



April 14, 2014

Willard McCabe, Superintendent
Aromas-San Juan Unified School District
2300 San Juan Highway
San Juan Bautista, CA 95045

Dear Superintendent McCabe:

The purpose of this management letter is to provide the findings and recommendations formulated by the Fiscal Crisis and Management Assistance Team (FCMAT) concerning a review of the district's business office practices and four specific areas as enumerated below.

In January 2014, the district entered into an agreement with FCMAT to review the general operating procedures of the district's business office and make recommendations for improvement. All financial activities must comply with applicable federal, state and local laws and policies. The team's review of business office procedures and guidelines will provide administrative and accounting controls to safeguard assets and ensure the reliability of financial records. This will include a review of the following areas:

1. Special Education

Review the special education bill-back procedures and review specific records related to charges in the 2011-12 fiscal year.

2. Property Taxes

The county office collects property taxes from San Benito, Monterey and Santa Cruz counties and is requesting that the team assist in reviewing the J29B tax distribution schedules.

3. Staffing

Evaluate the district's business office staffing and make recommendations.

4. Associated Student Body

Review the district's current and one year prior audit findings and make recommendations.

FCMAT conducted staff interviews at the district and San Benito County Office of Education on February 11-12, 2014 and subsequent analyses. The team also reviewed various documents collected before, during and after the visit. This management letter is the result of those efforts.

FCMAT

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

Study Team

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*As a member of this study team, this consultant was not representing his respective employer but was working solely as an independent contractor for FCMAT.

Background

The Aromas-San Juan Unified School District encompasses approximately 100 square miles in western San Benito, northern Monterey and eastern Santa Cruz counties. The district serves approximately 1,200 students at Aromas School (K-8), San Juan School (K-8) and Anzar High School.

The district's business office is composed of the business manager and a purchasing, accounts payable and payroll technician. The business manager has more than 14 years of experience and the technician has been employed by the district for more than 10 years. Since February 2012, the district's business manager position has been assumed by four different people, and a certificated employee who attended a CBO boot camp assisted with business office duties. Changes in administrators bring new ideas and perspectives, but also raise questions on how processes are managed and ways to improve efficiencies.

This study is intended to provide the district with an independent and external review to determine whether any district business office procedures could be improved as well as make recommendations in the four specific areas listed above.

Internal Control

The accounting industry clearly defines the term "internal control" as it applies to organizations, including school agencies. An organization establishes control over its operations by establishing goals, objectives, budgets and performance expectations. Several factors influence internal control effectiveness, including the social environment and how it affects employee behavior, the availability and quality of information used to monitor the organization's operations, and the policies and procedures that guide the organization. Internal control helps an organization obtain timely feedback on its progress in meeting operational goals and guiding principles, producing reliable financial reports, and ensuring compliance with applicable laws and regulations. Internal control also provides the means to direct, monitor, and measure an organization's assets and resources and plays an important role in protecting it from fraud, abuse or misappropriation.

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

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

Internal control has five components:

- **Control Environment** is the tone of the organization and influences employee behavior. It is the foundation for all other components of internal control.
- **Risk Assessment** identifies and analyzes the risks that the organization will not achieve its objectives. This component forms the basis for how these risks should be managed.
- **Information and Communication** require systems that identify, gather and exchange information in a format and a time frame that enable the people in the organization to successfully perform their duties.
- **Control Activities** help ensure that management directives are carried out. Control activities are also designed to avoid errors or irregularities or find them after they have occurred.
- **Monitoring** is used to assess the quality of internal control performance over time.

Each person in an organization is responsible for internal control in some capacity because almost everyone either produces information used by the internal control system or takes action to implement organizational control. Further, each individual should take responsibility for appropriately communicating problems in operations, noncompliance with policies, or illegal actions. Internal control should ultimately pervade every level of the organization; however, school administrators and program managers, governing board members and auditors have particular roles to play.

As the organization's leader and chief executive, the superintendent sets the organizational tone that influences all decisions and activities and the internal control mentality of its employees. Factors that contribute to a positive control environment include integrity, ethical values, management philosophy and operating style, organizational structure or configuration, assignment of authority and responsibility, and employee expertise and proficiency.

The chief business official oversees the integration of all five internal control components into one cohesive structure. The administrative team provides leadership and direction to managers and reviews and gives them feedback on their internal control decisions. In turn, the managers assign the responsibility for establishing specific internal control policies and procedures, control activities and monitoring of the personnel responsible for unit functions.

The governing board works as a group to provide governance, guidance and oversight. Individual board members particularly enhance the control environment when they are informed, free of bias, inquisitive, conduct themselves in a principled and ethical manner, and expect the same standard of conduct from everyone in the organization.

Independent auditors assess whether the controls are properly designed and implemented and work effectively. They also make recommendations for improvement. As is common in smaller districts, the risk assessment component of internal control at Aromas-San Juan Unified has been assigned to its independent auditors as part of the annual audit. However, the scope of the auditors' review is limited to considering internal control as a basis for designing audit procedures. Consequently, independent auditors do not express an opinion on the effectiveness of the district's internal control, and they should not be the only tool used by the district for monitoring internal controls.

The following basic concepts and procedures help ensure a strong internal control structure:

- **System of checks and balances** – Formal procedures should be implemented to initiate, approve, execute, record and reconcile transactions. The procedures should identify the employees responsible for each step and the time period for completion. Key areas requiring checks and balances include payroll, purchasing, accounts payable and cash receipts.
- **Segregation of duties** – Adequate internal accounting procedures must be implemented and necessary changes made to segregate job duties and protect the district's assets. No single employee should handle a transaction from initiation to reconciliation, and no single employee should have custody of an asset, such as cash, and maintain the records of its transactions.
- **Staff cross-training** – More than one employee should be able to perform each job. Each staff member should be required to use accrued vacation time, during which another staff member is assigned to perform those duties. Inadequate cross-training is often a problem regardless of the size of an organization.
- **Use of prenumbered documents** – Checks, cash receipts, purchase orders, receiving reports and tickets should all be printed by an entity independent of the district. Physical controls should be maintained over the check stock, cash receipt books and tickets. It is not sufficient to simply use prenumbered documents without an independently reconciled log of numbers.
- **Asset security** – Cash should be deposited daily, and other district property such as computers and other equipment should be secured. Access to supplies, including but not limited to stores, food, tools and gasoline should be restricted to designated employees.
- **Timely reconciliations** – Bank statements and account balances should be reconciled monthly by an employee independent from the individual assigned the original transaction and recording process. For example, a central office employee should reconcile Associated Student Body accounts (ASB) every month; the office employee reconciling the revolving checking account should not be the same person who maintains the check stock.
- **Comprehensive annual budget** – The annual budget should include sufficient detail for revenue and expenditures by school site, department and resource to identify variances and determine whether financial goals were achieved. Material variances in revenues and expenditures should be investigated promptly and thoroughly. This includes ensuring that potential revenues and expenditures from ASB funds are identified at the start of each year.
- **Inventory records** – The district should maintain inventory records that list the items and quantities purchased, sold or designated as surplus. Physical inventory should be taken periodically and reconciled with inventory records. Inventoried items particularly susceptible to misappropriation include: computer equipment, warehouse supplies, food service commodities, maintenance and transportation parts, and student store goods.

One fundamental internal control for any organization is to limit records access to members of the organization. Employee turnover increases the importance of such a policy, and turnover of an entity's chief financial position, such as what the district has experienced, makes this requirement imperative. A departing employee's access to district records, both hard copies and electronic documents as well as software programs, should be terminated on the date of departure. Failure to implement such a policy leaves the district open to unauthorized access and tampering. Given that the district has had several people as business manager in the past year, steps should be taken to terminate the ability of all past employees to access district records.

Several changes in a key district position demonstrate the need to document business processes and procedures and to cross-train business and central office clerical staff. Cross-training in a very small district can be difficult; however, at least one additional employee should be trained for each position so he or she can temporarily perform critical duties in the event of illness, vacation or resignation. This will enable the district to continue essential business office functions without interruption.

The district lacks desk manuals that include step-by-step procedures for business-related job duties and should make every effort to ensure these are developed. Desk manuals ensure consistent application of internal controls and designate each position's internal control responsibilities.

Similarly, a business department policies and procedures manual provides an opportunity to plan and diagram internal controls and written standards for the business office, school sites and other district departments to follow. Desk manuals and business department policy and procedure manuals are especially helpful for new staff. They can provide training, help preserve institutional knowledge, and effectively document and monitor segregation of duties districtwide. These manuals should be developed and made available to the district office, school sites and other district departments to assist with processes and standards regarding business transactions and best practices.

Business Office Policies and Procedures

Position Control

One of the key components to any district's budget is salary and benefit expenditures. For Aromas-San Juan Unified, these are estimated to be 89.44% of the 2013-14 unrestricted general fund adopted budget, which is 0.52% more than the 2011-12 state average for unified districts. With such a large amount tied to personnel costs, accurately projecting salary and benefit costs is critical.

A reliable position control system establishes positions by site or department and helps prevent over- or underbudgeting of staff by including all district-approved positions. In addition, a reliable position control system prevents the omission of routine annual expenses that are tied to district positions in the budget process, such as substitutes, extra duty pay, stipends, vacation payouts, column changes, retiree health and welfare payments, overnight stay payments, merit pay bank contribution and other items in the district's collective bargaining agreements. Effective position control consists of a single system that is integrated with other financial modules such as budget and payroll.

The district utilizes accounting software from Quintessential School Systems called QSS/OASIS, which is used in numerous districts throughout California. QSS has a position control module that can be integrated with payroll and budget development. Prior administrators perceived that implementing the position control module would be an unwarranted use of time and resources because of the district's small size; therefore, Excel spreadsheets are used to track positions. While the initial task of implementing a position control system can encompass many hours of work, the system will result in better produc-

tivity and budgetary information. Because of the hours and expertise necessary to set up the position control module and to lessen the burden on the district office staff, an outside consultant should be used for this purpose. In reviewing the qualifications of the potential consultants, the district should consider whether the person’s training incorporates the system’s most recent advancements and whether the person can integrate district’s practices into the process.

Position control functions must be separated to ensure proper internal controls. Adequate controls ensure that only board-authorized positions are entered into the system, the Human Resources Department hires only employees authorized by the board, and the Payroll Department pays only employees hired for authorized positions. The proper separation of duties is a key factor in creating strong internal controls and a reliable position control system. Aromas-San Juan Unified has Business and Human Resources departments, which facilitates the separation of duties and implementation of proper internal controls. However, there are only three district office positions between these two departments: the business manager, the human resources manager and the purchasing/accounts payable and payroll technician. Even with the constraints of a small office, the following suggested distribution of labor in the district office would help provide the necessary internal control structure for position control.

Task	Responsibility
Approve or authorize position	Governing Board
Input approved position into position control, with estimated salary/budget. Each position is given a unique number	Business Manager
Enter demographic data into the main demographic screen, including: Employee name Employee address Social Security number Credential Classification Salary schedule placement Annual review of employee assignments	Human Resources Manager
Update employee benefits Review and update employee work calendars	Human Resources Manager
Annually review and update salary schedules	Business Manager
Account codes Budget development Budget projections Multiyear projections Salary projections	Business Department

However the district decides to divide the duties of position control, one district office employee should not be able to access both the demographic and payroll screens of any employee. Allowing one employee to access all the financial system software screens needed to create and pay employees does not provide proper separation of duties, because a nonexistent or “ghost” employee could be created and paid without the district’s knowledge.

Since the position control module is in its implementation phase, the district office will also need to establish policies and procedures on integrating position control into business office routines.

Implementing the position control module and establishing new policies and procedures will require the acceptance of the Human Resources and Business Services departments. This may be difficult because the district has a long-established practice of utilizing Excel spreadsheets, and those who have used them for many years may be reluctant to change habits. Failure to obtain the necessary acceptance from both departments will severely hamper the district’s ability to utilize this essential budgeting resource and waste

district assets. The superintendent should convey the district's expectations of all employees in this project to avoid misunderstandings, keep the project on track, and enable its sustained use for years to come.

The district will need to invest time and effort in training. The QSS system utilized by the San Benito County Office of Education is hosted by the Santa Clara County Office of Education. The San Benito county office has stated that the Santa Clara county office will not offer additional trainings until it has converted to a new hardware platform. It has indicated that once that has occurred, the first efforts at training will be centered on the purchasing module. However, the district can still seek training from outside sources or vendors. These other avenues should be utilized so that the district is operational and effective in using the position control module as soon as possible.

Accounts Payable

The district's process for purchasing starts with the sites obtaining quotes or estimates for the items needed. This information is entered into a requisition signed by the site administrator/department head. Once a requisition is signed, the information is entered into QSS; however, the system does not contain a hard stop to prevent a purchase from progressing past the requisition stage without a budget transfer. Incorporating a hard stop into purchasing is effective in preventing overspending. While the district has not used this approach, it can request that the Santa Clara county office adjust the software settings for the district's account. Before requesting the hard stop, the district will need to work with the San Benito and Santa Clara county offices of education to determine where the stop should be placed; at the budget line, object code or major object code.

The system generates a hard copy purchase order that is sent to the business office along with the requisitions and quotes/estimates. The technician reviews the coding on the purchase order and forwards these documents to the business manager. The business manager reviews the coding on any purchase orders that the technician flagged as questionable, checks to ensure the budget has sufficient funds to cover the purchases, and signs the purchase orders. If funding is insufficient, the business manager prepares a budget transfer and enters it into the system. All purchase orders approved by the business manager are also forwarded to the superintendent for signature, and a copy of the completed document is sent back to the sites/departments for ordering.

When items are received, the packing slip is forwarded to the technician in the business office. The slip is matched to the invoice when received. If there is no packing slip, a copy of the invoice is forwarded to the site/department for signature approval. The purchase order, receiving document and invoice are matched to begin the payment process.

Items that have obtained the 3-way match are used to create an accounts payable batch in the accounting system. The technician prints the batch listing, runs a calculator tape of the invoices to be paid and gives the listing, calculator tape, and invoices to the business manager for review. After the business manager has reviewed the batch, errors are corrected, and once they are all resolved, the business manager completes and signs a warrant batch sheet. The batch is closed in the accounting software, and the signed warrant batch sheet and supporting documentation are sent to the county office for processing.

Once the county has completed its oversight procedures, the warrants are printed and the technician receives an e-mail that they are ready to be collected. The next morning, the technician stops on her way to work and collects the warrants, makes copies, and attaches the copy to the payment packet and files the packets. The technician applies postage to the warrants, and they are placed in the bin for mailing. If the warrants miss the normal time for mail pick up, they are taken to the post office at the end of the day, and the district's policy is that no mail is left overnight at the district office.

After expenditures have posted into the general ledger, journal entries must be prepared for any changes necessary because of coding error. The business manager is responsible for preparing and posting all journal entries.

The technician is also responsible for setting up new vendors in the district's financial software system.

A closer review of the above procedures found the following internal control issues and efficiencies:

- Since sites/departments enter their orders directly into the QSS system and completion of both a requisition and a purchase order is duplicative, they should eliminate the completion of the requisition. The site administrators/department heads would sign the purchase order as evidence of their approval of the items to be purchased as well as the use of the funds in their budgets.
- As soon it is feasible, the district should ensure that the Santa Clara County Office of Education implements the hard stop on its purchasing module.
- The superintendent's approval should be eliminated on all purchase orders. The rationale behind the superintendent's signature is related to the district's dire financial condition approximately five to six years ago. However, the district's 2013-14 adopted budget is within \$29,000 of being balanced, shows an estimated reserve of 15.5%, and the need for triplicate signatures for purchases is duplicative. These documents have been approved by the site administrator/department head and the business manager and are within the budget parameters approved by the board. The superintendent's signature should be required if budget amounts need to be added to complete the purchase.
- The technician should perform the budget check for each purchase order and prepare a budget transfer if there are insufficient funds available. The business manager should serve as the reviewer for the budget transfers.
- The technician should prepare the journal entries with the business manager serving as the reviewer.
- The technician should enter the budget transfers and journal entries into the accounting software once they are approved by the business manager.
- The technician should not collect the warrants at the county office after they are completed or be responsible for processing the warrants when they are returned to the district. Effective internal controls and segregation of duties prevent the same person from initiating, processing and mailing transactions, and from posting the transaction in the accounting records. The district's current system allows the accounts payable technician to have custody of the warrants once they have been issued by the county office. The district has no control to detect whether the accounts payable technician processes the warrant appropriately.
- The technician responsible for accounts payable should not be assigned duties related to establishing new vendors or changing vendor information. This does not provide for proper internal controls because one employee has access to the financial system screens required to create vendors and the screens required to pay vendors. This has the potential to allow the same employee to create a vendor, submit an invoice for payment, generate the payment, and remove it from the warrant batch without the district's knowledge.
- Assuming the district follows the recommendations contained in the business office staffing section below, the duties related to this position (excluding the collection and processing of accounts payable warrants and establishing new vendors) would be assigned to a clerk. The person processing

payroll would perform the duties of collecting and processing accounts payable warrants and establishing vendors. In the absence of a new position being approved, the business manager or another member of the district office staff would need to assume warrant collection, processing, and new vendors. If they are absorbed by another district office staff member, the district would need to review job descriptions in conjunction with the new responsibilities to ensure they are contained in the job description. If they are not, the job description should be revised.

- Training should be provided as needed to allow absorption of new duties.

Travel Expenses

The district adopted Board Policy and Administrative Regulation 3350 on December 4, 2013 and February 13, 2013, respectively, and these detail the requirements for various aspects of travel such as transportation, meals, lodging, etc. AR3350 provides that the daily per diem meal allowance is \$60 with differing rates set for specific meals such as: Breakfast: \$13 (travel starts before 7 a.m. and extends after 8:30 a.m.); lunch: \$17 (travel starts before 11:30 a.m. and extends past 2 p.m.); and dinner: \$30 (travel starts before 5:30 p.m. and extends after 7 p.m.).

Internal Revenue Service Ruling 2006-56, dated November 13, 2006, requires organizations to track and record employee per diem meal reimbursements. Reimbursements that are higher than the federal per diem rates must be included as gross wages on the employee's W-2. In addition, per diem rates cannot be used for travel that is not overnight. Actual receipts are required, but the maximum dollar amount applicable to each type of meal may be subject to district policy. Chapters 1 and 6 of IRS Publication No. 463 (2103) established federal per diem rates at \$46 per day for all locations except those specifically listed in that publication. As of the writing of this report, the IRS had not published the federal per diem rates in Publication No. 463 for 2014; however, rates published online at <http://www.gsa.gov/portal/category/100120> for destinations that had reported the \$46 per day rate in 2013, report \$46 per day for 2014. The district's policy does not require itemized receipts for meal reimbursements and has a per diem rate of \$60 per day, which is higher than listed in IRS Publication 463. If the district wants to retain the \$60 per diem rate, its policy should be revised to include a requirement for detailed receipts, and employees who travel should be notified that the \$60 per day per diem rate requires the district to include \$14 per day on their W-2s.

Revolving Fund

As is appropriate, the district uses this account as an additional method of payment. However, as the duties are assigned, the technician is responsible for keeping the revolving check stock, writing the check from the account, recording the check in the check register, obtaining signatures, balancing the bank statement, requesting replenishment of the account and depositing the replenishment payment back in the account. The business manager reviews the bank reconciliation. This arrangement allows one person to have control over all the processes in a transaction, which violates the internal control concept of segregation of duties. To mitigate the risk of the technician issuing a check, negotiating it, and replenishing the account without the district's knowledge, the district should remove the responsibilities for requesting replenishment and balancing the bank statement from the technician.

Assuming the district follows the recommendations contained in the business office staffing section below, these duties would be performed by the person processing accounts payable. Without the approval of a new position, the business manager or another member of the district office staff should assume these duties. If they are absorbed by another district office staff member, the district should review job descriptions in conjunction with the new responsibilities to ensure they are contained in the job description. If not, it should be revised. Training should also be provided as needed to allow absorption of new duties.

Cash Receipts

The cash receipt process begins with the technician receiving either cash or checks. Cash is normally personally delivered to the district office while checks can be received either by hand delivery or the mail. Two people at the sites count and initial the cash receipt documents from the sites, and it is double-counted at the district office. All items received are entered into the receipt book that records the date of receipt, date of the check (if applicable), the check number (if applicable), dollar amount, payor and purpose of the payment. Checks are copied and stamped on the reverse side with a “for deposit only” stamp. The copies of the checks are placed in a file by the technician, and the cash and checks are put in a pouch that goes in the fire safe.

The fire safe is a 2-drawer fire resistant cabinet located under the front counter in the district office. The key to the safe is kept under a counter, and all district office employees know its location. Having a fire resistant safe to store cash and checks is an effective internal control, but some risk is involved in having it so close to the front door with everyone knowing the key location. The safe should be located farther from the front entrance, and the number of people who know the key location should be limited to those who need to access the safe.

Once the items are placed in the safe, the technician’s duties are completed. The business manager removes the pouch from the safe and prepares the deposit slip. The district does not have a clearing account but deposits its funds directly in the county treasury every week to two weeks. The deposit should occur at least weekly with no funds left at the district office over weekends.

Two people count the cash and initial the deposit ticket, and the items to be deposited in the county treasury are listed on a yellow deposit sheet by currency, coin and checks. The amounts are divided by fund and entered onto the deposit permit for San Benito County, which is a 5-part NCR form. When completed, both the yellow deposit sheet and the deposit permit should balance with one another.

The multipart deposit permit is taken to the county treasurer’s office for deposit along with the checks and cash. The treasurer signs, dates and time stamps the form keeping the original and yellow copy. The goldenrod copy is forwarded to the San Benito county office and the district is given the pink and blue copies, which are used by the business manager to prepare the journal entry and post the deposit into the general ledger. Similarly to the recommendations regarding budget transfers and journal entries in the accounts payable section, the technician should prepare the journal entry and enter it in the general ledger, with the business manager serving in a reviewer capacity.

FCMAT’s review of the preformatted and coded form used for the deposit journal entry showed that there is no total for both the debit and credit columns to ensure that it produces a balanced entry that agrees to the total deposit amount. The form should be revised to include these items.

The deposits for the cafeteria fund occur through a bank clearing account. Each site runs a terminal register report of the checks and cash received that day for the food service program. The high school also prints a tape from its cash register. The report and/or register tape, along with the funds, are sent to the cafeteria manager at San Juan School, where they are counted and a deposit slip is prepared. FCMAT’s review of the exemplar provided by the district show that all reports except those of the high school include only one person’s initial. For more effective internal control, the funds should be double-counted, and both people should initial the terminal register report as verification.

The reports are compiled in a daily sales total spreadsheet, a deposit slip is prepared, and the funds are deposited daily. The deposit slip, daily sales total spreadsheet, cash register tape from the high school, and the terminal register reports are hand-delivered daily to the district office. The bank statement for

the clearing account is received by the business manager, who verifies that all the deposits are included in the statement and reconciles it monthly. Once the bank reconciliation has been reviewed and balanced, the business manager sweeps the clearing account by writing a check payable to the county treasurer. The check is included on a deposit permit and processed as outlined above. The task of reconciling the bank account would more appropriately be completed by the technician, with the business manager providing reviewer responsibility.

As is more thoroughly discussed in the ASB section of this report, the district office provides services to its ASBs, which includes depositing all ASB funds. Two people at the site count all the funds received, both initial an ASB deposit form, and the cash/checks and a form are placed in a bag that is zipped and locked. The bag is delivered to the district office, where it is unlocked and two people perform a cash count, also initialing the ASB deposit form. Only the site and the district office have keys to the bag. Each site has its own form for its currency counts, and the district should standardize these forms.

The technician takes the funds to the bank for deposit the same day they are received; however, if this is not possible, the bag is relocked and placed in the district office safe. Once the bank has received the funds and issued its deposit slip, that slip is stapled to the deposit form and filed by the technician. The technician is responsible for posting the transaction to the ASB's general ledger and reconciling the monthly ASB bank statement. The completed reconciliation, the bank statement and the ASB spreadsheet/general ledger are given to the business manager for review and verification. The internal control principle of segregation of duties is violated by having the technician make the deposit with the bank, post the entry to the general ledger, and reconcile the bank statement. One person should not have custody of an asset, such as cash, and maintain the records of its transactions. As is discussed in the ASB section of this report, the day-to-day duties should be returned to the site, and oversight duties should be performed by the business office.

Payroll

The district has one payday monthly that falls on the last working day of that month. The payroll cycle begins with the collection of the timesheets at the sites/departments for substitutes and extra duty pay. Each employee is expected to complete his or her timesheet, sign, obtain the supervisor's signature/initials and submit the document to the site/department immediately after the 15th of each month. FCMAT's review of the district's timesheets found that while they include a signature line for the employee, the forms do not indicate what that signature attests to. The district should modify its timesheets to include an attestation statement such as "I certify that the above request for payment is an accurate account of time worked" above the employee's signature. The site/department is responsible for delivering its packet of timesheets to the district office. Substitutes are responsible for delivering their timesheets directly to the district office since they are not necessarily assigned to one site; however, they are allowed to include them in the site's packet.

The timesheets are delivered to the business manager, who reviews them for appropriate signatures/ approvals and correct coding. The timesheets are forwarded to the technician, who enters the information into both the payroll system and a spreadsheet. The duplicate entry serves as a balancing mechanism to capture errors. Those who do not complete a timesheet are considered contracted employees and are rolled over from one year to the next. The human resources manager enters new employee demographics and W-4 information into the system, with pay line coding entered by the technician. The human resources manager is also responsible for performing pay calculations, with the technician reviewing them for accuracy. The human resources manager communicates pay changes for contracted employees to the technician through a payroll adjustment worksheet.

When all the timesheet information and contracted pay revisions have been entered into the accounting system, the technician runs a series of payroll reports. Those reports, timesheets and spreadsheets are provided to the business manager for review. Any changes noted by the business manager are incorporated into the system and final reports are printed. The business manager approves the payroll by signing the last page of the 510 report, which balances to the totals in the technician's spreadsheet.

The signed page from the 510 report is submitted to the San Benito county office, which notifies the technician by e-mail when it has completed its processes. As with the accounts payable process, the technician collects the warrants on the way to work, sorts them by site, and prints payroll rosters for each site from the QSS system. The director of transportation, maintenance and operations picks up warrants for the preschool and the K-8 schools for delivery to the sites. The technician delivers the payroll warrants to the high school as well as hand delivers warrants to the district office personnel. Each site and the district office has been assigned to obtain a signature from each employee as he or she receives a payroll warrant or pay stub, and the signed payroll rosters are returned to the business office and filed with the monthly pay logs.

Additional review of the above procedures shows some internal control issues and efficiencies need to be addressed as follows:

- FCMAT's review of the business manager's job description found that it does not include duties related to the supervision of payroll. It should be revised to include these duties.
- The technician should receive the timesheets to check coding and signatures, and the business manager should serve as the reviewer after the technician has completed her processes.
- The technician should perform pay calculations with the business manager as the reviewer. This division of duties is required to establish the internal control separation between human resources and payroll.
- The technician should not collect warrants at the county office after they are completed or be responsible for distributing the payroll warrants once they are returned to the district. Effective internal controls and segregation of duties prevent the same person from initiating, processing, distributing, and posting the transaction in the accounting records. The district's system allows the technician to have custody of the warrants once they have been issued by the county office, and there is no control to detect whether the technician appropriately processes the warrant.
- Assuming the district follows the recommendations contained in the business office staffing below, the duties of collecting and distributing payroll warrants would be performed by the person processing accounts payable. In the absence of a new position being approved, the business manager or another member of the district office staff should assume these duties. If they are absorbed by another district office staff member, the district should review job descriptions in conjunction with the new responsibilities to ensure they are contained in the job description. If not, the job description should be revised.
- Provide training as needed to allow absorption of new duties.

Special Education

The district is a member and receives special education services from the San Benito County Special Education Local Plan Area (SELPA). Special education services are divided by service type and segmented into three locations throughout the county: Hollister School District, San Benito High School District, and the county office:

Hollister School District	San Benito High School District	San Benito County Office of Education
Special Day Class - Moderate/Severe (K-8)	Special Day Class - Moderate/Severe (9-12)	Low Incidence Programs
		Early Childhood Education
		Alternative Education
		Transportation

The district has expressed several concerns about special education, the main one related to the tardiness of special education bill-back invoicing from the county office. The SELPA's excess cost guidelines indicate that the following costs will be included in the allocation pool by program (e.g. special day class, low incidence program, etc.):

- Direct teaching staff
- Special education support staff
- Capital outlay, supplies, rents, leases, contracts, travel and mileage
- Inter-program support
- Maintenance and operation
- Extraordinary expenses
- Administrative support
- Indirect support

If expenditures are higher than revenues, the difference is the excess cost that will be allocated to each school district based on a ratio of the number of students enrolled in the program, which would be an average of the December 1 and April 1 counts, by classroom setting. Based on review of the SELPA's excess cost guidelines, the SELPA's reporting format appears to be in compliance. However, FCMAT's review found that the 2011-12 excess cost analysis invoices from the Hollister School District were unclear. A cursory review would produce inconsistencies between the amounts calculated as the costs to be divided among districts and the total cost charged to districts. For example, the Hollister district's December 1 estimate of costs for its 2011-12 severe autism services was \$437,790; however, the amount shown as costs allocated to its participating districts was \$598,055. This would appear to indicate that districts were billed for \$160,265 in excess of the calculated costs. A closer examination determined that the Hollister School District combined four numbers to arrive at the \$598,055, but neglected to provide the user with that reconciliation. The four numbers are: (1) the total teachers' salaries and benefits of \$230,495 plus; (2) the total expenses of \$437,790 plus; (3) the cost of the 1-to-1 aide assigned to a district student of \$31,000 less; (4) total revenues of \$101,230.

The guidelines also require the SELPA to hold a meeting each January with district directors and business managers to present and discuss its estimated billings. No other formal communications occur between the SELPA and the school districts related to billings between January and June of each fiscal year. All billings are adjusted based on actuals at year-end and presented to the districts for final payment. Given that the excess cost guidelines do not specify otherwise, districts should be able to anticipate that year-end billings will occur close to or within the same fiscal year that the estimates were provided.

In January 2014, the district received special education bill-back invoices for the years ending 2011-12 and 2012-13, and an estimate for 2013-14, which the district reports totaled \$ 535,837. According to FCMAT's discussion with county office staff, this delay occurred because of a staffing shortage that has

been eliminated. However, the SELPA excess cost guidelines require all billings to be paid within 30 days of receipt. Because of the internal difficulties of the county office, the district has consequently received three years of billings in one year and is expected to pay those invoices within 30 days by the terms of the guidelines. The county office acknowledged that this may pose cash flow problems and indicated it is willing to work with the district to set up a payment plan. Timely processing of future billings will also help the district with budgetary and cash flow issues.

In November 2013, the district notified the county office that it did not receive all of its special education revenues for the 2011-2012 and 2012-2013 fiscal year. According to FCMAT's review of the district's detailed general ledger reports, the apportionments over the fiscal years of 2009-10, 2010-11, 2011-12 and 2012-13 reflect year-end accruals with total revenue of \$467,537, \$495,301, \$471,910, and \$477,137, respectively. With fairly consistent funding across these four years and no unexpected revenue postings into the district's general ledger for 2013-14, the records do not indicate nonreceipt of revenues. The detailed general ledger shows that all apportionments appear to have been made to the district during each fiscal year according to the principal apportionment schedule. However, some apportionments were posted up to 30 days late. The following special education apportionments were delayed by the county office:

- December 2011 – received January 30, 2012
- February 2012 – received March 5, 2012
- March 2012 – received April 30, 2012
- December 2012 – received January 10, 2013
- January 2013 – received February 28, 2013
- February 2013 – received March 31, 2013

District staff also expressed concerns about inconsistencies in the special education bill-back invoices from Hollister School District. The district's understanding was that prior years' excess billings reflected the salaries and benefits paid to employees who worked directly with students. This appears to be consistent with the billings for the 2011-12 excess cost invoices. However, the most recent excess cost analysis raises questions about changes to the pool of costs allocated. For example, the total pool of DIS-LSH salaries and benefits was \$39,656 in 2011-12, and has risen to \$703,133 for 2013-14, a 1,673% increase. The cost of the school nurse experienced a similar increase of 1,680%, while other areas had more moderate increases and, in one case, a decrease. Communicating with the member districts about these changes as well as the details regarding the amounts shown before presentation of billings would allow the district to better audit the invoice for accuracy and compliance with excess cost guidelines.

The district transports eight special education students; however, it outsources the services for its more severe students to the SELPA. The district questions why the SELPA does not provide credit for its specific district-identified special education transportation revenue; instead, the SELPA combines all districts' revenue as an offset against all expenditures to arrive at the special education transportation bill-back. The district is uncertain of the revenue amounts that should be directly attributable to Aromas-San Juan Unified for special education transportation funding because of a unification that occurred in 1991. FCMAT inquired with the CDE and found that before the 1992-93 fiscal year, districts and county offices received a combined apportionment for home-to-school and special education transportation. During the 1991-92 fiscal year, educational entities determined how their transportation funds were to be received; 100% for home-to-school transportation, 100% for special education needs, or a division between the two. According to the CDE's records, Aromas-San Juan Unified elected to receive 100% of its apportionment for home-to-school transportation.

Because other SELPA districts do not receive special education transportation revenue, similarly to Aromas-San Juan Unified, the SELPA's policy is that all revenue is combined to offset total expenditures. Even though this is not stated in the excess cost guidelines, county office staff reported that all revenues are pooled when subtracted from total expenditures and are not considered a separate credit or offset for each school district, but instead are shared equally. If expenditures exceed revenues, the difference is considered excess cost and is allocated to each district based on the number of students transported.

The late billings noted above are exacerbated by a lack of communication related to new and unique incoming students who require special education services that can be provided only at the SELPA level. For example, the district's November 20, 2013 letter to the county office indicates that in May 2013, it received an invoice for 2011-2012 for services for approximately \$75,000. Four months later, the district received an invoice for approximately \$240,000 for special education services for 2012-2013. While the district was aware that students with unique needs and services had moved to the district, it did not know the potential cost and impact on its bill-back from the county office. FCMAT was unable to obtain copies of the invoices cited in the district's letter to the county office to verify the increase in students served. However, the SELPA should communicate information on incoming students and their specific needs to the districts that will receive them so that proper budgetary measures can be taken.

While the district commissions this report, the issues and concerns discussed cannot be remedied without the support and cooperation of the SELPA and its members so that changes can be made to help the district in the accurate and timely payment of special education expenses. Recommendations to address the district's property tax issues include the following:

- The district should revise its excess cost analysis to provide a reconciliation between the estimated costs and the total costs allocated to districts.
- The SELPA should hold quarterly meetings with district directors and business managers to discuss excess cost billings and ensure that districts fully understand the guidelines and processes. These meetings should also be used to discuss any significant changes in the number and types of students being served.
- The SELPA should comply with the provisions of the excess cost guidelines to provide the district with a special education bill-back estimate invoice by January 31 and a final invoice by year-end.
- The county office should post special education revenues to district accounts as soon after receipts as possible.
- The SELPA should initiate discussions with Hollister School District to provide more detailed information on its special education bill-back invoices.
- The SELPA should establish excess cost guidelines for special education transportation bill-back to ensure that all participating school districts know and understand the program details.
- The SELPA should establish protocols that include communications on new and unique students coming to a district that require special education services that can be provided only at the SELPA level.

Property Taxes

The district receives local property taxes from San Benito, Monterey, and Santa Cruz counties. Since fiscal year 2008-2009, Aromas-San Juan Unified has been classified as a basic aid school district under the previously established K-12 education funding formula known as revenue limit. This means that the

amount of property-tax funding received was greater than the amount that would have been received under the revenue limit calculation.

The district expressed concerns about the need for more accurate property tax projections for budgeting purposes. The property-tax delinquency reported from Monterey County would result in no overall change in the district's financial position, has essentially functioned as a no-interest loan, and helped with cash flow. However, more accurate reporting eliminates a payable to the CDE at the end of the fiscal year. The payable amount becomes necessary because of the underreporting of property taxes and the CDE's overpayment of state apportionment aid to the district. District administration stated that the county of Monterey auditor-controller does not report property taxes at the November P-1 or March P-2 reporting periods to the CDE via the tax collection software, but only at the annual August reporting period. County office of education personnel confirmed this process by the county of Monterey. Education Code 41760.2 requires the county auditor to report property tax amounts to the superintendent of public instruction on November 15 and August 15 of each fiscal year.

The district has also expressed concerns regarding the county office of education's late distributions of property taxes between fiscal years 2009-10 and 2012-13. District administrators stated that property taxes were not posted in a timely manner, resulting in a loss of interest from the county of San Benito treasurer. County office administrators indicated that during the last fiscal year, the county of San Benito Auditor-Controller's Office conducted layoffs that included experienced staff, which delayed property tax apportionment postings. The county office believes that this situation has been resolved and that all property tax apportionments are posted in a timely manner.

Property Tax Receipts By Month

FY 2009-2010

MONTH	SAN BENITO	SANTA CRUZ	MONTEREY
July	-	-	-
August	-	-	-
September	-	-	-
October	-	-	-
November	-	-	-
December	-	-	-
January	2,816,072	-	-
February	-	-	-
March	333,518	17,798	918,903
April	35,306	-	-
May	2,057,572	-	-
June	636,214	29,011	709,223
Total	5,878,682	46,809	1,628,126

Property Tax Receipts By Month

FY 2010-2011

MONTH	SAN BENITO	SANTA CRUZ	MONTEREY
July	-	-	-
August	-	-	-
September	-	-	-
October	-	-	-
November	802,380	-	-
December	2,005,075	-	-
January	29,383	-	-
February	-	-	(9,263)
March	176,183	17,596	905,486
April	2,007,559	-	-
May	-	-	-
June	290,106	17,826	673,809
Total	5,310,686	35,422	1,570,032

Property Tax Receipts By Month

FY 2011-2012

MONTH	SAN BENITO	SANTA CRUZ	MONTEREY
July	-	-	-
August	-	-	-
September	-	-	-
October	-	-	-
November	-	-	-
December	2,784,900	-	-
January	-	-	-
February	-	-	-
March	-	-	-
April	-	-	-
May	2,079,088	-	-
June	269,102	47,083	1,589,428
Total	5,133,090	47,083	1,589,428

Property Tax Receipts By Month

FY 2012-2013

MONTH	SAN BENITO	SANTA CRUZ	MONTEREY
July	-	-	-
August	-	-	-
September	-	-	-
October	-	-	-
November	-	-	-
December	2,838,112	-	-
January	-	-	-
February	-	-	-
March	-	-	-
April	2,127,890	-	-
May	-	-	-
June	196,116	49,329	1,543,452
Total	5,162,118	49,329	1,543,452

FCMAT's review of the district's accounting records found that property tax postings were inconsistent with those of other school districts and consisted of significant postings in May and June. The primary source of the district's property taxes is secured property taxes, which averaged 92.8% of total property taxes. Property owners are required to pay secured property taxes to their county treasurer by February 1 and November 1 of each year. However, because of a grace period, payments are not delinquent until April 10 and December 10, respectively. California Revenue & Taxation Code Section 75.70 requires property taxes to be distributed monthly, which would result in districts receiving most of their property tax revenues in December and April of each fiscal year. Based on this rationale, the charts above illustrate that the following proportions of property taxes were posted to the district's general ledger after April:

- 2009-2010 – 45%
- 2010-2011 – 14%
- 2011-2012 – 59%
- 2012-2013 – 26%

The county office's ability to back-date journal entries complicates the issue and makes it difficult to determine the exact date that delinquent year-end postings were made to the general ledger. However, the adjustment to the property taxes for the 2011-12 year was late enough and significant enough that it warranted an audit adjustment. As a result, FCMAT determined that the delinquent payment was posted between the date that the district closed its books, on or about September 6, 2012, and the date of the auditor's opinion, December 14, 2012, yet the district's general ledger shows a June 30, 2012 date.

While the district commissioned this report, the issues and concerns discussed cannot be remedied without the support and cooperation of the county office and auditor-controllers' office so that changes can be made to help the district in the accurate and timely reporting of its property tax revenues. Recommendations to address the district's property tax issues include the following:

- The district should meet with the county office and the county of Monterey's auditor controller to discuss its concerns about reporting property taxes on the Form J-29 at P-1, P-2, and annual reporting periods in compliance with Education Code Section 41760.2.
- As an alternative, the district should develop an independent relationship with the auditor controllers of all counties from which they receive property taxes to obtain property tax information for use in their P-1, P-2 and annual reports as well as determine when payments have been forwarded to the San Benito county treasurer.
- The district should continuously monitor property tax postings for accuracy and, when property taxes have not been received or are inaccurate, research the issue and immediately contact the county office to communicate discrepancies.
- The district should encourage the county of San Benito auditor-controller to process property tax payments in accordance with California Revenue & Taxation Code and forward supporting documentation to the county office in a timely manner.
- The county office should communicate with its school districts when there will be a delay in revenue postings because of staffing shortages at the county Auditor Controller's Office or the county office.

Business Office Staffing

The district's business office is composed of two people, the business manager and the purchasing/ accounts payable and payroll technician who comprise 2.0 full-time equivalents (FTEs). The Human Resources Department works in conjunction with the business office and is staffed by the human resources manager, a 1.0 FTE position. This small team has been diligent in performing many duties; however, this has resulted in concerns regarding internal controls as well as the proper distribution of work in the business office.

The business manager's job description states it "is responsible for the development and maintenance of sound business systems and procedures for accounting, budgeting, legislation and cafeteria." This position supervises all aspects of the general ledger, cash receipts, accounts receivable, purchasing, bidding, accounts payable, payroll, inventory, ASB oversight, budgeting, preparation the district's financial reports, cash flow reporting, attendance accounting, federal and state program reporting and risk management. The business manager also supervises and oversees all he classified staff in the district and business office as well as cafeteria personnel.

The technician is assigned to perform clerical and accounting work for purchasing, accounts payable and payroll as well as other office duties such as answering phones, typing, filing and duplicating. While the job description does not include specific duties related to areas such as cash receipts and ASB functions, it includes "other duties as assigned."

As discussed in various sections of this report, management performs many duties that should be performed by a technician. While this eliminates overtime expenditures, it does not provide for proper segregation of duties. Work performed by only one person without review also increases the risk of undetected errors. Some tasks may not require detailed review, but accounting and business transactions are not among them. Detailed review in these areas prevents the unauthorized use of district assets, either cash or other items.

The district has not been impeded by the small staff's inability to provide a detailed structure to their duties. FCMAT's review of the district's 2011-12 and 2012-13 audited financial statements showed that the district has received an unmodified auditor's opinion without material weaknesses in internal controls. However, there are some audit findings primarily related to the business office's oversight of ASB functions. The district has a limited ability to perform these duties in a detailed manner because of the number of business office staff and the other duties they perform.

It is not unique to have a small staff that can provide only limited oversight. Three districts of similar demographics that were contacted by FCMAT stated they would like additional staff to provide the oversight they believe necessary. Comparison of these districts with Aromas-San Juan Unified showed that the latter and Mammoth Unified had the smallest number of business office staff, each with 2.0 FTE. The other two districts reported between 2.6 and 3.75 FTEs.

STAFFING COMPARISON

	Aromas-San Juan Unified SD	Fall River Joint Unified SD	Mammoth Unified SD	Pierce Joint Unified SD
Statistics*				
11/12 Enrollment*	1,229	1,142	1,163	1,332
Percentage of Students Who Are				
English Learners*	31.7%	5.8%	37.6%	33.2%
Free or Reduced Meals*	58.8%	59.2%	46.2%	66.1%
Minority*	57.8%	34.4%	57.6%	74.5%
Business Services Department**				
Business Manager	1.00		1.00	1.00
Chief Business Official		1.00		
Administrative Assistant		0.75		
Purchasing/Accounts Payable and Payroll Technician	1.00			
Principal Account Clerk - Payroll		1.00		
Principal Account Clerk - Accounts Payable		1.00		
Accounting Technician			1.00	1.00
Payroll/Personnel/Substitute Caller				0.60
Department Total	2.00	3.75	2.00	2.60
Human Resources Department				
Human Resources Manager	1.00			
Principal Account Clerk - Personnel		0.50		
Administrative Assistant			0.50	
Payroll/Personnel/Substitute Caller				0.40
Department Total	1.00	0.50	0.50	0.40
<i>*The 2011/12 fiscal year is the last year of data available within Ed-Data for purposes of obtaining comparison districts. **Positions listed by FTE.</i>				

Adding a full- or part-time position in Aromas-San Juan Unified's business office would immediately help the district eliminate many of the internal control issues identified in this report. The new position should be at a clerk level so that the business office hierarchy would flow from business manager to technician to clerk. This addition allows some flexibility in assigned duties and provides for a ladder of promotion.

The new technician position would perform the following:

- Processing payroll, excluding the steps required after payroll is submitted to the county office, would be performed by the new clerk. The exchange with the clerk in processing the warrants would strengthen the district's internal controls as discussed in the payroll section above. Perform Business Department position control duties (see chart above).
- Handle revolving checking account duties such as writing the check, entering it into the check register, requesting replenishment and depositing the replenishment.
- Collect and process accounts payable warrants.
- Establish new vendors or changing vendor information in the QSS vendor listings.
- Perform cash receipt duties.
- Develop policies and procedures and revise forms as noted above as well as a desk manual related to their assigned areas.
- Help the business manager with more technical duties such as budget development, attendance accounting and federal/state program reporting.

The clerk position would perform the following:

- Complete purchasing and accounts payable excluding the steps required after the accounts payable batch is submitted to the county office. Those would be performed by the technician. The exchange with the technician in processing the warrants would strengthen the district's internal controls as discussed in the accounts payable section above.
- Handle revolving checking account duties such as processing the replenishment and balancing the bank statement.
- Collect and distribute payroll warrants.
- Greet the public and general office/clerical duties such as mail processing. These types of duties would not be appropriate for the technician because people coming through the front door of the district office should not have access to the sensitive information that could be present on the technician's desk such as Social Security numbers and birth dates.
- Prepare journal entries and budget transfers.
- Develop policies and procedures and revise forms as noted above as well as a desk manual related to their assigned areas.
- Oversee the ASB.
- Revise the district's ASB policies and procedures to conform to the FCMAT ASB manual and aligning these with the districts' unique processes and practices.

Implementing this plan would require some planning and work with the district's classified bargaining unit. A review of the district's job descriptions shows that these positions do not exist under the district's collective bargaining agreement with its classified unit. As a result, the district would need to modify the technician's job title and job description and develop a new position for the clerk.

Associated Student Body

The district has adopted a common structure for processing ASB transactions for its K-8 schools in which school sites are responsible for day-to-day ASB operations, and the district office provides oversight. Because of an auditor’s finding, the district office has assumed responsibility for ASB transactions at the high school. Each site has one classified person who is responsible for processing ASB transactions; however, each person has a different title such as school office clerk, school secretary/attendance clerk, and purchasing/accounts payable and payroll technician.

There is a great deal of confusion about when ASB duties are to take place since some employees receive a stipend for these tasks and were previously instructed to perform them outside of normal work hours. Some district employees also reported that they took their ASB records home to perform those duties. A review of the job descriptions of those who perform ASB tasks shows that these duties are not included in the school office clerk’s job description. The job description of the school secretary/attendance clerk includes collecting money from students/staff, receiving and depositing; however, it unclear whether accounts payable and general accounting duties for ASB are included in typical duty number 13, which states “[o]rders materials, supplies, and equipment; maintains records of purchase orders, invoices, expenses; inventories and logs upon arrival.” The purchasing/accounts payable and payroll technician’s ASB duties can be included in job description typical duty line number 29 “[p]erforms other duties as assigned.” This is an area that should be standardized, with either the same job title and job description performing the duties at each site or the job descriptions of all persons performing the duties having them included or excluded. The stipend should be paid according to whether the duties are included in the job description. If the district continues to grant a stipend, the employees who receive it should be given specific instruction about when and where the ASB duties should be performed.

The district has expressed concern over the number of ASB audit findings, which occurred for several years without resolution. A review of the district’s 2011-12 and 2012-13 audited financial statements shows the following ASB findings:

AROMAS-SAN JUAN UNIFIED SCHOOL DISTRICT

ASB AUDIT FINDINGS 2011-12 and 2012-13

	Aromas School	San Juan School	Anzar High School
2011-12			
Number of Findings	2	3	3
Type of Finding	Cash Receipts	Cash Receipts	Revenue Potential Forms
	Prohibited Expenditures	Commingling of Funds	Budgeting
		Review of Bank Reconciliations	Review of Bank Reconciliations
2012-13			
Number of Findings	0	5	3
Type of Finding		Cash Receipts	Budgeting
		Prohibited Expenditures	Master Ticket Log
		Booster Club Activities in ASB	Commingling of Funds
		Review of Bank Reconciliations	
		Prohibited Fundraiser	

Interviews with site staff and administrators about the circumstances surrounding the findings showed that they occurred primarily because of improper past practice, lack of training for site staff in charge of the ASB accounts, and limited oversight by the district office. The district has begun efforts to train its employees in proper ASB practices through an in-service to site employees on November 22, 2013 and developing a student body fund accounting handbook (effective November 23, 2013). The handbook provides the definitions, principles and accountability for ASB, policies and procedures for processing transactions, frequently asked questions as well as copies of the district's forms for these transactions. FCMAT developed an ASB accounting manual, fraud prevention guide and desk reference with more extensive information. It has been in publication since 2002 and is considered the industry standard. However, the district should develop its own policies and procedures. While the district handbook fits that purpose, some items should be aligned to the contents of the FCMAT manual to avoid confusion such as the following

- Converting the legal citations in the handbook from Oregon code and ethics policies to California's legal code sections.
- Allowing the bookkeeper to be a signatory on the ASB's bank account as long as the same person does not sign purchase orders. This violates the internal control regarding segregation of duties because a person could issue an invoice, write the check, and sign it without the ASB or district knowing about the transaction. Excluding bookkeeper as a signatory on the account would result in more effective internal control.
- Revising the handbook to eliminate the purchase of student rewards as allowable expenditures to student awards for outstanding performance. Education Code Section 44015 authorizes school districts to make awards to students for excellence. However, if items are intended to be used as some form of student award, it also requires the governing board to adopt rules and regulations before the awards are made. Awards are not to exceed \$200 unless a higher award is expressly approved by the governing board. The district should use ASB funds to award pupils for excellence, if approved and in accordance with board policy. Therefore, if a governing board adopts rules and regulations before any awards are made, a district or ASB can recognize the superior accomplishments of any student within the guidelines and provisions contained in the applicable district policies, rules and/or regulations. In the absence of applicable policies, rules and/or regulations, no district official can make the award, and no one can legitimately purchase the award.

Life transition events such as birthdays, weddings, funerals, holidays and other similar circumstances can happen to anyone and therefore cannot be considered superior accomplishments, or merit an award.

Awards are often signified by letters of commendation, board resolutions, trophies, certificates, plaques, medals, badges, pins and the like, but may also be in the form of a gift certificate or a scholarship, within the statutory monetary limits and subject to IRS reporting requirements. The board may also approve an expenditure for flowers or candy as part of an award, which is appropriate only if the school district's board policy on awards complies with the Education Code and IRS regulations. The district's board policy allowing awards should specify what is considered an allowable award.

Mugs, cards and similar items given to promote good will or positive relations between the staff and students are not considered awards. The expenditure of public funds to promote positive staff-student relations does not serve a direct and/or substantial public purpose, so it would likely violate the gift of public funds provisions contained in the California Constitution.

A review of the district's board policies shows that they have adopted BP5126 allowing for student awards for excellence "for exemplary achievements in academic, athletic, extracurricular, or community service activities." These can be very different from student rewards, which can be for something as simple as arriving on time for class if a teacher is having problems with tardiness in the classroom.

Eliminating supplies for classrooms as being an allowable expenditure unless these items are over and above what is required for the curriculum of the class. Items required for the curriculum are the responsibility of the district. The California Constitution provides for a free school system, and since 1874, the state supreme court has interpreted this to mean that students are entitled to be educated at the public's expense. Any fees charged for educational activities would clearly violate this free school system guarantee, including fees for textbooks, materials and/or supplies. Title 5, California Code of Regulations, section 350, specifically states the following:

A pupil enrolled in a school shall not be required to pay any fee, deposit, or other charge not specifically authorized by law.

The state board of education has also stated that no fees are to be charged except where specifically authorized by law. This understanding is based on Article IX, Section 5 of the California Constitution. The attorney general's office has also made it clear in many opinions that school districts cannot levy fees as a condition of participation in any class, whether the class is elective or compulsory. Prohibited fees include security deposits for locks, lockers, books, class apparatus, musical instruments, uniforms, or other equipment. Students may not be charged fees for participation in either curricular or extracurricular activities. Whenever a curricular or extracurricular program is adopted, all supplies, both necessary and supplemental, must be provided free of charge by the district.

On April 20, 1984, the Hartzell vs. Connell California Supreme Court decision raised serious questions about the imposition of nonstatutory fees for extracurricular activities. The lead opinion on this matter is that fees may be charged for recreational activities, but not for those that are educational. Because extracurricular activities are described in the opinion as an integral component of public education, they are a part of the educational program and therefore must be free. The court further stated the following:

[The] imposition of fees as a precondition for participation in non-statutory educational programs offered by public high school districts on a noncredit basis violates the free school guarantee. The constitutional defect in such fees can neither be corrected by providing waivers to indigent students nor justified by pleading financial hardship.

It is also the opinion of CDE and Hartzell that a school district may not charge a fee or require students to purchase necessary materials even if the district maintains a special fund to assist students with financial need or waives such a fee or charge for students with financial need, because the fee or charge still remains a condition for all other students who are not being assisted financially. A fee waiver policy for needy students does not make the fee allowable, and requiring low-income students and their families to apply for a waiver is considered discriminatory. The requirement to fill out a waiver discourages many students from attempting to enroll in a class because they are embarrassed to ask for a waiver and do not want to put their family in financial distress.

- Revising the handbook regarding allowable expenditures to include a provision that if the district was responsible for the item in the past, it remains the district's responsibility.
- Revising the frequently asked questions to eliminate the ability for a sympathy arrangement to be purchased if the entire team wants to express their condolences. This would be prohibited because it is neither an employee award nor an award to a student for excellence and therefore would be considered a gift of public funds. The same conditions would hold true no matter if district or ASB funds are used. Instead, the purchaser should approach perhaps the PTA, boosters or other outside organization for the funds for this purpose.
- Changing cash receipt procedures to do the following:
 - Prohibit disbursements directly from fundraising proceeds under any circumstances. Revenues from any fundraising endeavor should be presented for processing and deposited intact as they were collected.
 - Provide for two people to count cash and sign off before presenting the funds for processing and deposit. For example, during FCMAT's visit, a question arose about a discrepancy in ASB receipts resulting from two people not counting cash.
- Incorporating the requirement for student meeting minutes to support the issuance of purchase orders.
- Ensuring fundraising approval is obtained at the district office level so that the district is informed of events at the school sites and makes certain that risk management issues are resolved before an event occurs.
- Including the ASB's general ledger as a Class 1 – Permanent Record as is required according to the California Code of Regulations – Title 5, Section 16023.
- Eliminate the requirement that bookkeepers to train the club advisors/teachers since this should be a management function.

Even with the district's efforts to provide in-house training, all site ASB clerical staff should attend a workshop provided by an outside vendor. This will solidify what an inside source has already presented and verify its authenticity.

In addition to the district's in-service, the board approved the purchase of ASB financial software and cash drawers using thermal paper utilizing district funds at a January 22, 2014 board meeting. The board agenda item described using site funds for annual renewal fees in subsequent years. However, this would violate the principle that once district funds are used, they remain the district's responsibility, and it should budget for the renewal fees in subsequent years.

Implementing this software will transition the sites away from a manual accounting system to an electronic one. To prepare for this change, the district has balanced the ASB accounting records of all sites, has been performing ASB clerical duties, and is considering moving all ASB activities from the sites to the district office. The district should not implement this change and should return ASB duties to the high school. While the district is ultimately responsible for ASB funds and expenditures, FCMAT considers the business office's role as one of oversight. Site personnel appropriately provide the day-to-day duties for ASB activities.

The district is justifiably concerned over the ASB audit findings and the number of years they have persisted; however, moving the day-to-day activities of the ASB to the district office would not resolve the problem. The district moved the high school's daily activities to the district's business office, yet it continues to have audit findings. Moving the site's duties to the district office would also complicate the internal control of segregation of duties by allowing one person to be in charge of a transaction from beginning to end as well as eliminating the purpose of ASBs, which is to learn the principles of operating a small business and acquire leadership skills while making a contribution to their school and fellow students.

Three key internal controls should be implemented before removing the sites from ASB activities. FCMAT's interviews with site and district staff and administrators found site administrators provide little or no oversight of ASB funds. Regardless of the school level or size of the school site, the principal/site administrator is directly responsible for student body organization financial activities and must ensure they conform to established policies and procedures.

While the principal/site administrator has ultimate responsibility for all school site activities, many responsibilities for ASB management functions may be delegated to other staff members. At the elementary level, this designee is often a teacher or secretary, and at the secondary level, an assistant principal or ASB advisor. The person who handles these duties should regular schedule meetings with the ASB clerical staff to review the bank statement, check register, purchase orders issued, invoices to be paid, etc.

The second key control omitted from the resolution of audit findings is assigning the site principals to review their site's audit findings and develop a written action plan for remediation. The action plan should be written in consultation with the district's business office to ensure that the resolutions proposed comply with the concepts of internal controls and the district's policies and procedures. When completed, the action plans should also be presented to the board to provide assurance that the findings are being addressed. The auditors review the findings in the following year to determine resolution, and if these issues are not solved to their satisfaction, the finding is reported in the next year's report.

The third key internal control relates to additional oversight responsibilities for the district office. This office should be assigned to follow up on the plans to ensure they are implemented, perform periodic miniaudits of the ASB funds, and report to the superintendent and the board their findings.

Lastly, each person who has responsibility for ASB funds should have those duties incorporated into his or her annual evaluation and be held responsible if they are not performed to an acceptable level.

FCMAT thanks all staff and administrators of Aromas-San Juan Unified School District and the San Benito County Office of Education for their cooperation during fieldwork and for allowing FCMAT to provide assistance. FCMAT appreciates the opportunity to serve the district and hopes that this letter is beneficial to all concerned.

Sincerely,

A handwritten signature in black ink, appearing to read "Julie Auvil". The signature is fluid and cursive, with a large, stylized initial "J" and "A".

Julie Auvil, CPA, CGMA

Fiscal Intervention Specialist