



CSIS California School Information Services

Sutter County Office of Education regarding the Yuba City Unified School District

AB 139 Extraordinary Audit

December 4, 2015

Joel D. Montero
Chief Executive Officer







CSIS California School Information Services

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Bill Cornelius, Superintendent
Sutter County Office of Education
970 Klamath Lane
Yuba City, CA 95993

Dear Superintendent Cornelius,

In May 2015, the Sutter County Office of Education and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for an AB 139 Extraordinary Audit. Specifically, the agreement stated that FCMAT would perform the following:

The scope and objectives of this study pursuant to the provisions of Education Code Section 1241.5:

1. The Sutter County Office of Education 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)(c), the superintendent has reason to believe that fraud, misappropriation of funds or other illegal practices may have occurred and shall conduct a review of the Yuba City Unified School District's associated student body (ASB) operations. The county superintendent has received allegations from a group of parents who brought forward written evidence regarding an ASB operation. The ASB allegations are specific to commingling of ASB club account funds with club advisors' personal funds, inappropriate expenditures approved by district staff and management responsible for oversight, missing records and other supporting documentation, and other discrepancies such as payments for purchases prior to student council approval and other unauthorized purchases. In addition to the authority granted under 12.41.5(c) and 47604.3, the county superintendent may conduct an investigation of the district and charter schools based on written complaints by parents or other information that justifies the review.

This final report contains the study team's findings and recommendations in the above areas of review. FCMAT appreciates the opportunity to serve the Sutter County Office of Education, and extends thanks to all the staff for their assistance during fieldwork.

Sincerely,

Joel D. Montero
Chief Executive Officer

FCMAT

Joel D. Montero, Chief Executive Officer

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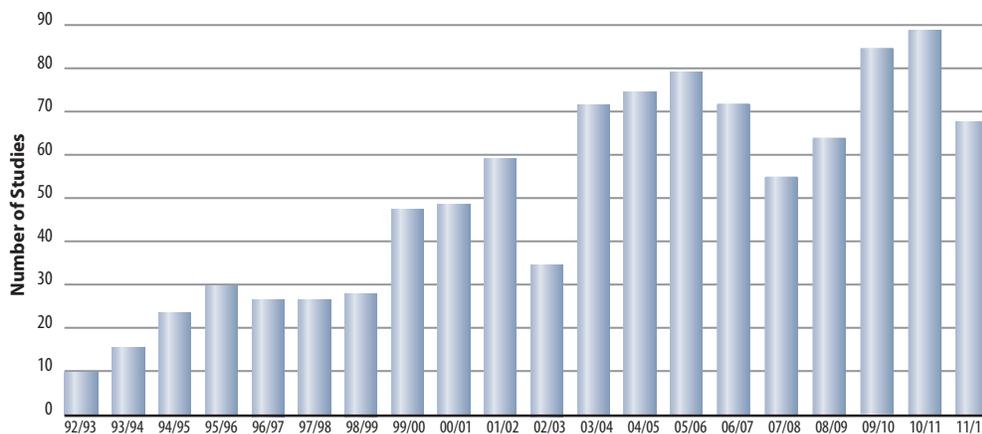
About FCMAT

FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related school business and data services. FCMAT's fiscal and management assistance services are used not just to help avert fiscal crisis, but to promote sound financial practices and efficient operations. FCMAT's data management services are used to help local educational agencies (LEAs) meet state reporting responsibilities, improve data quality, and share information.

FCMAT may be requested to provide fiscal crisis or management assistance by a school district, charter school, community college, county office of education, the state Superintendent of Public Instruction, or the Legislature.

When a request or assignment is received, FCMAT assembles a study team that works closely with the local education agency to define the scope of work, conduct on-site fieldwork and provide a written report with findings and recommendations to help resolve issues, overcome challenges and plan for the future.

Studies by Fiscal Year



FCMAT also develops and provides numerous publications, software tools, workshops and professional development opportunities to help local educational agencies operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) arm of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS) and also maintains DataGate, the FCMAT/CSIS software LEAs use for CSIS services. FCMAT was created by Assembly Bill 1200 in 1992 to assist LEAs to meet and sustain their financial obligations. Assembly Bill 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide data management work. Assembly Bill 1115 in 1999 codified CSIS' mission.

AB 1200 is also a statewide plan for county offices 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 more than 1,000 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 April 2015 the Fiscal Crisis and Management Assistance Team (FCMAT) received a request from the Sutter County Superintendent of Schools for an Assembly Bill (AB) 139 extraordinary audit of the Yuba City Unified School District, Yuba City High School Associated Student Body (ASB) Men's Basketball Club.

The superintendent of schools had received allegations of wrongdoing regarding the ASB men's basketball club funds. Concerned that these actions may have violated various government and education codes related to fraud and/or misappropriation of assets, the county superintendent 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.

Study Guidelines

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.

The county superintendent received allegations from a group of parents who brought forward written information regarding men's basketball club funds within ASB operations. The ASB allegations are specific to commingling of ASB club account funds with club advisors' personal funds, inappropriate expenditures approved by district staff and management responsible for oversight, missing records and other supporting documentation, and other discrepancies such as payments for purchases prior to student council approval and other unauthorized purchases.

Based on the allegations and information provided, the Sutter County Superintendent of Schools requested FCMAT to provide for the assignment of professionals to conduct an AB 139 Extraordinary Audit under the provisions of Education Code Section 1241.5(b). A contract was entered into on May 1, 2015. As part of the audit, FCMAT interviewed individuals who brought forward the allegations, interviewed Yuba City Unified School District and Yuba City High School management, staff, and advisors, and reviewed documents to determine if instances of fraud, misappropriation of funds or other illegal practices may have occurred that would warrant further investigation by the local district attorney's office.

Study Team

The study team was composed of the following members:

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In writing its reports, 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.

Background

The district conducts extracurricular student activities with an organized associated student body (ASB) at each high school that includes a designated certificated staff member of the district as advisor, as well as a bookkeeper, student council, and individual club advisors. Student council members learn to make decisions under the general guidance of the principal and/or certificated advisor. A properly organized ASB is formally established with a constitution and operates under existing laws and regulations contained 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, and in some cases, co-approve transactions. As with all other district expenditures, advance approval must be obtained for any ASB expenditure through a proper purchasing structure. In addition, Education Code Section 48933 states that all ASB expenditures must be preapproved. For organized ASBs, the preapproval must be by three individuals: the student council/club representative, the ASB advisor, and the board designee, which is normally the site principal/site administrator. Because of this Education Code, the ASB/club is not obligated to pay for the expenditure if preapproval was not obtained. 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.

Yuba City High School (YCHS) 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. Individual ASB clubs also report to the student council.

The school athletics program is operated as an ASB club, with individual sports also acting as individual ASB clubs within the athletics program. YCHS Men's Basketball Club (MBC) is operated as one of these ASB clubs. The high school director of activities and athletics is the certificated ASB advisor responsible for overseeing all athletics ASB clubs, including the MBC. The men's basketball coach is not a certificated staff member; the coach reports to both the director of activities and athletics and the principal.

The MBC coach appeared to extend full and transparent cooperation to FCMAT during this audit. The coach provided unredacted copies of his personal credit card statements, complete access to his online personal Square credit card account, screen print color copies of his personal text communications, and other information as specified in the Transaction Sampling Analysis section of this report.

Audit Field Work, Scope, and Procedures

The fraud investigation consisted of gathering available information and documentation pertaining to specific allegations, establishing an audit plan, and performing various auditing procedures to determine whether fraud occurred, and if so, evaluate the loss, determine who was involved and how it occurred.

As a result of FCMAT's examination of the allegations presented, the district's ASB internal control system was evaluated. Internal controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. To address the allegations, specific audit objectives included evaluating the policies, procedures, and internal controls and transactions performed by the district.

Audit objectives and transaction sampling and testing were based on the FCMAT audit team's experience and professional judgment and did not include the testing of all available transactions and records. Sample testing and examination results are intended to provide reasonable but not absolute assurance as to the accuracy of the ASB's transactions and financial activity.

During interviews of staff, administrators, coaches and other individuals, the FCMAT study team members asked questions pertaining to the MBC allegations; ASB policies and procedures; transaction and activities authorization levels; job duties, responsibilities and training; the overall internal control structure and line of authority, and oversight of ASB funds.

FCMAT utilized fraud risk assessment tools and study team judgment to conduct sample testing of YCHS ASB financial transactions, and reviewed other available documentation such as but not limited to fireworks supplier invoices and the men's basketball coach's personal credit card statements to determine if fraud, misappropriation of funds or other illegal activities may have occurred.

Transaction Sampling Analysis

To accomplish the objectives of this audit, a number of audit test procedures were developed to provide an analysis and understanding of the allegations and potential outcomes.

The MBC detailed general ledger and other reports that provided transaction data were obtained directly from the YCHS ASB accounting software for fiscal years 2013-14 and 2014-15. Specific and randomly selected transactions from the accounting reports were identified and examined. To gain an understanding of how other YCHS ASB clubs' transactions compared to the MBC, other sports transactions such as volleyball, field hockey, and girls' basketball were also identified and selected for review.

Each set of ASB financial accounting records for the 2013-14 and 2014-15 fiscal years was reviewed to determine the transactions sampled. Table I presents the number and type of transactions reviewed.

Table I

YCHS-ASB Transaction Sampling					
Description	Club	2013-14	2014-15	Total	
Deposit Transactions	Men's Basketball	14	15	29	
	Other	6	6	12	
	Total	20	21	41	
Cash Disbursements & Journal Entries	Men's Basketball	25	14	39	
	Other	99	44	143	
	Total	124	58	182	

Table II summarizes the number of MBC transactions the FCMAT study team reviewed as compared to the total number of ASB transactions examined.

Table II

YCHS-Men's Basketball Club Transaction Sampling Statistics		2013-14	2014-15	Total
Description				
Deposit Transactions	Sampled	14	15	29
	Total	20	21	41
	% Sampled	70%	71%	71%
Cash Disbursements & Journal Entries	Sampled	25	14	39
	Total	124	58	182
	% Sampled	20%	24%	21%

Transactions were analyzed and evaluated for sampling selection based on the team's judgment and technical expertise in ASB accounting.

The team also examined considerable documentation and information provided by the YCHS MBC coach such as but not limited to the following:

- Unredacted copies of personal credit card and Sprint cell phone statements.
- Online personal Square credit card account used when the fireworks booth company's credit card terminal intermittently malfunctioned.
- Color screen print copies of personal text communications.
- Analysis of Kings ticket use, fireworks use, and gift transactions, including phone numbers and names of individuals who are alleged to have received such items.
- Gym flooring sponsorship documentation.
- 1440 basketball fundraising documentation, which is a separate, non-school entity.

FCMAT's findings are the result of the above audit procedures.

Fraud, Occupational Fraud, Internal Control, Gift of Public Funds

Fraud

Fraud can include an array of irregularities and illegal acts characterized by intentional deception and misrepresentations of material facts.

A material weakness is a deficiency in the internal control process whereby errors or fraud may occur, or can be a violation of specific laws or regulations. Because of the weakness, employees in the normal course of business may not detect errors in time to correct them.

Although all employees have some degree of responsibility for internal controls, the governing board, district superintendent and school site principal ultimately are responsible for those controls that employees under their supervision are expected to follow.

Occupational Fraud

Occupational fraud occurs when an organization's owners, executives, managers or employees use their position to deliberately misuse or misapply the employer's resources or assets for personal benefit. The three primary types of occupational fraud are asset misappropriation, corruption, and financial statement fraud.

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, which help prevent occupational fraud three times as often as any other fraud prevention method for this type of fraud scheme. According to the 2014 Report to the Nations published by the Association of Certified Fraud Examiners, corruption schemes accounted for 37% of the 1,483 cases studied, with a median loss of \$200,000. There is a direct correlation between the perpetrator's position and authority in an organization and the losses incurred. Losses from fraud by owners and executives are four times higher than those from fraud by managers and seven times higher than losses incurred as a result of fraud by employees. Proper monitoring and effective oversight are also highly effective at preventing fraud.

Internal Control

The term "internal control" is defined by the accounting industry as it applies to organizations, including school agencies. An organization establishes control over its operations by setting goals, objectives, budgets and performance expectations. Several factors influence the effectiveness of internal controls, including the social environment and how it affects employees' behavior, the availability and quality of information used to monitor the organization's operations, and the policies and procedures that guide the organization. Internal controls help 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

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 operations are effective and efficient, that the financial information produced is reliable, and that the organization complies with all applicable laws and regulations.

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 controls provide the framework for an effective fraud prevention program. An effective internal control structure includes the policies and procedures used by staff, adequate accounting and information systems, the work environment, and the professionalism of employees. The five interrelated elements of an effective internal control structure and their definitions are included in the table below.

Internal Control Element	Definition
Control Environment	Commonly referred to as the moral tone of the organization, the control environment includes a code of ethical conduct; policies for ethics, hiring and promotion guidelines; proper assignment of authority and responsibility; oversight by management, the board or an audit committee; investigation of reported concerns; and effective disciplinary action for violations.
Fraud Risk Assessment	Identification and assessment of the organization's objectives to develop a strategy to react in a timely manner.
Control Activities	The development of policies and procedures to enforce the governing board's directives. These include actions by management to prevent and identify misuse of the district's assets, including preventing employees from overriding controls in the system.
Information and Communication	Establishes effective fraud communication. Ensures that employees receive information regarding policies and opportunities to discuss ethical dilemmas. Establishes clear means of communication within an organization to report suspected violations.
Monitoring	Ongoing monitoring that includes periodic performance assessments to help deter fraud by managers and employees.

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 achieve 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.

Independent auditors' reports on internal control over financial reporting are based on an audit of financial statements performed in accordance with government auditing standards. In planning and performing independent financial audits, auditors consider internal control over financial reporting to determine audit procedures that are appropriate in the circumstances so they may express their opinion on the financial statements, but not to express an opinion on the effectiveness of an organization's internal control. The auditors' consideration of internal control is not designed to identify all deficiencies in internal control that might be a material weakness or significant deficiency, which means that material weaknesses or significant deficiencies may exist that were not discovered during the audit.

- A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, detect and/or correct misstatements in a timely manner. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected in a timely manner.
- A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The following is a partial list of deficiencies and omissions that can cause internal control failures:

- Failure to adequately segregate the duties and responsibilities of authorization.
- Failure to limit access to assets or sensitive data (e.g., cash, fixed assets, personnel records).
- Failure to record transactions, resulting in lack of accountability and the possibility of theft.
- Failure to reconcile assets with the correct records.
- Unauthorized transactions, resulting in skimming, embezzlement or larceny.
- Lack of monitoring, implementing, or enforcing internal controls by the governing board and management, or because personnel are not qualified.
- Collusion among employees where little or no supervision exists.

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 are typically referred to as soft controls, which include management tone, performance evaluations, training programs, and established policies, procedures and standards of conduct.

Weaknesses in 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 YCHS ASB. FCMAT found significant material weaknesses in the district's enforcement of internal controls as established by governing board policy, operational policies and procedures related to the management and oversight of ASB activities.

Based on the findings in this report, there is insufficient evidence to demonstrate that fraud, misappropriation of funds and/or assets or other illegal activities may have occurred in the specific areas reviewed. However, the deficiencies and exceptions noted during FCMAT's review of the ASB financial records and the ASB's internal control environment increase the probability of fraud, mismanagement and/or misappropriation. These findings should be of great concern to the Yuba City Unified School District and the Sutter County Superintendent of Schools and require immediate intervention to limit the risk of fraud, mismanagement and/or misappropriation of assets or other illegal activities in the future.

Gift of Public Funds

Article 16, Section 6 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. Basically, Article 16 states that in the absence of a statute granting public local educational agencies (LEAs) the legal authority to make a special expenditure (i.e., for food, clothing, awards, etc.), the legality of any expenditure is determined by the "gift of public funds" provision in the California Constitution, Article 16, section 6. This constitutional provision prohibits making any gift of public money to any individual (including public employees), corporation, or other government agency. It states, "... the Legislature shall have no ... power to make any gift, or authorize the making of any gift, of any public money or thing of value to any individual ... whatever ...

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.

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

If the LEA's governing board has determined that a particular type of expenditure serves a public purpose, courts will almost always defer to that finding. Thus, if the district has a board policy stating that specific items are allowable (e.g. scholarships or donations), there is more certainty that the expenditure might be considered allowable.

The constitutional prohibition of gifts of public funds is designed to obstruct the misuse of public money. Gift of public fund violations occur under many circumstances. FCMAT's experience regarding gift of public funds and ASB is that misuse often occurs under two circumstances.

Noble or Virtuous Purpose

An example of a noble or virtuous purpose that may be considered a gift of public funds is the purchase of flowers from ASB funds for the funeral of a student.

Moral or Justifiable Obligation

A moral or justifiable obligation is the most common form of gift of public funds resulting from a desire to convey some form of gratitude. Often, staff members who are not formally trained in school district, ASB, and governmental policies and procedures unknowingly participate in giving gifts of public funds due to a moral or justifiable obligation. For example, a coach may be grateful to a number of individuals who have helped with the sports program, or to individuals who are considered high-value stakeholders, well-known contributors, longtime friends of the program, contributed countless hours of assistance to the sport, or may not be able to afford attending an event, and the coach may offer them free event tickets or distribute unsold ASB tickets or items.

Without a district policy that has been adopted by the governing board and approved by the district's legal counsel specifically approving the expenditure of ASB funds for noble, virtuous, or moral considerations such as those described above, these purposes may be considered a gift of public funds.

Findings

Commingling of Funds

The commingling of funds allegation centers on the YCHS MBC 2014 Fourth of July fireworks booth fundraiser. The commingling allegations about the operation, management, accounting and fireworks sales have many components.

Commingling of funds is the process of combining funds in such a way that they lose their identity. This may occur when funds are pooled with other funds that are not tracked in any record-keeping system. When funds are blended, combined, or pooled, they lose their identity and are difficult to trace back to their original source. Thus commingling of funds may have transpired.

Fireworks Purchases and Sales Business Model

The fireworks purchase and sales arrangement between MBC and the fireworks supplier/vendor known as TNT Fireworks (TNT) is collaborative. TNT supplies the MBC with fireworks and a credit card machine. Fireworks sales that are processed through the TNT credit card machine are deposited directly into TNT's bank account. This method ensures that TNT is receiving funds to offset the fireworks product/inventory cost that TNT has advanced to the MBC to sell.

Sales of fireworks that the MBC collects in cash or checks at the fireworks booth are kept by the MBC. A few days after the Fourth of July, TNT begins the account settlement process by providing customer activity ledgers to the MBC identifying how much the MBC still owes TNT, if anything. By mid-July, TNT issues a formal statement of account invoice confirming the final balance the MBC owes TNT if there is a balance due after deducting the amount collected from the credit card machine from the value of the advanced inventory.

Fireworks Credit Card Machine Usage

The MBC coach is alleged to have commingled the July 2014 fireworks sales with his personal Square cell phone credit card plug in device, including allegations that he personally benefited.

The MBC coach does not dispute that he used his personal Square device on July 4, 2014 when TNT's credit card machine malfunctioned. The coach provided the names of the five adult volunteers and fireworks booth work schedule during the time that the TNT credit card machine malfunctioned. The fireworks booth volunteers working on July 4, 2014 are alleged to have witnessed that the TNT credit card machine was malfunctioning, and they allegedly did not object to the coach using his own Square until the TNT credit card machine returned to operation.

The MBC coach provided his unredacted personal credit card statements to FCMAT to demonstrate that he was not trying to personally benefit from using his own Square, and that he only used the Square on July 4, 2014 for transactions during the time that the TNT credit card machine was malfunctioning.

Basically, the MBC coach stated that he decided to use his own Square to avoid any sales losses for the MBC fundraiser during the time the TNT credit card machine was not working. The coach stated that he knew the Square would be able to produce detailed reports of each transaction's date, time and amount to keep the record keeping transparent between TNT transactions and those not related to firework sales. The only other options were to accept only cash and

checks for fireworks, or close the booth completely. Since the Square seemed the best way to maximize revenues, was accountable, and none of the volunteers had objections, he proceeded.

The MBC coach provided unredacted personal Sprint cell phone bills for FCMAT's review. The cell phone bill identifies two calls that he allegedly made to the TNT Sacramento representative at 12:21 p.m. to discuss the TNT credit card machine malfunction(s).

The 12:21 p.m. phone calls occur nine minutes after the first Square transaction at 12:12:03 p.m. on July 4, 2014. Between 12:12:03 p.m. and 5:53:43 p.m. on July 4, 2014, there are 14 Square transactions totaling \$1,274.88.

The MBC coach stated that when he telephoned the TNT representative at 12:21 p.m. on July 4, 2014, the representative stated there were several fireworks stands having similar intermittent TNT credit card machine failures due to the high volume of sales.

The MBC coach provided FCMAT complete access to his Square online account; FCMAT was able to view transactions and reproduce the same reports that the MBC coach had previously provided to the YCUSD business office upon their request.

FCMAT's review of the Square transactions conclude that:

- The Square report produced a detailed record of each transaction that took place on July 4, 2014.
- The Square transactions were not pooled, blended or combined such that the transactions are unidentifiable.
- There were no Square transactions between June 23, 2014 through July 3, 2014 and July 5, 2014 through July 7, 2014 before and after the fireworks booth was opened and closed. There are only July 4, 2014 Square transactions.
- The Square detailed transactions report used by FCMAT and the YCUSD business office is reliable.
- The Square transactions that took place on July 4, 2014 are not commingled with other transactions; all funds transacted through the Square are accounted for in the YCUSD business office's independent analysis of the July 4, 2014 MBC fireworks fundraiser.

The MBC coach also provided selected text screen prints from his cell phone to and from various parents discussing the fireworks booth. The texts are during the time period of June 28, 2014 through July 15, 2014. The MBC coach's texts to and from parents identified when the MBC fireworks booth would be open and which parents, MBC players, and others may be helping volunteer at the fireworks booth.

The MBC coach's Square transactions totaling \$1,274.88 have been accounted for in the YCUSD business offices analysis of the July 2014 MBC fireworks sales.

YCUSD Business Office Analysis of the July 2014 MBC Fireworks Sales

The YCUSD business office compiled a three-page analysis of the July 2014 MBC fireworks sales, which is included in a letter addressed to the YCHS principal dated March 30, 2015. As described above in the Fireworks Purchases and Sales Business Model section, the accounting of the fireworks sales is complex. Further complicating the fireworks sales accounting is that the YCHS school site administrators and district policies and procedures failed to require any ASB fireworks inventory tracking, revenue potential forms, or other detailed accounting procedures.

Using the information available, the district business office's analysis of the MBC July 2014 fireworks sales integrated information from TNT reports, ASB deposits and payments, and Square reports.

FCMAT agrees with the district business office analysis and findings of the July 2014 MBC Fireworks sales except for the following:

1. \$26 Difference:

The district business office found a \$213.82 difference in cash unaccounted for out of total fireworks sales and purchases. The district office correctly stated, "It is expected that the individuals responsible for the event are accountable for the discrepancy of the \$213.82."

The YCHS principal met with the MBC coach to review the district office findings prior to the FCMAT fieldwork. When the coach met with the FCMAT study team, he explained that he did not agree with the \$213.82 assessment, but he had written a check to the district dated April 3, 2015, only four days after the YCUSD business office compiled the letter and three-page analysis of the July 2014 MBC fireworks sales, to pay the \$213.82 difference nonetheless.

FCMAT's analysis is that the \$213.82 difference should actually be higher by \$26 in the amount of \$239.82. The difference is because the district office did not include one amount from the Square report. The Square reports have very small print and without magnifying the print, some numbers may be misinterpreted. The detailed district office report used \$1,248.88 as the Square sales; however, the correct amount of Square sales is \$1,274.88, or a \$26 difference.

2. Gift of Public Funds:

The detailed district business office report indicates that the fireworks fundraiser is not a typical ASB event. Once purchased from TNT, the seller (in this case MBC) is able to charge any markup on the product that they choose. The MBC coach stated that "markup on the sales can be as much as 100%, or in other cases pricing incentives (such as discounts) are offered to increase sales." The coach explained to FCMAT that in addition to discounts, in a few instances the fireworks were given away for free for various reasons.

The MBC coach's reasoning for issuing discounts or giving away free fireworks may make sense from a sales, noble, or moral perspective; however, the coach assumes, as stated in the detailed district business office report that, "The discount is not creating a loss for the fundraiser, but creating the ability to scale profits."

Without proper internal controls, proper policies and procedures and supervision, a gift of public funds situation may result regardless of the reason, whether it is to promote sales, or to be noble or moral.

FCMAT identified several issues related to internal controls, as well as lack of certificated club advisor supervision, during the MBC July 4, 2014 fundraiser, including:

- Lack of detailed inventory records of which product was actually sold at which specific amount (there was an inventory listing of what was received from TNT, but no price).

- Lack of signed and witnessed cash count forms verifying that collected funds were counted in the presence of at least two people.
- Start-up cash at the beginning of the event not confirmed with a witness.
- Lack of posted discount pricing and published policies regarding qualifications for discounts or free inventory items.
- No list of individuals who received discounts or free items.
- Lack of approval from MBC club members and ASB leadership that discounts or free items were going to occur, and in what cases.
- No certificated staff member acting as club advisor during the fireworks fundraiser.

Failure by the YCHS to provide proper certificated club advisor oversight and administration during the MBC ASB fundraiser may have led to the fireworks customers not being treated equally. Without adequate training and oversight of the fundraiser, the MBC coach may have been placed in the position of failing to properly manage governmental funds and may be considered to have made a gift of public money to those individuals who received discounted pricing or free inventory without any specific approval to do so, even though this is allowed by the TNT company.

As described above in this report at section, “Gift of Public Funds,” the California Constitution, Article 16, section 6, prohibits making any gift of public money to any individual. ASB fundraisers are student trust funds and the ASB is part of the district, which is a governmental organization.

FCMAT discussed the fireworks sales with the MBC coach, and even though from his perspective the discounts and free inventory were well meaning and he may have thought he was helping to improve sales, those actions may be considered a gift of public funds because they were not his property to distribute. The MBC coach may have thought he was providing a noble or moral benefit to the MBC fundraiser; however, a noble or moral use of public funds may still be considered a gift of public funds.

MBC ASB Fireworks Fundraising Event Oversight, Athletics as an ASB Club, Guidelines, Training and Supervision

1. Each ASB Club Must Have a Certificated Club Advisor:

The fireworks fundraiser is alleged to be the YCHS MBC event. The MBC is accounted for and operated as an ASB club. There is no evidence to support that the YCHS certificated club advisor or, in the absence of the certificated club advisor, the school principal or principal’s designee was present at the MBC fireworks fundraising event. California Education Code Section 48933(5) (b) states,

“The funds shall be expended subject to such procedure as may be established by the student body organization subject to the approval of each of the following three persons, which shall be obtained each time before any of the funds may be expended: an employee or official of the school district designated by the governing board, the certificated employee who is the designated adviser of the particular student body organization, and a representative of the particular student body organization.” (Emphasis Added)

Coaches in general, and specifically the MBC coach, are not certificated club advisors. Certificated means the individual holds a valid teaching credential. If the coach or other staff member is not a certificated district staff member, they cannot be club advisor. In FCMAT's experience, many districts have the athletic director at a school site act as the certificated club advisor for all sports if they are operated and identified as ASB clubs. Although club helpers can be noncertificated, the advisor/supervisor of record must be certificated.

To comply with the district's own policies and procedures and the California Education Code, a certificated club advisor must attend all club events to contribute to the safety and supervision of the participating students. However, when there are concurrent ASB sporting events, an athletic director such as at YCHS who represents the sole certificated ASB advisor for sports clubs may not be able to attend all sporting events for all sports operated in an ASB environment. If that occurs, unless another certificated staff member is assigned to supervise that event, it may not proceed as an ASB event.

2. Athletics is Not a Club Unless Specifically Board Approved as a Club or Fully Conforms to Being Operated as a True ASB Club:

ASB clubs must be student led. In FCMAT's experience, many school districts fail to understand that athletics or sports are often not student led because coaches naturally take the leadership role, often make purchasing and event planning decisions, and decide how the team will practice and which students will play in each game, all of which remove the students from the ASB leadership process.

FCMAT's experience is that coaches operating an ASB event without a certificated club advisor being present occurs because of lack of training and knowledge at all levels of a school district. Unless there is an assigned certificated staff member for all ASB clubs, including specific athletic clubs, athletics should not be operated within the ASB.

3. Fundraising Guidelines:

California Education Code Section 48932 sanctions the governing board to authorize student body organizations to conduct fundraising activities and that the governing board is responsible for approving which fundraising events are allowable.

The governing board is also responsible for ensuring that proper policies and procedures are in place that oversee, manage and account for ASB funds that are raised. The governing board may also designate an administrator to review and authorize fundraising events in advance and as additional fundraising events are requested during the year.

The school site principal is responsible for the conduct of the student body financial activities, safeguarding of the student body funds and supervision of their expenditure 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 governing board and ensure that the procedures are followed throughout the event.

An ASB fundraiser should identify specific guidelines such as (but not limited to) the following:

- a. Approval of the fundraiser by the appropriate board designee prior to the event, i.e., the club's student leadership, certificated club advisor, ASB student leadership council, director of activities and athletics, and principal or principal's designee.
- b. Revenue projections or budgets must be prepared prior to fundraising efforts.
- c. The operating days and hours of the event.
- d. A plan for how many ASB students are needed to staff the fundraiser, the shifts they will be allowed to work, and how all shifts will be covered.
- e. Validation that the certificated club advisor will be present at all times during the fundraiser, and if not, which other certificated staff member will serve as the certificated club advisor during the event.
- f. An understanding of whether discounted or free inventory sales will be allowed and if so, written and approved guidelines for qualifying for the discount or free inventory.
- g. An outline of the segregation of duties and chain of custody related to cash handling.
- h. A plan for whether prenumbered and/or preprinted standard receipts documenting cash collections will be used during the event.
- i. A plan for how often dual cash counts will occur, as well as whether cash count sheets will be used to support deposits, with two signatures.
- j. Assurance that two individuals will be responsible for controlling, monitoring, and handling the cash and credit card transactions at all times.
- k. An explanation of how often cash receipts deposits will occur.
- l. Explanation of where funds will be maintained between bank deposits.
- m. What the contingency plan will be if a vendor credit card machine malfunctions.
- n. An outline of which and how many volunteers, coaches, and ASB students will be allowed inside the fundraising venue/booth at any given time.
- o. An understanding of whether non-YCHS ASB students' siblings will be allowed to be volunteers and if so, what tasks they may help with and if there is a minimum age requirement.

- p. When mandatory training will occur for volunteers prior to the fundraiser, requirements for a sign-in sheet, and an understanding that without proper documented training, the prospective volunteers should not be allowed to participate.

The MBC fireworks fundraiser failed to follow most of these procedures.

4. Training:

The MBC coach alleged that he has not received any ASB-specific training either by the school site or the district in the two years he has been coach. The coach alleged that not until March 31, 2015 was he provided a letter that made him aware of a coach's handbook and an athletics handbook as well as other policies and procedures.

During FCMAT interviews, the YCHS principal and ASB bookkeeper could not remember when the last ASB-specific training had taken place.

5. Approval:

Staff reported that the July 4, 2014 and 2015 MBC fireworks fundraising events were approved. FCMAT reviewed the July 4, 2014 MBC fireworks request for fundraiser approval form, which was approved by the YCHS athletics director.

Based on the July 4, 2014 MBC request for fundraiser approval document FCMAT examined, the July 4, 2014 MBC fireworks fundraiser approval was signed by the athletics director and the MBC coach (who signed as the club advisor).

Education Code Section 48932 sanctions the governing board to authorize student body organizations to conduct fundraising activities. While the governing board can designate an administrator to review and authorize fundraising events in advance and as additional fundraising events are requested during the year, that designee is normally the school principal, who is responsible for the conduct of student body financial activities, safeguarding of student body funds, and supervision of their expenditure in accordance with board-adopted policy and procedure at their school site. Athletic directors are not normally authorized to approve fundraising events, and if so, should be specified to do so in the adopted board policy. In this case, because the athletic director is also the certificated staff member that serves as the advisor, they cannot approve the fundraiser. Also, the coach should not sign as club advisor because he is not a certificated staff member.

Men's Basketball Club Expenditures

Several related components comprise the allegations that the MBC expenditures (even though approved by school site staff and management responsible for oversight) were inappropriate, records and other supporting documents were missing, payments were made for purchases prior to student council approval and other unauthorized purchases occurred.

FCMAT started with examining the audit reports issued by the YCUSD's independent auditing firm.

Prior Independent Auditor's Reports Findings

FCMAT reviewed the YCUSD independent auditor's reports for the fiscal years ending June 30, 2013 and June 30, 2014. The YCUSD independent auditor is a well-known and reputable firm with no history of disciplinary action by the California State Board of Accountancy. The June 30, 2013 audit report identified the following YCUSD ASB findings with a stated cause of "Adequate internal control procedures have not been implemented":

1. At YCHS, the "ASB lacked the use of fundraising forms for revenue producing activities."
2. At Central Gaither K-8 school,
 - Cash receipts issued to depositors and deposited funds to the bank do not agree to detail of initial receipt of funds.
 - Cash count forms are not issued for funds received.
 - Cash receipts issued are not signed "to and from" to evidence dual count and to verify that funds were counted appropriately.
 - Fundraising activity is not appropriately authorized/approved by site principal.

The June 30, 2014 YCUSD audit report identified the following ASB findings, with a stated cause of "Adequate internal control procedures have not been implemented":

1. "At Bridge Street Elementary a pre-numbered receipt is not issued by the ASB Clerk when funds are submitted for deposit by the ASB/Club Advisor. A tally sheet of items sold and count of funds is provided to the ASB Clerk with the funds being submitted for deposit; however, there is no way based on current documentation to support that all funds collected by the ASB clerk have been forwarded to the bank for deposit."

The independent auditor's findings do not describe any inappropriate YCHS MBC expenditures, missing records, or purchases prior to student council approval.

YCHS ASB Disbursement Sample Transaction Findings

FCMAT reviewed 25 and 14 MBC disbursement transactions for fiscal years 2013-14 and 2014-15, respectively. FCMAT's YCHS ASB findings based on the transactions reviewed are described below.

1. MBC Coach's Reimbursements:

Included in the combined sample of 39 MBC disbursements were four checks written to the MBC coach totaling \$18,611.31 for reimbursement of expenditures. Each of the four reimbursement checks written to the MBC coach included the following backup documentation:

- A student body requisition for purchase order (PO) form identifying proper authorization signatures of the club officer, director of activities and athletics, and the school site principal,
- Detailed descriptions of the items being reimbursed and a purpose that is specific to the MBC,

- Actual receipts and other supporting documentation evidencing the expenditure.
2. MBC and Other YCHS ASB Club Disbursements:
 - MBC and other YCHS ASB club disbursements, including sports clubs, presented similar authorization and expenditure documentation as the MBC coach's reimbursements. These disbursements also identified a purpose specific to the ASB club's mission.
 3. YCHS ASB Purchasing and Disbursement Internal Controls:
 - a. Significant Internal Control Deficiencies - Purchasing and Authorization Process:

The YCHS's purchasing and authorization process regarding disbursements contains a significant internal control deficiency. Most of the YCHS ASB disbursement transactions examined by FCMAT, including the MBC and other ASB sports clubs, showed that the actual spending or shopping for club items occurred prior to the formal written authorization to spend, but authorization was obtained on the same day or before the physical payment or check was processed.

In other words, club funds were spent before club students, ASB student council, certificated club advisor, director of activities and athletics, and the school site principal formally approved the written PO. Although the actual payment check was written on or after the date of the PO, ASB purchasing or shopping should not take place until the PO is properly approved even if the payment or check is properly authorized.

- b. Student Council Approval of Disbursements:

Because YCHS ASB purchase authorization documentation dates identify that purchases are transacted before the PO date, the ASB club and/or student council could not have authorized the purchases before the shopping took place.

Purchases that occur before ASB club or student council approval reflect that the students are not leading the decisions and are not given the opportunity to administer and participate in decisions concerning the operation of the ASB.

YCHS ASB disbursements have been approved with club specific purposes identified in the PO and payment; however, such purchases were approved based on the practice of approving the purchases after the actual purchase was made.

The practice of approving purchases after the spending has occurred is evidence of significant deficiencies in proper ASB internal controls, uninformed administrators and staff, and little or no training and follow-up in ASB policies and procedures.

4. Missing Records and Other Supporting Documentation:

FCMAT's sampling of YCHS ASB club records shows there are missing records, signatures, and other supporting documents that should exist in a well-trained ASB operation with proper policies and procedures.

In FCMAT's experience, properly and consistently trained school site administrators, certificated club advisors, and other trained staff, along with properly implemented ASB bookkeeping and records management policies and procedures, typically contribute to improved ASB documentation and accountability.

The YCUSD independent auditor findings at all three sites they audited, as described above, are similar to those FCMAT encountered at the YCHS ASB. FCMAT's review of YCHS ASB documents and interviews of staff identified the following discrepancies in addition to the significant deficiencies described above:

- Fundraiser approval forms are not signed and approved on a timely basis.
- Cash count and deposit forms are not by the individual who counted the funds and the individual who witnessed the count. .
- Start-up cash is not counted and witnessed by both the individual who issued the start-up cash and the individual who received the start-up cash.
- Disbursement and cash receipt documents are missing such as inventory records, tally sheets, approved minutes from club meetings detailing club approvals, approved fundraising forms, revenue potential forms, and purchase order listings.

5. Proper Purchasing and Disbursement Procedures:

Education Code Section 48933(b) 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 and administrative regulations.

All club members, teachers, advisors and other staff must understand that they cannot obligate ASB funds until a PO is prepared and approved by the student club representative, a certificated advisor, and a school principal or other administrator before the purchase is made. The only way to prove that this Education Code is followed is with a PO or other expenditure approval form containing all three signatures.

The purpose of the student council meeting minutes is to support the basic premise of ASB funds – moneys raised and used by students of that class. The minutes represent the overall ratification of the expenditure, even if after the purchase occurred, as approval by the student council is not required prior to the purchase like the three approvals noted in Education Code.

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, after proper approval by the site administrator, ASB advisor and the student representative:

- 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 packet should include the original invoice, receiving documentation (a cash register receipt or a bill of lading signed by the receiver), signature of the approver, and student body council minutes. Once the invoice has been paid and check issued, the invoice is marked “paid.” Two authorized personnel should sign all checks.

The ASB bookkeeper has the responsibility to notify school staff and management that processing of ASB payments for purchases that occur prior to authorization is not acceptable. However, the ASB bookkeeper reports to a site administrator. If the ASB bookkeeper is instructed to process a transaction outside of district required procedures, the bookkeeper should state any policies and procedures deviations to the appropriate reporting authority, document the directions received, and follow any instructions regarding payments that the site administrator directs unless the expenditure is one that should be reported to higher levels as inappropriate.

Based on FCMAT’s interviews with the YCHS administrators and staff, as well as summarizing the sampled YCHS ASB club disbursements and available documentation, there is insufficient documentation that ASB disbursements were inappropriate or unauthorized, with intent to defraud the YCHS ASB. Rather, staff deviated from policy and procedure, with administrator approval.

Other Findings

FCMAT examined other MBC transactions that further demonstrate significant ASB internal controls deficiencies, lack of ASB administrator and staff training, and policies and procedures not considered or practiced that would help to prevent the appearance of gift of public funds.

Kings Ticket Sales, Free Tickets, Other Free Gear

Kings Ticket Sales and Free Kings Tickets

The MBC has entered into an arrangement with the Sacramento Kings basketball arena in both 2013-14 and 2014-15 to allow the MBC team players the opportunity to play a basketball game on the Kings’ professional court. For this to happen, the MBC must commit to purchasing 400 nonrefundable Kings tickets, at \$20 per ticket, totaling \$8,000 (400 x \$20 = \$8,000). The Kings tickets are purchased by the MBC and paid for by the YCHS ASB, and then the MBC players sell as many Kings tickets as possible to offset this cost.

FCMAT examined the 2013-14 and 2014-15 Kings tickets purchases and sales, which is considered an MBC ASB fundraiser. In both years, Kings tickets were purchased through the MBC account at a required minimum of 400 tickets at \$20 per ticket totaling \$8,000. The MBC

players then attempted to sell the Kings tickets for \$25 per ticket to recoup the initial cost, as well as make additional funds to support the basketball program. In January 2015, the MBC deposit for the Kings ticket sales was \$6,125, which means that 245 tickets were sold ($\$6,125 / \$25 = 245$). Since 400 Kings tickets were initially purchased and only 245 tickets were sold, 155 tickets remained unsold.

Districts should establish good business practices for fundraising approval to include instruction on unsold items, including rules regarding how to obtain unsold items from a student fundraiser (i.e., the students must either turn in the money from a fundraising event or turn in the unsold items to the club advisor). The first step is to include a statement in the documents provided to students and their parents at the beginning of the fundraiser indicating that they are responsible for returning unsold items as well as all cash, and the steps that are authorized if they are not returned; the parents should sign in acknowledgement. The district office and the schools' ASBs need to have consistent policies and rules so there are no conflicts.

The district governing board should also adopt ASB policies and procedures explaining in detail what should happen to the returned items once turned in to the club advisor. For example, if there are returned or unsold Kings tickets, the governing board should consider creating a policy that:

- Either approves that the unsold tickets may be given away for free to perhaps a preapproved list of program supporters or needy individuals, or
- The policy should state that the tickets must be defaced and marked as void.

The YCUSD and the YCHS do not have any policies and procedures regarding what to do with unsold tickets. As was the practice in the prior year, 2013-14, the 155 unsold Kings tickets in January 2015 were given away free by staff for various reasons considered noble and moral. Many of the free ticket recipients were long-time supporters of the MBC, school administrators, esteemed donors, coaches, economically disadvantaged, and other individuals. Without clear policies, procedures, and training establishing clear ASB unused or unsold ticket guidelines, gift of public funds scenarios may occur.

The MBC coach continued to fully and transparently assist FCMAT by preparing a list of individuals who received free Kings tickets. The MBC coach was able to prepare a list of 16 individuals who received a total of 143 of the 155 free tickets based on his saved personal cell phone texts. FCMAT reviewed a sample of the texts.

One sample text message conversation string between the MBC coach and an MBC supporter is summarized and paraphrased below to protect the identity of the person the MBC coach and MBC supporter are discussing.

Coach: Who are these for?

Supporter: A ... friend and her ... kids.

Supporter: You know I bought 4 already.

Coach: Yes sir. I thought these may have been for you also and I wanted to give them to you.

Supporter: If you want to do that that's fine. These are people who would never afford to go to the game ... (this individual's spouse passed away) so I even bought her kids XMAS gifts. Just trying to be a good person here.

Coach: Sounds great. I'll drop off the tickets ... today. Take care.

Supporter: I really appreciate it and I know the family will as well.

Of the 16 individuals who received free Kings tickets, 10 individuals or 62% ($10 / 16 = 62\%$) were selected as a sample. FCMAT requested the MBC coach to obtain signed confirmation letters from 10 of the 16 free Kings ticket recipients.

The free Kings ticket confirmation letters identified the recipient's full name, how many Kings tickets were received, that the tickets were free, and no exchange of finances transacted. These 10 letters reconciled with the MBC coach's free Kings tickets list. The letters also identified the free tickets recipient's contact phone number, and were signed. The letters represented a combined 122 free tickets or 79% ($122 / 155 = 79\%$) of the total 155 free Kings tickets given away.

The MBC coach greatly assisted FCMAT in its examination of the YCHS ASB operation. Interviews with other YCHS staff resulted in statements that other YCHS ASB coaches, staff, and certificated ASB advisors also gave away free ASB items and may have been unaware that giving away these items may be considered a gift of public funds.

Although YCHS ASB staff, including the MBC coach alleged to have provided free ASB purchased supplies, inventory, or tickets may have thought they were providing a noble or moral benefit as the items may have no further value to the ASB, no matter how the decisions were rationalized, such activities, regardless of the noble or moral reason, may be considered a gift of public funds.

Proper internal controls, governing board policies and procedures, certificated club advisor supervision and training that was missing from the January 2015 Kings tickets fundraiser include, but are not limited to:

- Detailed ticket inventory and tally sheet records.
 - A sales tally sheet form was used as part of the prior year 2013-14 Kings tickets fundraiser; however, that form was not signed, dated, or the name of the club identified on the form.
 - The January 2015 Kings tickets fundraising event deposit contained a copy of a fundraising form signed by the YCHS director of activities and athletics; however, the prior year 2013-14 Kings tickets fundraiser event deposit failed to contain an approved fundraising form.
- Cash count forms signed with witnesses that the funds were counted together.
- Published policies describing who may qualify for free tickets.
- Lists of individuals who received discounts and free items included in the ASB records that MBC students and ASB leadership approved.
- The certificated club advisor, school site principal or principal's designee present during the Kings tickets fundraiser.

Failure by the YCHS to provide proper certificated club advisor oversight and administration of the MBC Kings tickets ASB fundraiser may mean that the paying fundraiser customers were not treated equally. Without adequate training and oversight of the fundraiser, the MBC coach may have been placed in the position of failing to properly manage governmental funds and may

be considered to have made a gift of public funds to those individuals who received free Kings tickets.

Other Free Gear

The MBC coach provided free gear to MBC supporters such as MBC shirts, shorts, hoodies, and jackets. Interviews with other YCHS staff resulted in allegations that other YCHS ASB coaches, administrators, staff and certificated ASB advisors may have also given away ASB gear for free to program supporters and may also have been unaware that giving away free gear may be considered a gift of public funds.

The MBC coach fully and transparently assisted FCMAT by preparing a list of individuals who received free MBC gear. The MBC coach was able to prepare a list of individuals who received free gear partially based on his saved personal cell phone texts.

Although the MBC coach and any other YCHS ASB staff alleged to have provided free ASB purchased gear may have thought they were providing a noble or moral benefit, no matter how the decision to provide free gear is rationalized, that activity may be considered a gift of public funds.

Failure by the YCHS to provide proper certificated club advisor oversight and administration of ASB inventory such as MBC gear may mean that those customers that paid for ASB gear were not treated equally. Without adequate training and oversight of all YCHS ASB products, supplies and inventory, the MBC coach may have been placed in the position of failing to properly manage governmental funds and may be considered to have made a gift of public funds to those individuals who received free MBC gear.

YCHS Gym Floor Refurbishing

The MBC aspired to improve the YCHS gym's basketball floor beyond what the YCUSD would normally spend in repairing and maintaining the gym floor. The MBC sought new basketball court lines, logos and other graphic designs and finishes for the basketball court in the YCHS gym. The basketball flooring costs were paid for by sponsorship packages and donations, and approved by the YCHS principal, vice principal, and director of activities and athletics.

Among the donated funds collected for refurbishing the YCHS gym floor was a check written for \$2,000, from which two allegations stemmed:

1. The \$2,000 was not deposited into the MBC ASB account.
2. The \$2,000 check was paid directly to the MBC coach.

FCMAT received a copy of the alleged check from the parents making the complaint, which was actually a copy of the carbon copy of the \$2,000 check. A check carbon copy occurs when the check writing process creates a copy of the check under the actual check. The \$2,000 check in question is dated October 15, 2014 and identified as check number 3666.

The carbon copy of the check alleged to have been issued directly to the MBC coach does not include the identity of the payee or person the check was written to. The check payee may be missing because the check issuer did not press firmly enough for the check carbon to pick up the payee name or it may be missing for some other unknown reason. What is apparent is that the check carbon copy has a check memo field notation of the word "Coach" in what looks to

be black ink rather than carbon copy blue ink and next to the word “Coach” is written the first name of the coach, also in black ink.

The \$2,000 Donation Check was Deposited Into the MBC ASB Account

FCMAT obtained and reviewed the YCHS ASB accounting records. Check number 3666, written for \$2,000 on October 15, 2014, was receipted by the YCHS ASB bookkeeper on October 17, 2014 as receipt number 2074517. The payment details as recorded by the YCHS ASB bookkeeper properly identify the \$2,000 check as check number 3666 and include the name of the individual who wrote the check.

The \$2,000 check was combined with another check of \$750 with the same 2074517 receipt number. Both the \$2,000 and \$750 checks were deposited together and recorded in the YCHS ASB MBC accounting records on October 22, 2014 in the combined amount of \$2,750. The purpose of the two checks totaling \$2,750 was recorded in the MBC ASB accounting records as “Deposit: Sponsorship.”

The \$2,000 Donation Check Carbon Copy and the Check Copy Received From the Bank Differ; However, the Bank Check Copy Identifies the Payee as “Yuba City High School Basketball”

FCMAT requested the YCHS ASB bookkeeper obtain a copy of the \$2,000 check from the ASB’s bank. When FCMAT compared the check carbon copy with the bank’s copy, the payee of the check is different as the bank’s copy identifies “Yuba City High School Basketball” and is not blank, as is the carbon copy of the check alleged to have been issued directly to the MBC coach. FCMAT’s review of the handwriting of the check date, amount of \$2,000, and the written amount of “Two Thousand Dollars Only” indicates that the handwriting is the same in both the check carbon copy and check copy received from the ASB’s bank. What is different between the two check copies is that the carbon copy reflects the check memo name of “Coach” written in black ink, but the same was not written in the check copy FCMAT received from YCHS ASB’s bank. The ASB’s bank-provided check copy memo states, “Basketball-Sponsor.”

Regardless of the check carbon copy and bank copy check memo difference, the payee of the \$2,000 check is “Yuba City High School Basketball,” not the coach, and it was received and recorded by the YCHS ASB bookkeeper in the MBC ASB account.

YCHS MBC Tournament Fees

The YCHS MBC coach operates his own independent basketball organization known as 1440 Basketball Academy (1440).

The number associated with the 1440 name represents the 1,440 minutes in a 24-hour day. Both MBC and non-MBC players try out and play basketball for 1440. The MBC coach indicated that he started this club because he loves basketball, has coached professional players in another country, and wants to see the players improve. He further stated that he created 1440 to involve more kids with basketball and provide more opportunities for players to improve their skills.

There were allegations that the MBC coach was paying for 1440 tournaments with YCHS ASB funds. Both the MBC and 1440 may play in the same basketball tournaments; however, based on the documents FCMAT was provided, YCHS tournaments were paid from YCHS ASB funds, and 1440 tournaments were paid from 1440 funds. 1440 plays in more tournaments than the MBC.

1440 collects fees for tournaments and other uses directly from its players. The MBC coach provided unredacted copies of his personal credit card statements and identified 1440 tournament and other 1440 costs paid in his credit card statements.

Basketball tournaments may also be subject to discount pricing, which complicates any tournament analysis. One example basketball event in which 1440 participated cost \$9,000, as identified in the MBC coach's credit card statement.

The MBC coach explained that often, if the per-tournament fee is paid versus prepaying for several at once, the per-tournament price is \$250. However, by prepaying for 75 tournaments, the per-tournament price was decreased to \$120 ($\$9,000 / 75 = \120). The \$9,000 represents many more tournaments than what the MBC participates in and pays for during the entire school year.

FCMAT interviews with YCHS ASB administrators and staff concluded that the YCHS ASB staff is clearly aware of and can account for which basketball tournaments the MBC participates in. FCMAT's examination of MBC tournament fees documentation clearly reflects that registration fees are being paid for MBC specific registration. There are sufficient supporting documents and authorization signatures for payment by the YCHS director of activities and athletics and the school principal to prevent the MBC from paying for a 1440 tournament fee.

1440 Basketball Academy Donation of \$2,527 to the YCHS MBC ASB

The MBC accounting records show a July 30, 2014 deposit from the 1440 Basketball Academy for \$2,527. The deposit purpose is written as "Deposit: 1440 Basketball Donation." The donation of \$2,527 to the MBC from 1440 represents the net proceeds from a July 20, 2014 car wash fundraiser sponsored by 1440.

The MBC coach presented FCMAT with documentation related to the 1440 car wash fundraiser. 1440 members sold tickets clearly identified as "1440 Basketball Academy." However, the tickets also identified the name of "Yuba City High School." The 1440 letter that is alleged to have been sent to 1440 players and parents states:

"On Sunday, July 20, 2014 we are hosting a Car Wash Fundraiser from 10am-8pm @ Yuba City High School outdoor basketball courts...The proceeds of our fundraiser will be used to upgrade the main gym at Yuba City High School, purchase new basketball equipment for our 1440 program and also support our scholarship program."

The 1440 Basketball Academy has the right to sponsor its own fundraisers, spend the money as it deems appropriate, and may donate any proceeds to an outside organization. Since 1440 is not a district program and is a separate legal entity, a donation to Yuba City High School is allowable if, in fact, the district accepts the donation. This fundraiser was not approved as an MBC fundraiser, so the funds did not have to be deposited or donated to MBC. That was the decision of 1440. But, because the funds were donated to MBC, the transaction was reviewed as it was questioned.

Examining the specifics of the 1440 donation of \$2,527 to Yuba City High School, several ASB internal controls, policies and procedures, and significant authorization-related internal control deficiencies were noted.

Neither the MBC nor 1440 were able to present any documentation from the YCHS or YCUSD that:

- a. Approved the fundraiser,
- b. Identified any required insurance certificates for 1440 utilizing the Yuba City basketball courts,
- c. Presented a facilities use permit along with a description of how any funds from the car wash fundraiser will be allocated between YCHS and 1440 equipment purchases and scholarship programs,
- d. Identified which YCHS staff may be required to attend the fundraiser and supervise as the YCHS representative.
- e. Approved the 1440 fundraiser car wash ticket to include the name of the YCHS on the face of the 1440 car wash ticket.
- f. Approved the 1440 fundraiser to be held at the YCHS outdoor basketball courts.

While it was generous of 1440 to donate \$2,527 to the MBC, because YCHS did not have proper internal controls, supervision and training in place, YCHS may have been considered a co-sponsor of the fundraiser because its name appeared on the tickets. Because the district's name was listed on the ticket, the YCUSD may have assumed risk it was not made formally aware of, as it would have been through the regular approval process.

Other Internal Control Deficiencies

During FCMAT's audit of the MBC, other instances of possible internal control deficiencies and noncompliance with ASB best practices were found, including:

- Cash receipt transactions are not consistently counted and witnessed by two individuals with signatures in the cash count form at the point of fundraising and when funds are turned over to the ASB bookkeeper.
- Many of the purchasing receipts are poorly documented and in a few cases evidenced only by handwritten notes as proof of the purchase transaction.
- Forms such as ticket control and tally sheets are not consistently used throughout the school year and by all ASB clubs conducting fundraisers.
- The YCHS ASB accounting software has not been updated to the newest version in many years.

Causes of ASB Internal Control Deficiencies

Contributing factors to the internal control deficiencies and other findings in this report include a lack of staff training or ASB accounting manual, and a lack of district ASB policies and procedures specific to the types of ASB fundraising and program operations that are allowed. Consistent ASB policies, procedures and training are essential to operate a sound ASB program and hold staff accountable.

Many transactions that FCMAT reviewed indicated that the YCHS administrators, staff, club advisors and coaches were simply unaware of proper ASB administration and operation, fundraisers, and policies and procedures.

While reviewing MBC coach text messages between the MBC coach and YCHS administrators and staff, FCMAT read the instructions the MBC coach was given that were contrary to proper ASB operations and administration and obtained context as to how other transactions came about.

The text message samples shown below are quoted; however, identifying names of individuals are removed for privacy purposes.

Text Sample 1 – Friday, January 1, 2015: Cash not turned in timely and removing cash from one deposit to be used as start-up cash for another event.

Coach: Will you be in Monday 01/05?

ASB staff: No...I will return on 1/12. Happy New Year ~ what's up, anything urgent?

Coach: I need to turn in snack bar \$ & also get money for 01/03 game & 01/06 game.

ASB staff: You could just pull out start up money for those days and fill in the paperwork after the fact.

Text Sample 2 – Friday, February 20, 2015: Fundraising forms not prepared, approved, and submitted before the fundraising event.

ASB staff: Hey...next time you're on campus you will need to complete fundraising forms.

Coach: Ok thanks!

Text Sample 3 – Tuesday, February 24, 2015: MBC constitution requested after the basketball season concluded rather than requiring the document prior to the club being approved, including prior to any fundraisers, spending or other ASB activity was allowed.

ASB Admin: ... you MUST have a constitution for your basketball club ASAP! Mrs ... has drafts you can use as a template, thanks! You're the only club without.

Coach: Add this to my...list, lol

Text Sample 4 – Wednesday, December 18, 2013: Free ticket requests discussed between the MBC and ASB staff about a ticket request from an ASB administrator. FCMAT's interview of YCHS staff indicates that issuing free tickets is a common practice and has not been considered unallowable.

ASB staff: ...is under the impression that the 28 passes we gave him are for the host families; he is requesting 28 more for his use. Tell me what you think

Coach: I have already given 28 Mel Good and 28 season passes for host families from the passes you gave me. He can use the ones he has for whatever he needs. Thanks...!

ASB staff: Got it...Thanks

AB 139 Extraordinary Audit Report Summary

Based on the findings in this report, there is insufficient evidence to demonstrate that fraud, misappropriation of funds and/or assets or other illegal activities may have occurred in the specific areas reviewed. However, significant deficiencies in the ASB's internal control environment exist and increase the probability of fraud and/or abuse. These findings should be of great concern to the district governing board and the Sutter County Superintendent of Schools and require immediate intervention to limit the risk of fraud and/or misappropriation of assets or other illegal activities in the future.

The existence of fraud is solely the purview of the courts and juries, and FCMAT will not make statements that could be construed as a conclusion that fraud has occurred.

In accordance with Education Code Section 42638(b), action by the county superintendent shall include the following:

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

Education Code Section 1241.5(b) requires the county superintendent to report the findings and recommendations to the governing board of the district at a regularly scheduled board meeting within 45 days of completing the audit. The governing board of the district shall notify the county superintendent within 15 days after receipt of the report of its proposed actions regarding the county superintendent's recommendations.

Recommendations

The county superintendent should:

1. Notify the governing board of the Yuba City Unified School District that insufficient evidence exists that fraud, misappropriation of ASB funds and/or assets or other illegal activities may have occurred and that the county office has concluded its review in the specific areas reviewed.

The district should:

1. Refer to the FCMAT ASB Accounting Manual, Fraud Prevention Guide and Desk Reference in adopting its ASB policies and procedures.
2. Prepare a separate districtwide ASB manual to accommodate additional ASB policies and procedures that the district governing board approves.
3. Establish policies as to which district staff are considered governing board designees and define their duties and responsibilities.
4. Establish districtwide policies as to which ASB duties and responsibilities the school principal may designate to other district staff such as vice principals, with the understanding that even when such designations are made, the school principal remains responsible for the ASB operations overall at their site.

5. Enforce ASB regulations that purchases are not allowed to occur prior to the date of the purchase order. Ensure that all purchases are first formally preapproved by the student council, then the certificated ASB advisor, and then the principal before any purchasing takes place.
6. Update existing ASB forms and other documents to include required signatures for proper authorization of all ASB transactions and activities.
7. Regarding athletics, consider the following options:
 - a. Remove athletics from ASB and operate all athletics through the school site local donation (9000) resource and district policies and procedures.
 - b. Keep athletics operated and accounted for in the ASB, identify athletics or each sport as an ASB club, and state in governing board policy that athletics must follow all ASB policies and procedures.
8. Implement a districtwide ASB training program, including athletic programs, with general and advanced ASB fraud awareness workshops. Require attendance by all district administrators, certificated club advisors, and staff who will perform ASB functions. Include ASB student council and leadership students in the training.
9. Prepare ASB policies and procedures specific to district governing board approved fundraising events.
10. Update or replace the ASB accounting software with a newer version.
11. Install a fraud hot line where employees can communicate anonymously should they suspect fraudulent activity, creating an atmosphere where employees feel safe to communicate concerns.
12. Ensure that employees involved in ASB understand their fiduciary duty and responsibility to ensure that the governing board's fiscal policies and procedures are followed.
13. Implement a districtwide ASB internal audit schedule conducted by the district office so that sites are more prepared and informed about district requirements.

Appendices

Appendix A

Study Agreement



CSIS California School Information Services

**FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
AB139 STUDY AGREEMENT
May 1, 2015**

The Fiscal Crisis and Management Assistance Team (FCMAT), hereinafter referred to as the team, and the Sutter County Superintendent of Schools, 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. Pursuant to the provisions of Education Code Section 1241.5 (b), a county superintendent of schools may review or audit the expenditures and internal controls of any school 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.

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 Sutter County Superintendent of Schools has requested that the team assign professionals to conduct an extraordinary audit on behalf of the Yuba City School District pursuant to Education Code Section 1241.5(c), the superintendent has reason to believe that fraud, misappropriation of funds, or other illegal practices may have occurred. The review of the district will include but not be limited to the following:

The scope and objectives of this study pursuant to the provisions of Education Code Section 1241.5:

1. The Sutter County Office of Education 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),(c), the superintendent has reason to believe that fraud, misappropriation of funds or other illegal practices may have occurred and shall conduct a review of the Yuba City Unified School District's associated study body (ASB)

operations. The county superintendent has received allegations from a group of parents who brought forward written evidence regarding an ASB operations. The ASB allegations are specific to comingling of ASB club account funds with club advisors personal funds, inappropriate expenditures approved by district staff and management responsible for oversight, missing records and other supporting documentation, and other discrepancies such as payments for purchases prior to student council approval and other unauthorized purchases. In addition to the authority granted under 1241.5 (c) and 47604.3, the county superintendent may conduct an investigation of the district and charter schools based on written complaints by parents or other information that justifies the review.

The primary focus of this ASB review is to examine the available information and documentation pertaining to the allegations presented by the group of parents as described in the preceding paragraph. As a result of FCMAT's examination of the allegations presented, components of the district's ASB internal control system may be evaluated. Internal controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. To address the allegations, audit objectives specific to the allegations will include evaluating the policies, procedures, and internal controls and transactions performed by the district. Audit objectives and transaction sampling and testing will be based on FCMAT's audit teams' experience and professional judgement.

Allegations Overview and Risk Assessment:

FCMAT will conduct a review of ASB procedures specific to the allegations. An allegations overview is specific to the allegations and does not mean that every aspect of the district's ASB management structure, operations and internal control system will be examined. The review of ASB procedure are based on FCMAT's judgement and may include interviews of department management and key personnel; a review of available financial reports; evaluation of policies and procedures associated with business processes; federal, state or local compliance requirements; and an assessment of the information systems. Risk assessment is designed to identify areas of concern specific to the allegations in order to assist in determining the proper audit procedures.

The allegations review and risk assessment may consider, but is not limited to, the following (not all inclusive):

- ASB club account transaction analysis
- Tracing of payments, including cancelled checks and other available documentation
- Reviewing of available transaction pre-approval documentation
- Reimbursements and authorizations for purchases
- Total fees or payments collected by fiscal year
- Resolution of prior audit observations
- Results of recent internal or external reviews

General Control Environment:

1. FCMAT may interview key management, and certificated or classified employees, responsible for the district's ASB funds to identify and gain an understanding of and assess the organizational structure and operating style, written communications, to assist FCMAT with the risk assessment processes.
2. Interview select staff members to obtain the staff perspective including the district's central office, ASB director, principal or other site personnel.
3. Evaluate the adequacy of the organizational structure and various reporting processes to provide reasonable assurance that the accountability for financial results is clearly demonstrated.
4. If the organizational structure and various reporting processes do not appear adequate, provide recommended or alternative structures or reporting processes to provide additional assurance.

Business Process:

5. Identify key activities (payments, transaction activities, reimbursements, purchasing, and authorization of purchases) to assist in gaining an understanding of the business processes and the positions with process responsibilities.
6. Review financial processes and document positions with responsibility for initiating, reviewing, approving, and reconciling financial transactions
7. Evaluate processes for adequate separation of duties and proper authorizations and approvals to provide reasonable assurance that the charter's resources are properly safeguarded.

FCMAT will sample test data specific to the allegations in for the 2014-15 fiscal year and one prior fiscal year. Testing of sampled transactions for this review will be based on the team's judgment and experience and may not include the testing of all transactions and records for this period.

B. Services and Products to be Provided

1. Orientation Meeting - The team will conduct an orientation session at the county office and district to brief management and supervisory personnel on the team's procedures and 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 the district's 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’s administration for review and comment on a schedule determined by the team.
5. Final Report - Electronic copies of the final report will be delivered to the COE and/or district following completion of the review. Printed copies are available from the FCMAT office upon request.
6. Follow-Up Support – If requested, the team will meet with the COE and/or district to discuss the findings and recommendations of the report.

3. PROJECT PERSONNEL

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

- | | | |
|----|----------------------------------|--------------------------------|
| A. | Michelle Plumbtree | FCMAT Chief Management Analyst |
| B. | Michael Ammermon CPA, CFE, DABFA | FCMAT Consultant |

Other equally qualified staff or consultants will be substituted in the event one of the above 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 staff team member while on site, conducting fieldwork at other locations, presenting reports, or participating in meetings. The cost of independent FCMAT consultants will be billed at their actual daily rate.
- B. All out-of-pocket expenses, including travel, meals and lodging.

Based on the elements noted in Section 2A, the total estimated cost of the study will be \$27,000, but may increase based on FCMAT’s field work findings.

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

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

5. RESPONSIBILITIES OF THE COE AND/OR DISTRICT

- A. The district will provide office and conference room space during on-site reviews.
- B. The district will provide the following if requested:
 - 1. Policies, regulations and prior reports addressing the study request
 - 2. Copies of all documents submitted by the parents regarding the allegations.
 - 3. Current or proposed organizational charts
 - 4. Current and two prior years' audit reports including management recommendation reports or other separately issued findings reports.
 - 5. Any documents requested on a supplemental list. Documents requested on the supplemental list should be provided to FCMAT only in electronic format; if only hard copies are available, they should be scanned by the district and sent to FCMAT in an electronic format.
 - 6. Documents should be provided in advance of fieldwork; any delay in the receipt of the requested documents may affect the start date of the project. Upon approval of the signed study agreement, access will be provided to FCMAT's online SharePoint document repository where the district shall upload all requested documents.
- C. The COE and/or district's 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 different phases of the study:

<i>Orientation:</i>	<i>May 2015</i>
<i>Staff Interviews:</i>	<i>To be determined</i>
<i>Exit Interviews:</i>	<i>To be determined</i>
<i>Preliminary Report Submitted</i>	<i>To be determined</i>
<i>Final Report Submitted</i>	<i>To be determined</i>

7. **COMMENCEMENT, TERMINATION AND COMPLETION OF WORK:**

FCMAT will begin work as soon as it has assembled an available and appropriate study team consisting of FCMAT staff and independent consultants, taking into consideration other jobs FCMAT has previously undertaken and assignments from the state. The team will work expeditiously to complete its work and deliver its report, subject to the cooperation of the district and any other parties from whom, in the team's judgment, it must obtain information. Once the team has completed its fieldwork, it will proceed to prepare a preliminary draft report and a final report. Prior to completion of fieldwork, the district may terminate its request for service and will be responsible for all costs incurred by FCMAT to the date of termination under Section 4 (Project Costs). If the district does not provide written notice of termination prior to completion of field work, the team will complete its work and deliver its report and the district will be responsible for the full costs. The district understands and agrees that FCMAT is a state agency and all FCMAT reports are published on the FCMAT website and made available to interested parties in state government. In the absence of extraordinary circumstances, FCMAT will not withhold preparation, publication and distribution of a report once fieldwork has been completed, and the district shall not request that it do so.

8. **INDEPENDENT CONTRACTOR:**

FCMAT is an independent contractor and is not an employee or engaged in any manner with the district. The manner in which FCMAT's services are rendered shall be within its sole control and discretion. FCMAT representatives are not authorized to speak for, represent, or obligate the district in any manner without prior express written authorization from an officer of the district.

9. **INSURANCE:**

During the term of this agreement, FCMAT shall maintain liability insurance of not less than \$1 million unless otherwise agreed upon in writing by the district, automobile liability insurance in the amount required under California state law, and workers compensation as required under California state law. FCMAT shall provide certificates of insurance, with additional insured endorsements, indicating applicable insurance coverages prior to the commencement of work.

10. **HOLD HARMLESS:**

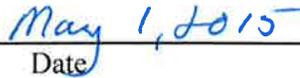
FCMAT shall hold the district, its board, officers, agents and employees harmless from all suits, claims and liabilities resulting from negligent acts or omissions of its board, officers, agents and employees undertaken under this agreement. Conversely, the district shall hold FCMAT, its board, officers, agents and employees harmless from all suits, claims and liabilities resulting from negligent acts or omissions of its board, officers, agents and employees undertaken under this agreement.

12. CONTACT PERSON

Contact: Gail Atwood, Assistant Superintendent
Telephone: (530) 822-2957
E-mail Address: gaila@sutter.k12.ca.us



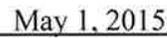
Bill Cornelius, Superintendent
Sutter County Superintendent of Schools



Date



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



Date