortage amounts were subsequently deposited. This excludes six instances where counterfeit bills were tendered to the Oak Hills ASB and reversed by the bank.

Of the 42 instances, 34 occurred during the tenure of the former ASB bookkeeper (who resigned January 23, 2012) and eight were not posted into the ASB's general ledger. No instance of a deposit shortage has been reported by the bank since April 27, 2012.

***Oak Hills High School Cash Vault Analysis
July 1, 2008 through October 31, 2012***

Date	Reason	Amount
2008/09		None
2009/10		
9/3/2009	Deposit Short	\$(100.00)
9/24/2009	Deposit Short	\$(80.00)
9/29/2009	Deposit Short	\$(24.00)
10/27/2009	Deposit Short	\$(20.00)
12/18/2009	Counterfeit	\$(20.00)
2/11/2010	Deposit Short - Slip in Error	\$(1,000.00)
3/9/2010	Deposit Short - Slip in Error	\$(100.00)
4/8/2010	Deposit Short - Slip in Error	\$(200.00)
4/27/2010	Deposit Short - Slip in Error	\$(100.00)
5/6/2010	Deposit Over	\$101.00
5/27/2010	Deposit Over	\$90.00
5/27/2010	Deposit Short	\$(85.00)
	Subtotal	\$(1,538.00)
2010/11		
8/12/2010	Deposit Short	\$(2,124.00)
8/17/2010	Counterfeit	\$(50.00)
8/26/2010	Deposit Over	\$15.00
9/14/2010	Counterfeit	\$(20.00)
9/28/2010	Deposit Short (deposited 9/30/10)	\$(1,525.00)
10/12/2010	Deposit Short	\$(72.00)
10/14/2010	Deposit Over	\$170.00
10/19/2010	Deposit Over	\$10.00
11/2/2010	Counterfeit	\$(100.00)
11/16/2010	Deposit Short	\$(8.00)
12/7/2010	Counterfeit	\$(10.00)
12/9/2010	Deposit Over	\$402.00
1/11/2011	Deposit Short (deposited 2/10/11)	\$(1,230.00)
2/4/2011	Deposit Short	\$(10.00)
2/8/2011	Deposit Over	\$20.00
3/3/2011	Deposit Over	\$23.00
3/10/2011	Deposit Over	\$20.00
4/12/2011	Deposit Over	\$611.00
4/12/2011	Deposit Over	\$60.00
5/3/2011	Deposit Over	\$389.00
	Subtotal	\$(3,429.00)

2011-12		
8/23/2011	Deposit Short	\$(183.19)
9/8/2011	Deposit Short	\$(60.70)
9/8/2011	Deposit Short	\$(200.00)
10/4/2011	Deposit Short	\$(20.00)
10/5/2011	Deposit Short	\$(20.00)
10/5/2011	Deposit Short	\$(100.00)
10/6/2011	Deposit Short	\$(10.00)
2/17/2012	Deposit Over	\$10.00
2/17/2012	Deposit Short	\$(100.00)
2/21/2012	Deposit Adjustment - Check Deposited Twice	\$(980.00)
2/23/2012	Deposit Adjustment - Check Deposited Twice	\$(162.50)
3/6/2012	Deposit Over	\$6.00
3/9/2012	Counterfeit	\$(100.00)
3/15/2012	Deposit Adjustment - Check Deposited Twice	\$(45.00)
3/29/2012	Deposit Adjustment - Check Deposited Twice	\$(68.00)
4/27/2012	Deposit Short	\$(427.00)
	Subtotal	\$(2,460.39)
2012-13		
	None through 10/31/12	
	TOTAL ALL YEARS	\$(7,427.39)

Of the 34 deposit shortages, four of the largest ones occurred during the tenure of the prior ASB bookkeeper and were also the subject of the March 21, 2011 report by an independent auditor:

- Two shortages, \$1,000 on 2/11/10 and \$2,124 on 8/12/10, were attributed to incorrect addition on the deposit slip. The deposit slip should be the controlling document used to record the amount into the general ledger. However, the amount posted into the general ledger by the prior ASB bookkeeper was not the amount reflecting the incorrect addition but the amount counted by the bank that included the shortage.
- Two shortages, \$1,525 on 9/28/10 and \$1,230 on 1/11/11, involved deposits where the shortage was deposited on a subsequent date. The 9/28/10 shortage was deposited two days after the original deposit, but the 1/11/11 shortage was deposited 30 days after the original deposit. In both cases, the deposit slip amount was used to record the deposit and then the general ledger was corrected to report both the shortage and the subsequent deposit. The independent auditors expressed concern over the time lag on the 1/11/11 deposit and were unsure if the shortage was “misplaced or temporarily borrowed.”

It is common with ASB events and purchases for students or adults to be responsible for payment to attend the event, or to purchase items that will be retained by the student. This is particularly common when funds have not been raised to support the event. When parents or other community members attend these events, ASB funds should not support adult participation. This is also true if students purchase an item that will be retained by the student, such as personalized

clothing. Interviews with the former ASB advisor revealed events or purchases where students or others were paying for the event or purchase, yet the general ledger did not support those statements. Examples of this anomaly include:

- The ASB held a 4.0 Dinner for those who had achieved a high grade point average on September 1, 2009. This event was held at a local Mexican food restaurant with the student meals to have been paid by a local business and guests paying \$5 per person, according to the ASB advisor. The cost of the dinner was \$1,050, yet the general ledger posted only \$405 in revenues. This event cost the ASB \$645 and should have paid for itself.
- A breakfast was held for the 2009-10 junior students on April 21, 2010 to provide them with information about what to expect in their senior year. This event was held at a local buffet restaurant during STAR testing and each student was charged \$7. According to the former ASB advisor, the event drew 400 participants, and credit card records reflect an expenditure of \$3,247.97 for the event; therefore, the anticipated revenue should be \$2,800. Review of the ASB general ledger listed seven deposits totaling \$2,352 made from student collections, leaving the ASB \$896 short of the total cost of the event.
- On September 8, 2010, the ASB leadership students purchased black sweatpants as part of a “uniform” for them to use and wear. Each student was to pay or fund-raise for their own uniform. General ledger records show no payments received against the \$706 charged to ASB funds.

Because of the absence of supporting documentation, it is unclear whether this indicates poor business management or whether funds paid were diverted prior to deposit.

Credit Cards

FCMAT’s review of the ASB bank statements for the checking account held at Desert Community Bank revealed that credit card payments were primarily made as pre-authorized debits to a Capital One credit card account and, beginning March 14, 2010, to a Desert Community Bank (DCB) credit card. Both were the personal credit cards of the ASB advisor.

District business office staff reported they were unaware of any credit cards beyond the one issued through the district’s CalCard program. However, monthly review of the Oak Hills ASB’s bank statements would have revealed the existence of these credit cards including the automatic debit payments posted on the bank statements. The report dated March 21, 2011 specifically discusses these credit cards and their concerns that the cards were issued in the name of the former ASB advisor and that limited information could be found on the activities paid through these credit cards. The last paragraph of the credit card section of the report states:

“[i]n many instances the only documentation that was retained to substantiate credit card payments was a printout payment summary that only included an amount and did not reconcile to an itemized listing of corresponding expenses and receipts.”

At the time of FCMAT’s fieldwork, the Oak Hills ASB office could not locate any records of either the transactions made using these accounts or the account statements on which payment had been made. Copies of the statements for both the Capital One and DCB credit card accounts were subsequently provided to FCMAT by the former ASB advisor after he requested them from the financial institutions.

The Capital One account had a credit limit of \$2,000, and purchases made were from June 7, 2009 through February 17, 2011. The DCB account had a \$15,000 credit limit, and purchasing

activity began on March 14, 2010 and ended on August 9, 2011. Purchases totaled \$75,773.37 for all three fiscal years. Payments on the account were made primarily through pre-authorized debits to the ASB checking account; however, paper checks were used in a limited number of transactions. Total credit card transactions for each month are represented in the table below.

**HESPERIA UNIFIED SCHOOL DISTRICT
OAK HILLS HIGH SCHOOL ASB
Credit Card Analysis**

Month	2009/10		
	Capital One	DCB	Total
July	\$ 209.34	-	\$ 209.34
August	\$ 4,733.32	-	\$ 4,733.32
September	\$ 3,586.07	-	\$ 3,586.07
October	\$ 3,928.81	-	\$ 3,928.81
November	\$ 1,068.06	-	\$ 1,068.06
December	\$ 1,699.72	-	\$ 1,699.72
January	\$ 559.82	-	\$ 559.82
February	\$ 1,919.16	-	\$ 1,919.16
March	\$ 1,421.76	-	\$ 1,421.76
April	\$ -	-	\$ -
May	\$ 66.04	\$ 255.02	\$ 321.06
June	\$ -	\$ 5,718.06	\$ 5,718.06
TOTALS	\$ 19,192.10	\$ 5,973.08	\$ 25,165.18

Month	2010/11		
	Capital One	DCB	Total
July	\$ 168.62	-	\$ 168.62
August	\$ -	-	\$ -
September	\$ -	\$ 6,973.13	\$ 6,973.13
October	\$ -	\$ 11,568.62	\$ 11,568.62
November	\$ -	-	\$ -
December	\$ -	\$ 12,777.66	\$ 12,777.66
January	\$ -	\$ 4,142.06	\$ 4,142.06
February	\$ 235.52	\$ 5,911.07	\$ 6,146.59
March	\$ 81.01	-	\$ 81.01
April	\$ -	\$ 2,167.78	\$ 2,167.78
May	\$ -	\$ 2,159.69	\$ 2,159.69
June	\$ -	\$ 2,399.15	\$ 2,399.15
TOTALS	\$ 485.15	\$ 48,099.16	\$ 48,584.31

Month	2011/12		
	Capital One	DCB	Total
July	\$ -	-	\$ -
August	\$ -	\$ 2,023.88	\$ 2,023.88
September	\$ -	-	\$ -
October	\$ -	-	\$ -
November	\$ -	-	\$ -
December	\$ -	-	\$ -
January	\$ -	-	\$ -
February	\$ -	-	\$ -
March	\$ -	-	\$ -
April	\$ -	-	\$ -
May	\$ -	-	\$ -
June	\$ -	-	\$ -
TOTALS	\$ -	\$ 2,023.88	\$ 2,023.88

The credit card activity was posted into the Blue Bear software in account numbers 2002 ASB-Capital One, and 2004 ASB-DCB Credit. For items that were recorded in the general ledger, purchases were posted in the “expense and transfers” columns and payments in the “revenues and expense” columns. When the purchase/expenditure was entered into either account 2002 or 2004, an entry was simultaneously made to the club or event account associated with the purchase. All payments made to the credit card companies were traced to the ASB general ledger accounts and bank statements. Only \$43,908.66 in credit card purchases were posted to club and trust accounts. The remaining \$31,864.71 is unaccounted for.

FCMAT traced each charge reported on the credit card statements to the ASB general ledger, and determined that \$31,864.71 (approximately 42%) of the \$75,773.37 total credit card purchases were not posted in the general ledger, and consequently not charged to a club or event account. If the charge should have been posted to a club or event account, the accounting treatment artificially inflated the club account balances while the ASB general account showed large negative account balances where the balance of the payments for the \$31,864.71 were charged. If the charges were unauthorized purchases or personal charges made by the ASB advisor, this would be a misappropriation of funds.

The following chart lists credit card charges from the ASB advisor’s personal credit cards representing \$31,864.71 in purchases that were never recorded although payments from ASB funds were made. At the end of each fiscal year, the 2002 and 2004 account balances flowed to the next fiscal year. The former ASB bookkeeper made the payments for these credit cards without supporting documentation for purchases that were never posted into the ASB general ledger and offset to club accounts totaling \$31,864.71.

The current ASB bookkeeper was unable to locate any support documentation for these charges, but the former ASB advisor offered some written responses as listed in the chart below.

Several of these charges are not valid ASB expenditures. Others indicate excessive spending on a limited group of students without sufficient funds to support the expense. Board Policy 3452 strictly prohibits spending beyond available funds without written express permission from the Student Council and a repayment plan. The ASB advisor had a fiduciary duty to ensure that funds were authorized by the Student Council and available for spending, which did not occur.

Oak Hills High School ASB

Payments Made to ASB Advisor’s Personal Credit Card for Unrecorded Purchases, August 6, 2009 – August 9, 2011

Date	Credit Card Name	Vendor	Amount Paid from ASB Funds	Description
8/6/2009	Capital One	Staples	(398.63)	Payment over/short
8/6/2009	Capital One	Staples	\$400.47	No explanation
8/10/2009	Capital One	Winchell’s Donut House	14.98	No explanation
8/22/2009	Capital One	Borders	(39.96)	Payment over/short
8/22/2009	Capital One	Capital One	39.00	Over limit fee
8/22/2009	Capital One	Borders	43.46	No explanation
8/24/2009	Capital One	Oriental Trading Company	588.70	Advisor: Leadership camp fee at Big Bear

9/22/2009	Capital One	Capital One	(39.00)	Over limit fee revered
11/18/2009	Capital One	Capital One	39.00	Past due fee
12/3/2009	Capital One	Motivational Media	55.00	Advisor: For classroom presentations and assemblies
12/11/2009	Capital One	Alberto's Mexican Food	21.58	No explanation
12/14/2009	Capital One	Red Baron Pizza	87.00	No explanation
12/28/2009	Capital One	Del Taco	57.56	No explanation
12/29/2009	Capital One	Jack in the Box	70.43	No explanation
1/22/2010	Capital One	Oriental Trading Company	37.96	No explanation
2/2/2010	Capital One	Almost Golf	16.25	Credit was on statement but not posted to GL
2/17/2010	Capital One	Select Postal Service	20.19	No explanation
2/18/2010	Capital One	Oriental Trading Company	301.87	No explanation
2/18/2010	Capital One	High Desert Party Rentals	369.00	Advisor: Rental of chocolate fountain and chocolate supplies for homecoming
3/19/2010	Capital One	MN BM Services	19.69	No explanation
4/3/2010	Desert Community Bank	Target	20.00	No explanation
4/3/2010	Desert Community Bank	Target	30.00	No explanation
4/4/2010	Desert Community Bank	Baker's Burger	10.00	No explanation
4/4/2010	Desert Community Bank	Subway	20.00	No explanation
4/7/2010	Desert Community Bank	Target	59.81	No explanation
4/15/2010	Desert Community Bank	Target	32.10	No explanation
4/15/2010	Desert Community Bank	Smart N Final	102.84	No explanation
4/16/2010	Desert Community Bank	Slater Brothers	114.72	No explanation
4/19/2010	Capital One	Capital One	15.00	Past due fee
4/20/2010	Desert Community Bank	Online Promo	647.00	Advisor: Photo holders dance souvenirs
4/28/2010	Desert Community Bank	Online Promo	44.19	No explanation
5/6/2010	Desert Community Bank	Desert Community Bank	39.00	Late fee
5/8/2010	Desert Community Bank	Del Taco	40.82	No explanation
6/3/2010	Capital One	Del Taco	19.55	No explanation
6/3/2010	Capital One	Del Taco	48.88	No explanation
6/7/2010	Desert Community Bank	Desert Community Bank	39.00	Late fee
6/19/2010	Capital One	Capital One	29.00	Past due fee
6/22/2010	Capital One	Capital One	2.05	Interest charges
7/2/2010	Desert Community Bank	School Apparel, Inc.	2,200.00	Advisor: Letterman sweaters – partial payment
7/13/2010	Desert Community Bank	Ellison Education	1,200.00	Advisor: Die cuts and cutting pads
7/14/2010	Desert Community Bank	Glass Doctor Inland Empire	325.00	Advisor: Install service windows in the student store
7/19/2010	Capital One	Capital One	29.00	Past due fee
7/22/2010	Capital One	Capital One	2.74	Interest charges
7/26/2010	Desert Community Bank	Home Depot	941.22	Advisor: Plywood, paint, rollers, screws, etc. interior signage and parking signage
7/28/2010	Desert Community Bank	Home Depot	184.47	No explanation
7/28/2010	Desert Community Bank	Smart N Final	324.45	No explanation
8/2/2010	Desert Community Bank	Baker's Burger	1.00	No explanation
8/2/2010	Desert Community Bank	Leo's Donuts	56.46	No explanation
8/3/2010	Desert Community Bank	Leo's Donuts	21.17	No explanation
8/3/2010	Desert Community Bank	Leo's Donuts	21.18	No explanation

8/6/2010	Desert Community Bank	Desert Community Bank	39.00	Late Fee
8/9/2010	Desert Community Bank	School Apparel, Inc.	2,042.84	Advisor: Letterman sweaters – partial payment student store
8/17/2010	Desert Community Bank	Crestline Co, Inc.	204.78	No explanation
9/3/2010	Desert Community Bank	Microsoft Student	29.99	No explanation
9/8/2010	Desert Community Bank	Sunway, Inc.	588.32	Advisor: Shorts, whistles and lanyards for Leadership students
9/10/2010	Desert Community Bank	Radio Shack, Big Bear Lake	67.39	No explanation
9/11/2010	Desert Community Bank	Kmart, Big Bear Lake	27.81	No explanation
9/11/2010	Desert Community Bank	Kmart, Big Bear Lake	119.54	No explanation
9/11/2010	Desert Community Bank	Slater Brothers, Big Bear Lake	310.16	No explanation
9/13/2010	Desert Community Bank	Barnes & Noble	103.23	Advisor: Books used for research and assist with comic book design
9/16/2010	Desert Community Bank	PayPal – Finalstep	7.41	No explanation
9/16/2010	Desert Community Bank	PayPal – Finalstep	370.80	Advisor – Stoles used as sashes for students
9/16/2010	Desert Community Bank	Lowe's	1,006.52	Advisor: Wood, paint, rollers, screws, etc. homecoming floats
9/17/2010	Desert Community Bank	Roll Over Beethoven	86.98	Advisor: For sound equipment
9/19/2010	Desert Community Bank	Lowe's	504.57	Advisor: Wood, paint, rollers, screws, etc. homecoming floats
9/26/2010	Desert Community Bank	Halloween City	172.09	No explanation
9/27/2010	Desert Community Bank	Slater Brothers	77.70	No explanation
9/27/2010	Desert Community Bank	Target	83.61	No explanation
9/28/2010	Desert Community Bank	Michael's	182.20	No explanation
9/28/2010	Desert Community Bank	Wal-Mart	205.77	No explanation
9/28/2010	Desert Community Bank	Oriental Trading Company	365.39	No explanation
9/29/2010	Desert Community Bank	Lowe's	92.89	No explanation
10/6/2010	Desert Community Bank	Desert Community Bank	39.00	Late fee
10/8/2010	Desert Community Bank	Desert Community Bank	73.02	Interest charges
10/13/2010	Desert Community Bank	Tan's Club	288.32	No explanation
10/19/2010	Desert Community Bank	Amazon Marketplace	207.00	No explanation
10/26/2010	Desert Community Bank	AP Exam Specials	200.00	No explanation
11/3/2010	Desert Community Bank	Del Taco	254.48	No explanation
11/8/2010	Desert Community Bank	Target	416.44	No explanation
11/8/2010	Desert Community Bank	Tie Dye USA	797.26	Advisor: 45 pullover hoodies
11/10/2010	Desert Community Bank	Smart N Final	192.46	No explanation
11/11/2010	Desert Community Bank	Target	19.54	No explanation
11/11/2010	Desert Community Bank	Costco Online	195.73	No explanation
11/12/2010	Desert Community Bank	Home Depot	181.68	No explanation
11/19/2010	Desert Community Bank	PayPal – Southern Cal	35.00	No explanation
11/19/2010	Desert Community Bank	Apple Online Store	127.70	No explanation
11/20/2010	Desert Community Bank	Village Equipment Rentals	88.00	No explanation
12/3/2010	Desert Community Bank	Costume Discounters	614.63	Advisor: 12 Santa costumes
12/4/2010	Desert Community Bank	Dollar Store	198.59	No explanation
12/6/2010	Desert Community Bank	Desert Community Bank	39.00	Late fee
12/7/2010	Desert Community Bank	Oriental Trading Company	83.89	No explanation
12/9/2010	Desert Community Bank	Desert Community Bank	226.77	Interest charge

12/9/2010	Desert Community Bank	Oriental Trading Company	246.07	No explanation
12/9/2010	Desert Community Bank	Oriental Trading Company	1,515.89	Advisor: Decorations and Mardi Gras beads for Spirit Week
12/10/2010	Desert Community Bank	Baker's Burger	84.17	No explanation
12/10/2010	Desert Community Bank	Target	114.38	No explanation
12/13/2010	Desert Community Bank	Red Baron Pizza	113.20	No explanation
12/14/2010	Desert Community Bank	Casa Delicias	146.81	No explanation
12/14/2010	Desert Community Bank	Target	194.06	No explanation
12/18/2010	Desert Community Bank	Target	13.04	No explanation
12/26/2010	Desert Community Bank	Target	60.73	No explanation
1/3/2011	Desert Community Bank	Pier 1	187.84	No explanation
1/9/2011	Desert Community Bank	Target	13.05	No explanation
1/12/2011	Desert Community Bank	Red Baron Pizza	65.50	No explanation
1/15/2011	Desert Community Bank	Google WC Novelties	180.93	No explanation
1/16/2011	Desert Community Bank	Target	17.58	No explanation
1/16/2011	Desert Community Bank	Confetti's Party	260.37	No explanation
1/17/2011	Desert Community Bank	Oriental Trading Company	59.94	No explanation
1/18/2011	Desert Community Bank	Wal-Mart	35.05	No explanation
1/18/2011	Desert Community Bank	Oriental Trading Company	255.87	No explanation
1/19/2011	Desert Community Bank	Wal-Mart	71.48	No explanation
1/19/2011	Desert Community Bank	Home Depot	119.47	No explanation
1/19/2011	Capital One	Target	235.52	No explanation
1/19/2011	Desert Community Bank	Lowe's	268.24	No explanation
1/20/2011	Desert Community Bank	Lowe's	727.19	Advisor: Construction supplies for winter formal
1/21/2011	Desert Community Bank	CADA-CASL	275.00	No explanation
1/26/2011	Desert Community Bank	Title Boxing	819.45	Advisor: Costumes for Mr. Bulldog event
1/28/2011	Desert Community Bank	Olive Garden	649.28	Advisor: Leadership Team Building Night
1/29/2011	Desert Community Bank	Best Buy	54.36	No explanation
1/30/2011	Desert Community Bank	Target	425.49	No explanation
1/31/2011	Desert Community Bank	Insider Bat	117.50	No explanation
2/7/2011	Desert Community Bank	Buy.com	190.23	Advisor: Repair of DVD duplicator
2/8/2011	Desert Community Bank	Ringside.com	(281.89)	Payment over/short
2/8/2011	Desert Community Bank	Target	9.52	No explanation
2/8/2011	Desert Community Bank	Ringside.com	231.91	No explanation
2/18/2011	Desert Community Bank	Oriental Trading Company	(133.82)	Payment over/short
2/18/2011	Desert Community Bank	Oriental Trading Company	167.81	No explanation
3/2/2011	Desert Community Bank	Dollar Tree	46.59	No explanation
3/3/2011	Desert Community Bank	Town & Country	(450.00)	Payment over/short
3/3/2011	Desert Community Bank	Town & Country	155.00	No explanation
3/5/2011	Desert Community Bank	Town & Country	368.14	No explanation
3/11/2011	Desert Community Bank	Leo's Donuts	28.23	No explanation
3/14/2011	Desert Community Bank	Goldmark Pro	(342.90)	Payment over/short
3/14/2011	Desert Community Bank	Goldmark Pro	450.00	No explanation
3/20/2011	Desert Community Bank	Excessive Force Paint	86.89	No explanation
3/21/2011	Desert Community Bank	Goldmark Pro	135.31	No explanation
3/22/2011	Desert Community Bank	Staples	75.00	No explanation

4/6/2011	Desert Community Bank	Desert Community Bank	39.00	Late fee
4/8/2011	Desert Community Bank	Desert Community Bank	75.30	Interest charges
4/28/2011	Desert Community Bank	Exxon Mobile	17.89	No explanation
4/29/2011	Desert Community Bank	Red Baron Pizza	117.08	No explanation
5/5/2011	Desert Community Bank	Slater Brothers	11.94	No explanation
5/10/2011	Desert Community Bank	Desert Community Bank	63.75	Interest charges
5/11/2011	Desert Community Bank	Blue Soda	763.13	Advisor: For Spirit items, "2011" sunglasses
5/12/2011	Desert Community Bank	FedEx	46.59	No explanation
5/12/2011	Desert Community Bank	HD Design Center	283.91	No explanation
5/16/2011	Desert Community Bank	Small Appliance	32.98	No explanation
5/20/2011	Desert Community Bank	Andes in Huntington Beach	130.50	No explanation
5/20/2011	Desert Community Bank	BJ's Restaurant	619.88	Advisor: Leadership end of year banquet
5/21/2011	Desert Community Bank	Michael's	107.53	No explanation
5/21/2011	Desert Community Bank	Michael's	380.08	No explanation
5/23/2011	Desert Community Bank	Home Depot	208.34	No explanation
5/25/2011	Desert Community Bank	Amazon.com	96.90	No explanation
5/25/2011	Desert Community Bank	Casa Delicias	326.25	No explanation
5/25/2011	Desert Community Bank	The Summit Inn	566.88	Advisor: 36 Leadership students and 8 adults for breakfast
5/26/2011	Desert Community Bank	Target	104.05	No explanation
5/27/2011	Desert Community Bank	Amazon Marketplace Payments	100.66	No explanation
7/6/2011	Desert Community Bank	Desert Community Bank	39.00	Late fee
7/11/2011	Desert Community Bank	Desert Community Bank	39.40	Interest charges
7/11/2011	Desert Community Bank	Pat's Cleaners	253.75	No explanation
8/9/2011	Desert Community Bank	Desert Community Bank	39.00	Late fee
8/9/2011	Desert Community Bank	Desert Community Bank	44.74	Interest charges
Total			\$31,864.71	

When the Capital One credit card was no longer used, the remaining account balance was transferred to ASB general account 4005. This also occurred with \$21,033.90 of the ASB-DCB account balance on March 12, 2011 and when the ASB-DCB account was closed on August 19, 2011. No authorization or records exist to support these payments and transfers made by the ASB bookkeeper.

FCMAT was unable to review the receipts for any of the credit card purchases to determine if correct approval procedures were followed in the purchasing process because these records did not exist, but did interview the former ASB advisor regarding what was purchased. That information and the descriptions noted in the ASB general ledger were used in FCMAT's analysis of the credit card transactions for the period June 7, 2009 to August 9, 2011.

The independent auditor reported dated March 21, 2011 report also commented on "unusual/suspicious expenditure activity" related to purchases from the Oriental Trading Company that were delivered to the former ASB bookkeeper's residence. Credit card purchases of \$3,489.57 from this same vendor were among those not recorded into the ASB's general ledger. In interviews with the former ASB advisor, FCMAT learned that purchases from Oriental Trading Company were handled by the former ASB bookkeeper.

Accounts Payable Transactions

Education Code Section 48933(d) requires student money to be spent using a system established by the student organization subject to the approval of three people: an employee or official of the school district designated by the governing board (usually a site administrator), the certificated employee who is the designated advisor of the particular student body organization and a representative of the student body organization. These approvals are to be obtained each time before any funds can be expended in accordance with the district's board policy (3452) and administrative regulations.

The ASB is part of the district's annual audit; therefore, ASB funds should follow the district's purchasing and processing protocols. The purchasing cycle should include:

- Approval by the student body council
- Preparation of a purchase requisition
- Budget review to ensure availability of funds
- Issuance of the purchase order
- Transmittal of the purchase order to the vendor

The payment cycle has several steps to ensure proper approval and receipt of the item. Payments should always be made from original invoices that are authorized by designated personnel. The payment voucher payment should include the original invoice, receiving documentation (a cash register receipt or a bill of lading), signature of the approver, and student body council minutes. Once the invoice has been paid and check issued, the invoice is marked "paid." All checks should be signed by two authorized personnel.

The purpose of the Student Council meeting minutes is to support the basic premise of ASB funds – moneys raised by students and used by students of that class. To process ASB payments and generate checks to vendors, the Oak Hills High School's ASB bookkeeper used the Blue Bear software.

FCMAT tested a sample of 24 ASB expenditure transactions during the 2009-10, 2010-11 and 2011-12 fiscal years and found an extraordinary number of inconsistencies in the purchasing and vendor payment process. The process did not utilize many industry standard criteria and directly conflicted with board policy. The findings are summarized as follows:

- No Student Council meeting minutes demonstrating approval for 19 (79.2%) of the transactions tested. While the ASB bookkeeper maintained a binder of the meeting minutes that may have held the minutes in question, inclusion of the meeting minutes in the payment voucher packet ensures a complete audit trail, including the evidence that the students were aware of and had authorized the purchase.
- Proper signatures were missing in many of the payment voucher packets. Thirteen items tested did not comply with Education Code Section 48933:
 - In nine (37.5%) of the transactions tested, the ASB advisor signed as both the advisor and the administrator.
 - Three packets did not have the site administrator's signature.
 - One did not contain the signature of the student representative.

- In three of the tested transactions, the ASB advisor signed as an approver of his own reimbursement expenditures. While he was the advisor of the group tendering payment, a third party should have been sought to provide an independent review and authorization.
- Four (16.7%) of the transactions did not have requisitions to initiate the transaction nor did the payment packets contain a purchase order.
- Supporting documentation such as detailed restaurant receipts or invoices were missing in four (16.7%) of the transactions.
- Two (8.3%) payment documents were dated prior to the requisition.

Education Code Section 44032 states that payment for travel should be for expenditures that are actual and necessary. The ASB advisor attended a California Association of Directors of Activities conference in Reno. During scheduled sessions of the conference, the ASB advisor purchased two ski lift tickets that were subsequently turned in for reimbursement and one was paid with ASB funds. Submitting claims for reimbursement for non-business related expenses is classified as reimbursement fraud.

FCMAT analyzed several transactions where purchase orders were used for items other than those described on the purchase order. Examples include:

- A purchase order was approved for ropes and harnesses for use at an event but was also used to purchase doughnuts.
- A purchase order dated August 19, 2009, for “start-up supplies” was used on December 16 and 17, 2009 for “Adopt-A-Family food” and an ASB breakfast.

Standard practice is to compare invoices/receipts being submitted for payment against the purchase order. If they deviate from the purchase approved by the purchase order, they should not be processed for payment or should be subject to further review to identify the discrepancy.

Best business practice dictates that an invoice is matched with receiving documents to ensure receipt of the goods. In the absence of receiving documentation, the ASB bookkeeper should obtain authorization to pay the invoice from the person who generated the purchase and sign a “Lost Receipt” form. Eleven of the 24 transactions/voucher packets tested did not contain some form of receiving confirmation to process the payment.

Cancelling vendor invoices by using a “Paid” stamp or other identifiable means is essential to ensure that invoices are not paid a second time if they become separated from their payment package. Of the 24 sample transactions tested, all lacked a “Paid” stamp or any other identifiable cancellation mark.

In addition to issues related to the policies and procedures used in processing ASB transactions, the sample transactions revealed several questionable purchases.

Two of these purchases were for embroidery on backpacks given to ASB leadership students that contained gifts placed in them by the ASB advisor. Unless the item is to recognize student achievement or excellence, it is considered a gift of public funds.

FCMAT was provided documentation for expenses related to a cheerleading competition in Florida. ASB student funds paid for one student and her mother to attend the competition. The payment included airfare of \$822.74, hotel and rental car totaling \$271.85, tickets to Walt Disney World in Orlando, Florida of \$305.66 and the competition fee. ASB funds are to be used

for the benefit of a group of students, and use for an individual student and her parent is strictly prohibited.

Review of the Oak Hills ASB bank statements showed that four debit purchases were made during the period from November 30, 2011 through May 29, 2012 totaling \$1,279.79. Debit purchases are directly deducted from the bank account, which bypasses the approval and payment processes completely. The expenditures were traced into the ASB general ledger and into accounts for the “Class of 2013 and Athletics – General.” The ASB advisor was also the Athletics Account advisor. Although the ASB advisor may also be a club advisor, the district should ensure that proper segregation of duties exists to prevent both the authorization for the purchase and the ultimate payment of the goods and services.

Student and Staff Appreciation

Article 16, Section 5 of the California Constitution specifies that the state Legislature cannot authorize any county, city, or other political subdivision to make any gift of public funds to an individual or corporation. In general, the constitutional prohibition against the gift of public funds is not an issue when a direct and primary public purpose is accomplished so that the public receives a benefit from the expenditure. However, if the gift is to an employee or other individual and there is no benefit to the public as a result, it can be considered a gift of public funds.

Education Code Section 44015 provides guidance to educational agencies for gifts and awards to staff and/or students. Under this code section, the governing board must adopt rules and regulations prior to issuing any award. The board may appoint a committee represented by district officers, district employees, or private citizens to consider recommendations to recognize employee proposals, special acts, special services, or superior accomplishments. Any award cannot exceed \$200 unless the governing board expressly approves a larger amount.

The character of the expenditure is a significant factor when assessing whether something is a gift. An item that has only an intrinsic value as recognition of service, such as a plaque, would not be considered a gift because the recognition benefits the public by encouraging meritorious work. On the other hand, a gift such as a set of golf clubs has an extrinsic value and would violate the constitutional prohibition.

FCMAT identified purchases that confirmed that gifts are provided to staff and students. Specifically, ASB funds were used to pay for these gifts and awards during the period of examination:

- Gift card purchases for rewards or prizes totaling \$435.
- Flower and plant arrangements sent as bereavement gifts totaling \$139.76.
- Staff appreciation gifts - \$333.10.
- Prizes and giveaways to students and classrooms as rewards for good grades, good behavior, or efforts in food drives - \$1,023.53.
- Bandanas purchased as an entry gifts to a football game - \$288.32.
- Embroidered backpacks given to ASB leadership students and the gifts placed in those backpacks - \$771.
- Payment of individual expenses for a cheerleader and her mother to attend a competition in Florida totaling \$1,400.25 that included airfare, hotel, car rental and Disney World tickets.

- Barbecues and food purchases from local restaurants for the student leadership team during the lunch period - \$847.42.
- Chips, cookies, doughnuts and lollipops given to select students - \$565.45.

Conclusion

The internal control environment includes ethical values and integrity displayed by the governing board and management as well as the underlying tone set by the organization's site administrators. 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 district should install a fraud hotline where employees can communicate anonymously should they suspect fraudulent activity.

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 cannot serve as the only method of ensuring accountability. It is imperative for the county office, the superintendent, principal, and governing board to implement the appropriate internal controls and hold staff accountable for their actions. Internal controls are clearly among the most important aspects of any fraud prevention program, however, to be effective the district should evaluate how board policies and administrative regulations should be enforced in a timely manner.

Administrators and managers are in positions of authority and therefore have a higher standard of care to establish the ethical tone and serve as examples to other employees. They are entrusted to ensure that organizational activities comply with all applicable board policies, laws, regulations, and standards of conduct. Their management responsibilities include safeguarding the district's assets and ensuring that internal controls function as intended.

While the governing board and all district employees have some responsibility for internal controls, the ASB advisor and school principal had a fiduciary duty and responsibility to ensure that the governing board's fiscal policies and procedures were followed and that the duties and responsibilities performed by the bookkeeper were reviewed.

The findings of this audit indicate possible fraud, mismanagement and misappropriation of resources and assets of the district's Associated Student Body account. A significant material weakness exists in the district's internal controls, increasing the probability of fraud and/or abuse. These findings should be of great concern to the district's governing board and the San Bernardino County Superintendent of Schools Office and require immediate intervention to limit the risk of fraud and/or misappropriation of assets in the future.

Education Code Section 42638(b) states that action by the county superintendent shall include the following:

If the county superintendent determines that there is evidence that fraud or misappropriation of funds or other illegal activities may have 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.

Recommendation

The county superintendent should:

1. Notify the governing board of the Hesperia Unified 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.

Appendices

Appendix A - ASB Bank Reconciliation Worksheet

Appendix B - Study Agreement

Appendix A**Bank Reconciliation Worksheet**

Name of School: _____

ASB Bank Reconciliation Worksheet

Name of Bank: _____

Account Number: _____

For the Month of: _____

A. Ending Balance per Bank Statement _____

G. Balance per
Accounting Records: _____

B. Plus Deposits in Transit:

H. Plus Interest: _____

I. Plus Adjustments:

C. Total Deposits in Transit: _____

J. Total Adjustments: _____

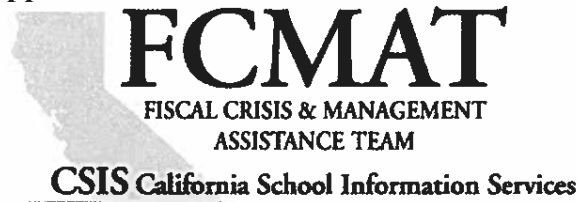
D. Less Outstanding Checks:

K. Bank Charges:

Date	Check #	Amount
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div>	L. Total Bank Charges
E. Total Outstanding Checks	
F. Ending Balance (A + C – E)	M. Ending Balance (G + H + J + L)
Reconciliation prepared by: (Name, Title, Date)	
Reconciliation Reviewed by: (Name, Title, Date)	
Review by ASB: (Name, Title, Date)	
Review by District Business Office: (Name, Title, Date)	

Appendix B



**FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
AB139 STUDY AGREEMENT
August 27, 2012**

The FISCAL CRISIS AND MANAGEMENT ASSISTANCE TEAM (FCMAT) hereinafter referred to as the Team, and the San Bernardino 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 passage of Senate Bill 430 and the provisions of Education Code Section 1241.5 (c), a County Superintendent of Schools may review or audit the expenditures and internal controls of any charter school in his or her county if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. The extraordinary audits conducted by the county superintendent shall be focused on the alleged fraud, misappropriation of funds, or other illegal fiscal practices and shall be conducted in a timely and efficient manner.

The San Bernardino County Office of Education has requested that the Team provide for the assignment of professionals to study specific aspects of the Hesperia Unified School District (ASB). 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. The San Bernardino County Superintendent of Schools Office has requested the FCMAT Team to provide for the assignment of professionals to conduct an AB 139 Extraordinary Audit. Pursuant to Education Code section 1241.5 (b) the Superintendent of the County Office has reason to believe that fraud, misappropriation of funds or other illegal practices may have occurred and shall conduct an audit. The COE is requesting that FCMAT Team review the Associated Student Body funds on behalf of the Hesperia Unified School District. In addition to the authority granted under 1241.5 (c) and 47604.3, the county superintendent

may conduct an investigation of the district and or charter schools based upon written complaints by parents or other information that justifies the review.

The primary focus of this review is to provide the COE and the Hesperia Unified School District with reasonable assurances based on the testing performed that adequate management controls are in place regarding the district's reporting and monitoring of financial transactions and that fraud, misappropriation of funds or other illegal activities have not occurred. Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. The receipt of revenues and expenditure of ASB Funds is generally a high risk audit area in which potential fraud issues such as fictitious employees or vendors, or misappropriation of assets including cash may be detected. Specific audit objectives will include evaluating the policies, procedures, internal controls and transactions performed by the district related to the following:

The FCMAT Team will review the revenues and expenditures related to the receipt of funds, transfer and/or disbursement of funds made by the district's Associated Student Body account for the current and two prior fiscal years and determine if fraud, misappropriation of funds or other illegal activities have occurred at the Hesperia Unified School District. The initial assessment is not only to determine if fraud occurred but to differentiate between inadvertent violations versus those that may have been carried out with deliberate criminal intent.

The FCMAT Team will sample test data from the current and two prior fiscal years and include a review of the revenues and expenditures in the Associated Student Body accounts to determine if fraud, misappropriation of funds or other illegal activities have occurred. Testing associated with this review will be based upon sample selection and will not include the testing of the complete list of all transactions and records for this period. Sample testing and review results are intended to provide reasonable, but not absolute assurance as to the accuracy of the district's transactions and financial activity.

B. Services and Products to be Provided

- 1) **Orientation Meeting** - The Team will conduct an orientation session at the District office to brief 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 COE of material issues as the review is performed.

- 4) Draft Reports – When appropriate, electronic copies of a preliminary draft report will be delivered to the COE administration for review and comment on a schedule determined by the Team.
- 5) Final Report - Electronic copies of the final study report will be delivered to the COE following completion of the review. The final report will be published on the FCMAT website.
- 6) Follow-Up Support - Subsequent to the completion of the study, the Team will meet with the COE and/or District at their request, to discuss the findings and recommendations of the report

3. **PROJECT PERSONNEL**

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

- | | |
|----------------------|---|
| A. Debi Deal, CFE | FCMAT Fiscal Intervention Specialist (Project Lead) |
| B. Julie Auvil, CPA | FCMAT Fiscal Intervention Specialist |
| C. Marisa Ploog, CPA | FCMAT Fiscal Intervention Specialist |

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. The cost of independent consultants will be billed at the actual daily rate based on the provisions of Education Code section 84041.
- B. All out-of-pocket expenses, including travel, meals, lodging, etc.
- C. Any change to the scope will affect the estimate of total cost.

Based on the elements noted in Section 2A, the total cost of the study is not to exceed \$22,500.

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 COE**

The COE will ensure that the district provides:

- 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) All financial reporting and accounting records from Blue Bear Software and other electronic reporting such as excel files for the 2010-11 and 2011-12 fiscal years which may include the following:
 - a. Monthly Financial Statements
 - b. Annual Financial Statement
 - c. General Ledger Transaction detail
 - d. Monthly Bank Reconciliations
 - e. Accounts Receivable records
 - f. Accounts Payable records
 - g. Purchase Orders and Invoices
 - h. Payroll records
 - i. Travel and reimbursement expenses
 - j. Credit card payments
 - k. Inventory records
 - l. E-mail and other internal communications
 - m. District internal investigation reports, if any
 - n. Ethics and compliance certifications, if any
 - o. Professional Development training records
 - p. Location of two desktop and one laptop computers containing electronic data used for ASB recordkeeping
 - q. Contracts with vendors
 - r. List of all current or past employees, titles that have been involved with the H.S. ASB
 - 6) Any documents requested on a supplemental listing
 - 7) Any documents requested on the supplemental listing should be provided to FCMAT in electronic format when possible.
 - 8) Documents that are only available in hard copy should be scanned by the district and sent to FCMAT in an electronic format.
 - 9) 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. Upon approval of the signed study agreement, access will be provided to FCMAT's Share Point document repository and all requested documents shall be uploaded by the district.

- 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 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:

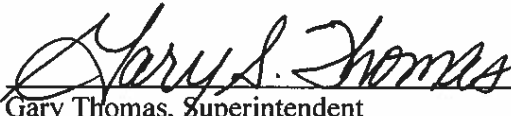
Orientation:	September, 2012
Staff Interviews:	To be determined
Exit Meeting:	To be determined
Preliminary Report Submitted	To be determined
Final Report Submitted	To be determined
Board Presentation	To be determined, if requested


7. **CONTACT PERSON**

Name of contact person: Ted Alejandre, Assistant Superintendent of Business

Telephone: (909) 888-3228 FAX _____

E-mail Address: ted_alejandre@sbcss.k12.ca.us

 8/29/12
 Gary Thomas, Superintendent Date
 San Bernardino County Office of Education

 August 27, 2012
 Anthony L. Bridges, CFE Date
 Deputy Executive Officer
 Fiscal Crisis and Management Assistance Team