

*CSIS California School Information Services*

# **Riverside County Office of Education**

## **Internal Control Review**

### **of Imagine Charter School**

February 22, 2016

**Joel D. Montero**  
Chief Executive Officer







CSIS California School Information Services

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February 22, 2016

Kenneth M. Young, Superintendent  
Riverside County Office of Education  
3939 Thirteenth Street  
Riverside, CA 92501

Dear Superintendent Young:

In September 2015, the Riverside County Office of Education and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for an internal control review of the Imagine Charter School's governance, payroll, accounts payable, purchasing/contracts and cash deposits. Specifically, the agreement states that FCMAT will perform the following:

FCMAT will conduct an internal control review of the Imagine Charter School on behalf of the Riverside County Office of Education and make recommendations for improvement, if any. The charter provides educational services for grades K-2 with an enrollment of approximately 192 students based on data for the 2014-15 fiscal year. While proper internal controls may be difficult to attain because of the charter's size and number of employees in the organization, the primary focus is to provide the county office and charter school with reasonable assurances that the governance and business practices performed have adequate management controls for reporting and monitoring financial transactions. Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. Specific review objectives will include evaluating the board policies and administrative regulations, procedures, internal controls and transactions performed by the Imagine Charter School related to the following:

1. Governance (board policies and organizational structure)
2. Payroll
3. Accounts Payable
4. Cash Deposits
5. Purchasing\Contracts

**FCMAT**

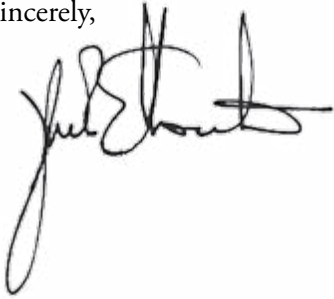
Joel D. Montero, Chief Executive Officer

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

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

FCMAT appreciates the opportunity to serve the Riverside County Office of Education and extends thanks to its staff and the staff of Imagine Charter School for their cooperation and assistance during this review.

Sincerely,

A handwritten signature in black ink, appearing to read "Joel D. Montero". The signature is fluid and cursive, with a large loop at the end of the last name.

Joel D. Montero  
Chief Executive Officer

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# About FCMAT

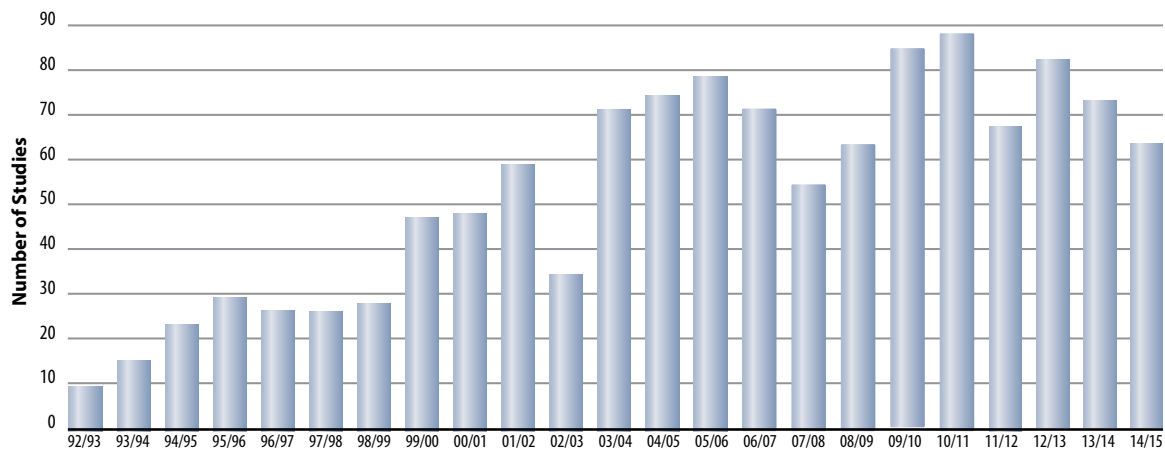
FCMAT’s primary mission is to assist California’s local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related 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, support the training and development of chief business officials and help to create efficient organizational operations. FCMAT’s data management services are used to help local educational agencies (LEAs) meet state reporting responsibilities, improve data quality, and inform instructional program decisions.

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 LEA 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.

FCMAT has continued to make adjustments in the types of support provided based on the changing dynamics of K-14 LEAs and the implementation of major educational reforms.

**Studies by Fiscal Year**



FCMAT also develops and provides numerous publications, software tools, workshops and professional development opportunities to help LEAs operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) division 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 (AB) 1200 in 1992 to assist LEAs to meet and sustain their financial obligations. AB 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide data management work. AB 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. AB 2756 (2004) provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans.

In January 2006, Senate Bill 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

## Background

Imagine Schools Non-Profit, Inc. (ISNP) is a Virginia-based nonprofit corporation established on August 16, 2005 and Imagine Schools, Riverside County (Imagine) is a subsidiary company of ISNP. ISNP's 2014 annual report states that it operates in 11 states with 67 campuses and 36,000 students. Two of its schools are located in California; Imagine and Imagine Charter School Imperial Valley. The Riverside County Office of Education granted ISNP's petition to open Imagine on June 8, 2011 for a three-year period beginning July 1, 2011 and ending June 30, 2014. The county office granted Imagine a two-year extension on February 13, 2014, allowing Imagine to operate through June 30, 2016 barring approval of further extensions.

Imagine incorporated in California on March 5, 2010, was issued its charter school number by the State Board of Education on November 1, 2011 and opened for classes on August 22, 2013. Imagine provides an English/Spanish dual language immersion, classroom-based program for students in kindergarten through third grade and reports that it serves approximately 268 students for the 2015-16 school year, with its unduplicated pupil count encompassing approximately 94% of its students.

California Education Code Section 47600, also known as the Charter Schools Act of 1992, was enacted "to provide opportunities for teachers, parents, pupils, and community members to establish and maintain schools that operate independently from the existing school district structure." Charter schools are a part of the public school system, but differ from traditional public schools because they are exempt from many state laws relating to specific educational programs. Specific goals and operating procedures are detailed in an agreement, or charter, between the authorizing agency and the charter school organizers. Charter schools may elect to operate as corporations organized under the Nonprofit Public Benefit Corporation Law of the Internal Revenue Code [26 U.S.C. Section 501(c)(3)].

While charter schools offer a more flexible school governance model, they are still accountable for student achievement and fiscal management similar to traditional public schools. The authorizing agency is responsible for adequate and appropriate oversight, including determining whether a charter follows prudent business practices and generally accepted accounting principles in accounting for revenues and expenditures and meeting financial reporting requirements. The authorizing agency may be a school district, county office of education, or the California State Board of Education.

The county office has issued two notices of violation to Imagine. The first was issued in April 2013 and was primarily related to the fact that Imagine had failed to commence instruction for the 2011-12 and 2012-13 school years. The second was issued on October 14, 2015 and cited the following three violations of Imagine's charter:

1. Noncompliance with the charter commitment to maintain economic sustainability (Charter, p. 102).
2. Noncompliance with the charter requirement that "the books and records of Imagine Schools will be kept in accordance with generally accepted accounting procedures" (Charter, p. 106).
3. Noncompliance with the charter requirement regarding before- and after-school programs by assessing a fee; collection of fees not being reported (Charter, pp. 35, 36, 70, 88).

4. In addition to the notices of violation, Imagine has experienced a great deal of turnover in the positions of principal and business manager. Imagine has had four business managers since its inception and is in the process of recruiting and hiring a new business manager. During this transition, ISNP has enlisted the support of a business manager from one of its nearby campuses to help support the day-to-day business operations of Imagine's Riverside campus. However, the county office remains concerned about the school's internal controls and has requested FCMAT to perform an internal control review.

## Study and Report Guidelines

FCMAT visited Imagine, on October 29 and 30, 2015 to conduct interviews, collect data and review documents. This report is the result of those activities and is divided into the following sections:

- Executive Summary
- Internal Control
- Governance
- Organizational Structure
- Payroll
- Accounts Payable/Purchasing/Contracts
- Cash Receipts and Deposits
- Appendices

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.

## Study Team

The study team was composed of the following members:

Julie Auvil, CPA, CGMA  
FCMAT Fiscal Intervention Specialist  
Bakersfield, CA

Kim Sloan, CPA, CIA, CFE, CGMA\*  
Chief Financial Officer  
Self-Insured Schools of California  
Bakersfield, CA

Leonel Martínez  
FCMAT Technical Writer  
Bakersfield, CA

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

Each team member reviewed the draft report to confirm the accuracy and to achieve consensus on the final recommendations.

# Executive Summary

While the county office authorized Imagine's charter petition 4 ½ years ago, the school is only in its third year of operation. The county office is in the process of reviewing Imagine's charter for renewal and recently issued a notice of violation to Imagine regarding three areas of noncompliance. The county office has commissioned this study because of those events.

Imagine serves approximately 270 students and, because of its size, has a small business office staff. However, because it is part of ISNP, it has the capability of accessing the services of a regional support team to assist in its operations. This has become especially beneficial to Imagine because of turnover in the positions of principal and business manager. At the time of FCMAT's fieldwork, Imagine had been sharing a business manager with another ISNP school. Imagine had recently hired a new business manager and was in the process of training that person; however, she resigned after only 10 days of employment.

FCMAT's review found that Imagine's control environment is lacking in the areas of governance, organization, payroll, and accounts payable, with the largest deficiencies related to the turnover in business managers. Most of its controls in cash receipts/deposits were found to be at acceptable levels, but could be further strengthened by stamping checks "for deposit only" upon receipt, considering enrollment in an electronic desktop deposit scanning program and ensuring that bank reconciliations are performed monthly. The monthly reconciliations should also contain evidence of the person who performed the reconciliation and show that the work was reviewed.

To have an effective governance structure, rules and regulations regarding the activities of the organization and its employees should be established. Imagine has authored a limited number of board policies; however, they do not contain the date when the board acted to adopt them. Therefore, it is uncertain whether they are the official board policy. ISNP has authored a policy manual; however, many policies and procedures should be expanded to include more detail. Desk manuals are absent, which compounds the charter's issues with Galaxy accounting software training.

Imagine in its memorandum of understanding agreed to be subject to the Ralph M. Brown Act and to conduct its meetings "in a manner that allows for local public participation and input by parents, local community members and the oversight agency;" however, Imagine has elected to conduct its meetings at 9 a.m. on the second Thursday of each month. This time is not optimal to provide working parents or community members with the opportunity to provide input, and board minutes support the lack of outside participation in Imagine board meetings.

Board training is another area that was included in both the memorandum of understanding (MOU) with the county office and the charter petition. However, the evidence of board training provided to FCMAT consists of one session on the Brown Act held in May 2013 with the expectation that a session on the board's duties and responsibilities will be held in February or April 2016. Even though some members of Imagine's board have served or may serve on other boards, all board members should receive the same training to ensure that they have the same understanding.

An institution's organizational structure should establish the framework for leadership, lines of communication and the delegation of specific duties and responsibilities for all staff members. However, the organizational charts provided to FCMAT did not include all the charter's positions or show how the ISNP regional support team fits into the organization. Not clearly defining these relationships can cause confusion, which was evidenced in FCMAT's interviews at Imagine.

Imagine uses two financial software systems. MAS500, which is the ISNP system and Galaxy, the system required by the county office in the MOU. Having two financial systems provides unique challenges for Imagine. Support for the MAS500 system is available from many sources; however, Imagine is limited in resources to provide support on the Galaxy system. Because of turnover in the business manager position, the shared business manager and an ISNP administrator from Arizona have some experience with Galaxy. However, Imagine is faced with hiring a new business manager and will need to rely heavily on the county office for training and support of the Galaxy system with this transition. Cross-training will also be necessary to allow Imagine to continue day-to-day operations if it experiences a loss of key business office personnel. Imagine's lack of cross-training resulted in accounts payable items not being posted into the charter's general ledger and led to one of the charges in the county office's most recent notice of violation.

Imagine uses the ISNP Southwest Regional Office to handle both its human resources functions and process its payroll, including updating pay rate information, entering hours worked, and adjusting payroll information. This violates the internal control concept of segregation of duties and allows one person to add an employee and generate the payroll.

The turnover in the business manager position has also manifested itself in a lack of tracking employees' use of sick and/or vacation time. While it was reported that spreadsheets are maintained, this duty has been assigned to the business manager. Without consistency in this position, no one has been tracking these hours.

ISNP's policy manual includes procedures to utilize purchase orders; however, Imagine has not utilized them consistently in either the current or prior fiscal years. FCMAT's testing of accounts payable transactions showed that they were used in only seven of the 21 transactions for the 2014-15 fiscal year and had not been used in any of the 14 transactions tested for the 2015-16 fiscal year. Failure to use purchase orders results in purchases not being encumbered, allows budgets to be exceeded and prevents the charter from proper budgeting.

Imagine's current system of processing invoices also violates the internal control concept of segregation of duties. The business manager position has the ability to generate a purchase order, add a vendor, pay a vendor and then process the warrants without the knowledge of ISNP administrators or Imagine's governing board.

Imagine maintains two additional bank accounts outside of the funds held in its Riverside County Treasury account. While these accounts did not have significant balances, their balances had not been swept into the county treasury or recorded in the Galaxy accounting system.

Instead of issuing warrants from the county office to pay payroll taxes, Imagine has funds transferred to one of its bank accounts for electronic payment to taxing authorities. The best practice is to ensure that all cash disbursements are issued from one account to avoid duplicate payments.

# Findings and Recommendations

## Internal Control

The accounting industry clearly defines the term “internal control” as it applies to organizations, including school agencies. An organization establishes control over its operations by 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 control helps an organization obtain timely feedback on its progress in meeting operational goals and guiding principles, producing reliable financial reports, and ensuring compliance with applicable laws and regulations. Internal control provides the means to direct, monitor, and measure an organization’s assets and resources and plays an important role in protecting it from fraud, abuse or misappropriation.

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

- Prevent management from overriding internal controls.
- Ensure ongoing state and federal compliance.
- Assure the governing board that the internal control system is sound.
- Help identify and correct inefficient processes.
- Ensure that employees are aware that they are expected to use proper internal controls.

Internal control has five components:

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

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

As the organization’s local leader and chief executive, the campus principal sets the organizational tone that influences all decisions and activities and the internal control mentality of its

employees. Factors that contribute to a positive control environment include integrity, ethical values, management philosophy and operating style, organizational structure or configuration, assignment of authority and responsibility, and employee expertise and proficiency.

The business manager oversees the integration of all five internal control components into one cohesive structure. The administrative team of the principal and business manager provide leadership and direction to employees, assign the responsibility for establishing specific internal control policies and procedures, monitor, review and provide feedback on the employees' internal control activities. If and when Imagine's organizational structure expands to incorporate managers, they would be assigned responsibility to establish specific internal control policies and procedures, control activities and monitor the personnel responsible for unit functions.

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

Independent auditors assess whether the controls are properly designed and implemented, and monitor whether the controls are working effectively. They also make recommendations for improving internal controls.

The charter has experienced major changes in leadership in the positions of campus principal and business manager. The new campus principal was hired on July 1, 2015 and is the third school leader to be hired in the last 12 months. A new business manager was hired in mid-October to replace the person who left Imagine after five months and with no prior notice in July 2015; however, this new hire resigned after only 10 days of employment. Imagine has the support of not only the ISNP regional directors and its regional support team but also a business manager from another campus to assist in overseeing its day-to-day operations. These services, though helpful, cannot be provided full-time and sometimes need to be delivered from other locations either in the state or from Arizona. Changing leadership brings new ideas and approaches in performing processes and can lead to inconsistencies in business function practices and lack of oversight by leadership. Imagine staff and the ISNP regional team personnel interviewed by FCMAT were generally engaged, thoughtful, open and responsive.

As Imagine moves through changes in organization, it should perform the following:

- Solicit feedback on communication practices.
- Provide a set of guidelines for effective communications.
- Establish a variety of communication avenues such as employee surveys, meetings, and an email suggestion box.
- Develop communication networks such as Facebook or Twitter.
- Implement regular communication from the principal regarding the charter's direction, plans, goals, and obstacles.
- Encourage attendance at meetings or trainings.

Clear contact points, such as a specific school or ISNP staff member, should be designated for particular issues. Increasing opportunities for coordination between all charter employees and professional colleagues outside the charter will promote a stronger connection to goals and objectives and an understanding of obstacles that are common throughout public education in

California. This is especially important because of recent organizational changes and the fact that another business manager will be hired in the near future.

FCMAT found that the business office control environment is lacking. Imagine's petition states that it will adopt a "conflicts code" to comply with the Political Reform Act and California Corporations Code conflict of interest rules. Imagine has not adopted a policy on conflict of interest or a code of ethics and professional standards. Imagine provided FCMAT with a policies and procedures manual. Based on the manual language, this document appears to have been developed at the ISNP regional level, and none of its pages are dated to provide a reference to its authorship or last update. This report focuses on providing assistance with Imagine's written policies and procedures as they relate to administrative office functions. Imagine's control environment would be further strengthened by communicating to employees that they are expected to comply with all policies and procedures, code of ethics and standards of conduct as well as control environment philosophies. These philosophies include:

- Personal and professional leadership is based on the highest levels of integrity.
- Leadership philosophy and operating style promote internal control throughout the charter.
- Accountability is enhanced by assigning authority and responsibility at the highest possible level.
- The charter's policies and procedures reflect its internal control objectives and are strictly followed.
- All employees know and understand charter policies and procedures as well as those specifically related to the area in which they operate.
- Employees are aware of their internal control responsibilities.
- Fraud (embezzlement, stealing, misuse of equipment, technology or supplies, etc.) is not tolerated.
- Employees are responsible to continually self-monitor operations and job performance.

Occupational fraud is a global problem in business and 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 this type of fraud three times as often as any other method. According to the 2014 Report to the Nations conducted and 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. Given the high costs of occupational fraud, all organizations should have a strong fraud prevention and detection program.

Fraud and the misuse of physical or cash assets occur when three factors converge: pressure or motive, opportunity, and rationalization or lack of integrity. This is known as the "fraud triangle." When two of the three factors are present, the probability that fraud will occur increases. When all three factors are present, it is almost certain that fraud will occur.

The opportunity for fraud varies throughout the charter depending on the duties assigned to an employee. Rationalization and lack of integrity are more likely to be present in organizations that do not implement and/or promote anti-fraud policies.



Ongoing employee education can help prevent and detect occupational fraud; however, the charter does not have an employee training and awareness program. Employees should be regularly trained in what constitutes fraud, how it hurts everyone in the organization, widely found fraud schemes, and common behavior signs. Employees should have several avenues for reporting improprieties and should be encouraged not to ignore warning signs. Risk awareness training about suspicious situations that merit reporting will help create a charterwide culture that supports appropriate reporting.

Imagine should also implement common fraud detection methods such as an anonymous employee hotline, unannounced audits or fraud risk assessments. Knowing that someone is checking or could anonymously report suspicious behavior can deter fraudulent activity.

As is common in smaller entities, the risk assessment component of internal control at Imagine has been assigned to its independent auditors as part of their annual audit. However, the scope of the auditors' review is limited to consideration of internal control as a basis for designing audit procedures. Consequently, independent auditors do not express an opinion on the effectiveness of the charter's internal control, and they should not be the charter's only approach to monitoring internal controls.

The study team reviewed the charter's independent audit report for fiscal year 2013-14, its first year of operation. The auditors found no instances of findings or questioned costs. The report for fiscal year 2014-15 was not yet available at the time of FCMAT's fieldwork. Nevertheless, the charter should stay vigilant regarding any findings or questioned costs, especially those identified as a material weakness. These weaknesses could result in a material misstatement of the financial statements or in material noncompliance with a program requirement because the charter's internal controls could not prevent, detect, and correct problems in a timely manner. Findings and recommendations from its independent auditors should elicit a response from the charter. Consistent review and follow-up by the board on audit findings and exceptions will help strengthen the charter's control activities.

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

- System of checks and balances – Formal procedures should be implemented to initiate, approve, execute, record and reconcile transactions. The procedures should identify the employees responsible for each step and the time period for completion. Key areas requiring checks and balances include payroll, purchasing, accounts payable and cash receipts.
- Segregation of duties – Adequate internal accounting procedures must be implemented, and necessary changes made to segregate job duties and protect the charter's assets. No single employee should handle a transaction from initiation to reconciliation, and no single employee should have custody of an asset, such as cash, and maintain the records of its transactions.
- Staff cross-training – More than one employee should be able to perform each job. Each staff member should be required to use accrued vacation, and another staff member should be assigned to perform those duties at that time. Inadequate cross-training is often a problem regardless of the size of an organization.
- Use of prenumbered documents – Checks, cash receipts, purchase orders, receiving reports, and tickets should all be printed by an entity independent of the charter. Physical controls should be maintained over the check stock, cash receipt books and tickets. Using prenumbered documents without an independently reconciled log of numbers is insufficient.



- Asset security – Cash should be deposited daily, and the charter’s other property, such as computers and other equipment, should be secured. Access to supplies, including but not limited to stores, food, tools, and gasoline, should be restricted to designated employees.
- Timely reconciliations – Bank statements and account balances should be reconciled monthly by an employee independent of the individual who is assigned to the original transaction and recording. For example, the office employee reconciling the checking account should not be the same person who maintains the check stock.
- Comprehensive annual budget – The annual budget should include sufficient detail for revenue and expenditures by school site, department and resource to identify variances and determine whether financial goals were achieved. Material variances in revenues and expenditures should be investigated promptly and thoroughly.
- Inventory records – Inventory records should be maintained that identify the items and quantities purchased, sold or designated as surplus. Physical inventory should be taken periodically and reconciled with inventory records. Inventoried items particularly susceptible to misappropriation include: computer equipment, warehouse supplies, food service commodities, maintenance and transportation parts and student store goods.

With the changes to positions at the campus level and the effects those vacancies can and have had on Imagine, cross-training becomes essential in all business office processes including, but not limited to areas such as accounts payable, payroll and cash receipts/deposits. Cross-training can be difficult in small charters; however, at least one additional employee should be trained in all areas so he or she can temporarily perform critical duties in the absence of the business manager. This process will need to continue once the new business manager is hired so that office functions can continue in the event of illness, vacation or resignation. This will enable the charter to continue essential business office functions without interruption.

Imagine utilizes the Galaxy accounting software, as is required by its MOU with the county office, and ISNP’s MAS500 accounting software, which is required of ISNP campuses. Imagine is the only campus of all of ISNP’s 67 campuses that utilizes the Galaxy software. Imagine provided FCMAT with a Policy Procedures Manual 4.12 that provides its policy and instructions for business-related job duties. This document is vague regarding who specifically is responsible for performing duties. For example, it states that the “front office” is to perform a duty, but not which position(s) encompass the front office. Not assigning specific duties to specific positions weakens internal controls and increases the possibility that incompatible duties will be assigned to a position. The manual was also written from the ISNP view and includes only procedures as related to the MAS500 system. It has not been revised to include the procedures necessary for Imagine to comply with the use of Galaxy.

The manual also includes a section entitled “Internal Controls Audit Observations” which includes internal audit programs for such items as accounts payable, payroll, cash and journal entries. While use of these programs would assist Imagine in monitoring its internal controls, charter administrators reported to FCMAT that the charter had not used them as of the time of fieldwork.

The charter lacks desk manuals that include step-by-step procedures for each position in the business office. Desk manuals ensure consistent application of internal controls and designate the responsibilities of each position(s). While the Policy Procedures Manual 4.12 provides some assistance in step-by-step procedures, it is geared toward the entity as a whole. As a result, the document can be unclear regarding specific duties performed at an individual desk and at times lacks

the policy behind processing a transaction (i.e. for travel/conference reimbursements, whether the charter is utilizing a policy of reimbursing actual expenditures or is on a per diem system).

Business department policies and procedures manuals provide an opportunity to plan and diagram internal controls and written standards for the business office and other charter employees to follow. Desk manuals and business department policy and procedure manuals are especially helpful for new staff. They can provide training, help preserve institutional knowledge, and document and monitor segregation of duties charterwide. These manuals should be made available to all charter employees to assist with processes and standards for business transactions and best practices.

Even though Imagine's staff had little difficulty in providing documents to FCMAT, it has experienced recent turnover in the business office and utilizes a business manager from another one of its schools to maintain operations. Turnover in an organization can allow for variation in record keeping causing records to be misplaced, lost or records retention policies to be ignored. Employees should be responsible for safekeeping, organizing, and ensuring access to important records related to their duties. Each employee's supervisor should oversee his or her work performance in this area. The charter can use various effective methods to organize documents. Charter schools are not subject to the California Code of Regulations (CCR) – Title 5, Commercial Code and Government Code that establishes records retention guidelines for California school agencies, but these can still serve as a best practice. The California Department of Education (CDE) states in its charter school closure process that “[p]rovisions for the authorizing entity to maintain all school records, including financial and attendance records, should reflect the timelines stated in 5 CCR, sections 16023-16026.” Imagine included a records retention policy among the documents provided to FCMAT; however, it is unclear whether the policy conforms to CCR or some other measure was used to determine the category/life of various records. This policy also did not include the date when the board adopted it, making it unclear whether it is an official policy of Imagine.

Under California Code of Regulations -- Title 5, Sections 16020-16027, records are categorized as either Class 1 - permanent records, Class 2 - optional records or Class 3 - disposable records based on the following criteria:

- **Class 1 - Permanent Records:** The original or one exact copy, unless microfilmed, of these records is required to be retained indefinitely. These records are specified in Section 16023 of the CCR and include, but are not limited to, items such as all J-Forms, most payroll records and the summary of expenditure and construction progress.
- **Class 2 - Optional Records:** The law does not require these to be retained permanently, but they are deemed worthy of further preservation as specified in Section 16024. This classification includes, but is not limited to, the consolidated application, architect agreements, and vendor files.
- **Class 3 - Disposable Records:** The required retention periods and procedures for destruction or transfer of these records are specified in Section 16025 and include items such as purchase orders, requisitions, and garnishments.

## Recommendations

*The charter school should:*

1. Immediately fill the vacant business manager position.
2. Improve communication practices, identify measurable objectives, and implement strategies to achieve those objectives.
3. Develop and adopt a code of ethics policy, conflict of interest policy and internal control policies.
4. Communicate to every employee that he or she is expected to comply with all policies and procedures, code of ethics, and standards of conduct.
5. Develop and implement ongoing employee fraud prevention training programs.
6. Develop and implement fraud detection methods.
7. Review and follow up on any audit exceptions or management letter findings or recommendations, descriptions of corrective actions or plans to correct items.
8. Ensure that employees are cross-trained in all key areas of responsibility.
9. Revise its current Policy Procedures Manual 4.12 to ensure it names specific positions responsible for performing the specific duties discussed, incorporate policies and procedures related to the Galaxy accounting system and ensure policies behind transactional processes are delineated.
10. Establish protocols to utilize the internal audit programs within the ISNP policy manual.
11. Develop desk manuals of employee duties; ensure that each employee includes step-by-step procedures for all assigned duties in his or her desk manual.
12. Ensure that each employee understands his or her responsibility for records retention. Provide education and dedicated time, as needed, to ensure the charter complies with the record retention requirements it specifies.



## Governance

Board policies and administrative regulations are based on laws and regulations in numerous documents, including the California Constitution, Education Code, Code of Regulations, Government Code, federal regulations, case law, and industry practice. Although charter schools are exempt from many Education Code requirements, they must adhere to many rules and regulations. These can include additional terms based on the charter's petition as well as its MOU with its charter authorizer. Board policies and regulations provide guidelines and directives for the operation of the charter and its personnel and are a key component of internal controls. It is important to ensure the board policies are updated to reflect changes in legislation.

In developing board policies and administrative regulations, management is responsible for designing and implementing a system of internal controls over financial reporting. This system should provide reasonable assurance that misstatements and/or noncompliance affecting the financial statements are prevented or detected and corrected through normal operating procedures. When adopting board policy, the charter should carefully consider the specific guidelines that promote behavior that secures the assets of Imagine from misuse or fraud.

Imagine's petition states that it will adopt a "conflicts code" to comply with the Political Reform Act and California Corporations Code conflict of interest rules. The MOU between the county office and Imagine also requires that board policies be adopted, posted on the charter's Web page and include, but not be limited to, the following topics:

- Conflicts of Interest
- Internal Fiscal Controls
- Campus Supervision
- Discipline Policies
- Parent/Student Handbook
- Health and Safety Plan

The board policies provided to FCMAT include those related to:

- Parent Involvement
- Uniform Complaint Policies and Procedures
- Section 504 Policies
- Document Retention - Destruction
- Health and Safety
- Pupil Fees
- Pupil Records Challenges
- Directory Information

None of the policies provided to FCMAT included the date of adoption or date of revision, if applicable, making it impossible to determine if the governing board actually adopted any of them. However, review of board meeting minutes showed that the uniform complaint procedures policy was adopted at Imagine's August 29, 2014 meeting. None of the policies provided to FCMAT relate directly to business matters such as budget, sale/disposal of property, bids, contracts, claims/actions against Imagine, travel policies, signature authority, processing credit

card statements or reimbursements, inventories, equipment or campus security. This indicates that the charter does not have guidelines and directives for areas such as cash and investments, community relations, human resources, superintendent/administration, additional business office procedures, public records act requests, student attendance, student discipline, and student acceptable use policy. Development and implementation of a comprehensive set of policies and regulations can be time-consuming for the charter staff and expensive because of the need to involve legal counsel in numerous areas. Many school districts avoid these issues by utilizing a policy subscription service such as the California School Boards Association's (CSBA) GAMUT service, which is now offered to charter schools. However, the policies have not yet been tailored explicitly to charters.

A specific concern is the lack of a board bylaw on selecting board members although the charter petition paragraph IV.C. provides that the ISNP executive committee controls selection and appointment and also lists some selection criteria. Documenting this process is even more important since Imagine is moving to expand its board from four members to a maximum of five. The county of Riverside encompasses a geographic area of approximately 7,200 square miles from the greater Los Angeles area to the Arizona border. Review of the charter's board meeting minutes show that the charter already regularly accommodates one board member located in Riverside who participates in board meetings via telephone and has one member located in Imperial County. Education Code Section 47604 allows a single representative of the chartering authority's governing board to serve on Imagine's nonprofit benefit corporation's board. Therefore, the selection criteria should also consider a board member's geographical location, the possible inclusion of an authorizing agency designee, evaluation of the board member's expertise in schools, and possible background and reference checks.

Interviews of charter administrators and board members found that they are uncertain about the length of board members' terms. Paragraph IV.C. of the charter's petition also discusses this topic.

Imagine's administrators and board members recognize the benefits of board training. Imagine has included the requirement for Brown Act training in its MOU, paragraph 1.3, as well as providing annual training as noted in the charter petition (paragraph IV.C.). However, the evidence of board training provided to FCMAT includes only one session on the Brown Act held in May 2013 with the expectation that a session on the board's duties and responsibilities will be held in February or April 2016. While one board member also serves on the board of another ISNP charter school, training has been minimal for Imagine's governing board. Training can be obtained in various ways, including having charter administrators conduct sessions, and receiving instruction from the charter's attorneys and outside vendors such as through the CSBA's masters in governance program. However, utilizing outside vendors may provide a larger breadth of topics and self-paced programs as well as a cost savings.

Imagine's MOU with the county office states the following:

Governing board meetings will be conducted in a manner that allows for local public participation and input by parents, local community members and the oversight agency, and in keeping with the requirements of the Ralph M. Brown Act (Government Code sections 54950-54962), and Government Code 1090. Governing Board adopted policies, meeting agendas and minutes shall be posted on the Internet and shall be forwarded to RCOE when they become available.

Although Imagine's website has intermittently posted portions of its board meeting schedule in the past, a FCMAT review of the site found the following:

- The schedule for the entire fiscal year is not posted.
- Board meeting dates are not included in its calendar of events.
- Except for the minutes of the April 19, 2014 meeting, board meeting minutes are not posted.
- Board meeting agendas were regularly posted to the "school news" portion of the Web site; however, they were interspersed with other informational items such as the newsletter and announcements of job fairs and school breaks.

While all of these items are important to Imagine's constituency, combining them with the board meeting announcements can become confusing.

Imagine's board meetings are held in its business office in an office space comprising a desk and small conference room table. The meetings were reported to be scheduled on the second Thursday of each month, and review of the board meeting agendas shows that they were scheduled once a month excluding July and December. Of the 13 board meetings during the 2014-15 and 2015-16 fiscal years, only the June 9, 2015 meeting was held at a time other than 9 a.m. Because of the constraints of the board meeting space and the time at which most board meetings occur, it is difficult for those interested to participate. Interviewees reported to FCMAT that parents and community members were present at board meetings and that there was a great deal of discussion regarding agenda items. Review of the minutes of Imagine's board meetings failed to support either of these assertions. The minutes included no mention of others outside of charter administrators or board members speaking on agenda items and indicated board meetings last between six and 45 minutes, averaging 29 minutes.

Imagine's Web page needs to be updated. The board accepted the resignation of the person listed as governing board president at its August 29, 2014 meeting, 14 months ago.

FCMAT's review of the charter's board agendas found that trustees regularly participate in meetings via telephone. Chapter III.4. of The Brown Act, Open Meetings For Local Legislative Bodies 2003 published by the California Attorney General's Office states that the following must occur for telephone conference participation by board members:

- The homes or offices used in the teleconference must be open to the public and accommodate any member of the public who wishes to attend the meeting from that home or office.
- The teleconference location must be accessible to the disabled.
- An agenda must be posted at each teleconference location.
- The teleconference location must be listed in the agenda.

The charter's board agendas listed the teleconference locations, but it is unknown whether they could accommodate the disabled or if agendas were properly posted at the teleconference locations.

Because Imagine's petition states that it will adopt a "conflicts code" to comply with the Political Reform Act and California Corporations Code conflict of interest rules, it is required to file the California Fair Political Practices Commission's statement of economic interests (Form 700). Consequently, it is important to have a conflict of interest policy to determine who, besides its

board members, should file Form 700 and should include those who are involved in and approve purchasing decisions.

The filing of these forms is to occur at various times coinciding with events in the educational agency. Filings of Form 700 are most often calendar-year filings; however, they are also required to occur within 30 days of assuming or leaving office or within 30 days of the effective date of a newly adopted or amended conflict of interest code. Three Imagine events warranted the filing of Form 700s: annual filings for the 2014 year, due on April 1, 2015; the departure of one board member in 2014; and the assumption of one new board member to office in 2015. If Imagine adds a fifth board member, as is the current plan, that event will also necessitate the filing of a Form 700.

FCMAT's review of the Form 700 filings provided by Imagine shows the following:

- For the 2014 annual filings with a filing deadline of April 1, 2015:
  - One board member did not complete a filing for the 2014 year.
  - Of the two board members who completed a filing for the 2014 year, one did not complete the schedule summary and verification sections of the form.
- For the board member who left office on August 29, 2014, no Form 700 was filed.
- For the board member who assumed office on May 14, 2015, no Form 700 was filed.
- One board member completed a single Form 700 for both the 2014 and 2015 calendar years, dating the form January 15, 2015.

The California Fair Political Practices Commission has no provisions for extending filing deadlines and imposes fines and penalties on those who miss them. The commission may impose individual late filing penalties of \$10 per day, up to a maximum of \$100, as well as a fine of up to \$5,000 per violation.

## Recommendations

*The charter school should:*

1. Develop and adopt board policies and administrative regulations.
2. Post board policies and administrative regulations on its Web page.
3. Develop and adopt criteria for board member selection.
4. Follow the charter petition regarding board member terms.
5. Train board members in areas such as the board's role, governance, board policy, school finance, human resources, and community relations.
6. Ensure that board meeting agendas and meeting minutes are posted to the Imagine website, that these items are separated from other informational announcements and that board meeting dates are included in the monthly calendars of events.



7. Develop a regular monthly schedule for board meetings, post it on the charter's website and consider moving the meetings to a classroom and holding them when parent and community participation is more likely.
8. Ensure that its Web page contains up-to-date information on board members.
9. Ensure telephonic participation by board members in board meetings complies with The Brown Act.
10. Develop and adopt a conflict of interest policy to ensure that board members and charter administrators involved in purchasing decisions are included in filing statements of economic interests.
11. Promptly file statements of economic interests for officers who have vacated or assumed seats on its board during 2015.
12. Develop internal deadlines for receiving January 1, 2015-December 31, 2015 statements of economic interests for current board members and administrators to comply with the filing deadline.
13. Carefully examine all statements of economic interest to ensure they contain complete disclosures.



## Organizational Structure

A charter's organizational structure should establish the framework for leadership, lines of communication and the delegation of specific duties and responsibilities for all staff members. This structure should be managed to maximize resources and reach identified goals and should adapt as the charter's enrollment changes. The charter should be staffed according to basic, generally accepted theories of organizational structure and the standards used in other school agencies of similar size and type. The most common theories of organizational structure are span of control, chain of command, and line and staff authority. (Principles of School Business Management, Association of School Business Officials, Inc.)

### Span of Control

Span of control refers to the number of subordinates reporting directly to a supervisor. While there is no agreed-upon ideal number of subordinates for span of control, it is generally agreed that the span can be larger at lower levels of an organization than at higher levels because subordinates at the lower levels typically perform more routine duties, and therefore can be more effectively supervised.

### Chain of Command

Chain of command refers to the flow of authority and communication process in an organization and is characterized by two significant principles. Unity of command suggests that a subordinate is only accountable to one supervisor, and the scalar principle suggests that authority and responsibility should flow in a direct vertical line from top management to the lowest level. The result is a hierarchical division of labor.

#### Line and Staff Authority

Line authority is the relationship between supervisors and subordinates. It refers to the direct line in the chain of command. For example, the regional director has direct line authority over the principal, and the principal has direct line authority over the teaching staff. Conversely, staff authority is advisory in nature. Staff personnel do not have the authority to make and implement decisions, but act in support roles to line personnel. The organizational structure of local educational agencies contains both line and staff authority.

The purpose of the organizational structure is to help charter management make key decisions to facilitate student learning while balancing its financial resources. The organizational design should outline the management process and its specific links to the formal system of communication, authority, and responsibility necessary to achieve the charter's goals and objectives.

FCMAT was provided with three organizational charts. Two were contained at pages 62 and 63 of Imagine's charter petition and the third was a separate, undated document. The two charts from the charter petition reflect ISNP and its line authority to its geographic groups, regional directors and the local campuses. The undated chart shows ISNP's board and its officers linking the ISNP executive vice-president responsible for Arizona, California and Colorado to the California regional directors and the Imagine campus principal/staff. However, the Imagine governing board is not included in any of these charts.

While the undated organizational chart links the ISNP executive vice-president responsible for Arizona, California and Colorado to the ISNP regional director responsible for Imagine, it does not show line authority regarding how the ISNP regional support team fits into the organization

or line authority for the campus principal, business manager or office manager/registrar. The chart also does not include all positions at Imagine such as office clerks and teachers. Interviewees confirmed their confusion over the lack of a clear organizational structure. Most reported that the principal was responsible for the day-to-day operation of the local campus and supervision of charter school staff, but one thought the regional director had those responsibilities. Employees who should report to the principal according to the charter petition organizational chart believed that they reported to other positions. In some instances, they mentioned that they reported to more than one supervisor. Lack of known authority can result in confusion among staff and create inconsistency among business office processes and procedures.

A well-crafted organizational chart should include all positions. Excluding lower-level positions implies that they are not a part of the organization and makes it difficult for staff to understand the chain of command.

As is shown in all three organizational charts, providing one person with line authority over an entire organization can result in bottlenecks or a lack of supervision when too many people are being supervised. In many small charter organizations, the principal and business manager are the primary administrators of the school, with the principal given the lead role. The principal is considered the educational leader with responsibilities for the teachers and other classroom staff and the business manager oversees and supervises the business office staff. While it was expressed by charter administration to FCMAT that the principal and the business manager exist in almost a partnership, much like this common format, Imagine's organizational charts do not show this relationship.

## Recommendations

*The charter school should:*

1. Review its current organizational chart and ensure it includes its local governing board.
2. Review and revise its organizational chart as changes occur.
3. Ensure all lines of authority are clearly depicted in the organizational chart.
4. Ensure that all positions are included on the organizational chart.
5. Consider providing the business manager with supervisory responsibility for business office staff.

## Payroll

For the 2015-16 fiscal year, Imagine began with 32 employees; 11 full-time equivalent (FTE) teachers, one FTE principal, 11 FTE instructional/health aides, one before- and after-school coordinator, one business manager, one office manager, and six various school support staff. ISNP's Southwest Regional Office located in Arizona handles the human resources function. As new employees are hired, a personnel file is created and maintained in Arizona.

Payroll is supervised by Imagine's principal, processed by Imagine's business manager, and warrants are generated by the county office. Since its inception, the charter has experienced frequent turnover in the business manager position. In July 2015, the payroll processing function was temporarily assigned to the Southwest Regional Office because of the unexpected resignation of its business manager and was still handled by that office at the time of FCMAT's fieldwork.

The ISNP regional office is not only responsible for entering new staff into the Galaxy system, but also for updating pay rate information, entering hours worked, and adjusting payroll information. Imagine's structure for processing payroll violates the internal control concept of segregation of duties. While there is some division of duties, with the principal approving the monthly payroll and the office assistant entering daily time card data on monthly spreadsheets, this is not enough to prevent a fictitious or "ghost" employee from being entered into the Galaxy system and paid. A sound internal control structure requires job duties to be segregated to adequately protect the charter school's assets. Segregation of duties is an essential internal controls component and one of the most effective in preventing and deterring fraud. No single employee should be able to establish a new employee in the organization's financial software and also be responsible for initiating payroll transactions. Duties should ideally be separated by control of employee data, salary placement and payroll.

All salaried employees are paid on a 12-month cycle with 12 pay periods. Teachers are paid on a 10-month cycle from September to June each year. Hourly employees are paid based on hours actually worked, and the time is recorded on timesheets. The county office establishes Imagine's pay dates, and payroll information is due to the county office on approximately the 20th of each month, with the normal payday for all employees being the last business day of the month.

The charter school does not have salary schedules for any of its positions. Imagine believes that the lack of salary schedules is beneficial because it allows the flexibility to be competitive with other school districts in the surrounding area. When hiring a new person, the charter agrees on a salary amount with the prospective hire and obtains approval from the ISNP regional director, school principal and business manager. FCMAT could not find evidence of board approval of this action either in hiring forms or in Imagine's board meeting minutes.

The charter school's exempt positions include teachers, principal, before- and after-school coordinator and the business manager. All hourly employees and substitute teachers are required to complete a time card for any hours worked, recording their time-in and time-out for each day worked. The office assistant then enters each hourly employee's daily time onto a monthly spreadsheet timesheet. On approximately the 15<sup>th</sup> of every month, the office assistant reviews each hourly employee's monthly timesheet for accuracy. The monthly spreadsheet timesheets are also reviewed and signed by the hourly employee before being forwarded to the principal for approval and signature. The charter school principal must approve any overtime for hourly employees in advance. If the timesheets identify that an employee used sick leave or vacation, the available balances are to be verified with the business manager; however, because of the turnover in the business manager position, sick and vacation leave balances have not been properly tracked.

FCMAT's review of the spreadsheet used for leave tracking found very little detail, which indicates tracking has been minimal since Imagine's inception.

The approved and signed timesheets are scanned and emailed to ISNP's southwest regional management in Arizona for payroll processing. The regional manager reviews all timesheets for accuracy, and the incomplete sheets are returned to Imagine for completion. Completed timesheet information is entered into the Galaxy system, which summarizes the payroll information for the pay period, including all employees to be paid (salaried, substitutes and hourly), hourly employee time, extra pay, overtime and time off. The regional manager generates a preliminary payroll report that is forwarded to the charter school principal for review. The regional director also reviews the preliminary payroll report before it is forwarded to the county office for payroll processing.

Pay warrants are couriered from the county office to Imagine's business office. The person on duty at the front desk accepts receipt of the package; the office assistant verifies that all requested pay warrants are received and distributes them. Imagine employees are required to acknowledge receipt by executing a sign-out sheet each month. The charter school allows other individuals to collect employee pay warrants; however, the employee must provide a written notice to the charter school. No charter school employees have direct deposit; therefore, all staff members receive paper pay warrants.

FCMAT selected the payroll dates of February 27, 2015 and October 30, 2015 consisting of a total of 27 timesheets for payroll testing. Each employee's timesheet was compared to the payroll register and the position control report, and no anomalies were found in the February 2015 payroll. When the same procedures were applied to the October 2015 payroll, the hours reported on the timesheets for 15 employees did not match the number of hours reported on the payroll register. All the employees had eight additional hours reported on the payroll register during the month. Imagine's management reported that it conducted a mandatory eight-hour training on a weekend that was not included on the employee's timesheet, but added when that payroll was processed.

Federal and state regulations require employers to withhold income taxes from the salaries and wages paid to their employees based on information provided by the employee on Form W-4 (Employee's Withholding Allowance Certificate) and DE 4 (Employee's Withholding Allowance Certificate). The amounts withheld are to be treated as funds held in trust and deposited with the Internal Revenue Service (IRS) (for federal tax payments) and the California Employment Development Department (EDD) (for state tax payments). Employers are then required to complete and timely file quarterly wage and payroll tax information.

The IRS requires Form 941 – Employer's Quarterly Federal Tax Return to be filed by the last day of the month following the end of the quarter. The EDD requires Form DE 9 – Quarterly Contribution Return and Report of Wages to be filed by first day of the month following the end of the quarter, but it is considered delinquent only when it is not filed by the last day of the month following the end of the quarter. FCMAT reviewed quarterly federal and state tax filings for Imagine for third quarter 2014, fourth quarter 2014, first quarter 2015, and second quarter 2015, and verified that all reports appeared to have been filed timely, with no indication that penalties were assessed.

As is discussed in further detail in the cash receipts/deposits section of this report, Imagine pays its payroll taxes using its local bank account via a transfer from the county treasurer. Normal school business practices are for all expenditures to be paid using the school agency's account

with the local county treasurer to ensure that all transactions are properly recorded in the school agency's accounting records.

Retirement earnings are recorded for certificated and classified employees in the California State Teachers Retirement System (CalSTRS) and the Social Security Administration. Certificated employees contribute between 8.56% and 9.20% of their earnings to CalSTRS, depending on which plan they qualify for, while the employer contributes 10.73%. Classified employees do not participate in a pension plan, but contribute to Social Security. The charter school is in the process of working with the county office to qualify its classified staff in the California Public Employees Retirement System. The county office prepares CalSTRS retirement reporting information on behalf of the charter school. No information was provided to FCMAT indicating problems with Imagine's STRS or Social Security reporting.

The Internal Revenue Service requires employers to distribute Form W-2s to employees each year by January 31 to report various items regarding wages and benefits paid to employees. Employers are considered to have met this requirement as long as the form is properly addressed and mailed on or before the due date.

The county office processes pay warrants monthly for Imagine and all earnings records are maintained in the county office Galaxy system. W-2s are generated annually based on Galaxy's electronic payroll records and forwarded to Imagine for distribution to employees by the IRS established deadline.

## Recommendations

*The charter school should:*

1. Immediately transfer the job duties related to processing monthly payroll to the business manager. The office manager should be cross-trained in these duties. In the absence of a full-time, permanent business manager, the office manager should assume responsibility for processing payroll.
2. Establish board-approved salary schedules or salary ranges for all positions and submit deviations from those to the board for specific action.
3. Obtain board approval for all salary placements.
4. Immediately review and reconcile vacation and sick leave balances.
5. Modify its payroll processing procedures so that the office manager enters payroll information into the Galaxy system and the business manager approves the preliminary payroll reports.
6. Investigate the possibility of direct deposit for monthly pay warrants.
7. Record all hours worked on employees' monthly timesheets, including any required meetings or trainings.
8. Eliminate the process of depositing tax payments into its local bank account, and have all cash disbursements issued from its county treasury account.
9. Continue to process its tax and STRS reporting and W-2s timely.





## Accounts Payable/Purchasing/Contracts

Paragraph 3.8 of the MOU between Imagine and the county office requires that Imagine “utilize the Galaxy financial system for budgeting and financial transactions/reporting.” ISNP requires that all its campuses utilize the MAS500 system for recording its accounting transactions. Consequently, Imagine must utilize two systems to record its financial transactions, and neither system can communicate with the other to help facilitate this work. Imagine administrators and staff alike reported that Galaxy is the primary accounting system containing all the detailed transactions. The business manager creates journal entries in aggregate to enter the information into the MAS500 system and balance the two systems. To ensure that this information was correct, FCMAT requested a 2015-16 detailed general ledger from MAS500 and the county office Galaxy system for school 100, resource 0, goal 1110, function 1000 and all objects. FCMAT reviewed and reconciled the reports and found that the detailed transactions are contained in the Galaxy system with the exception of bank fees and payroll processing fees. However, detail on bank and payroll processing fees were in the MAS500 system, and these transactions were not recorded in Galaxy.

Because MAS500 is the primary system for ISNP and all its campuses, finding training opportunities, follow-up and support is relatively simple because many departments and people in the ISNP organization can assist with this task. The only resource for Imagine to obtain Galaxy training is from the county office and its personnel. The county office provided Imagine’s business manager with Galaxy training and no limitation on the number of hours in the past. However, the county office indicated to ISNP administration its concern that the prior business manager did not adequately understand the Galaxy system, that the hours necessary to support the business manager were becoming excessive and wanted to decrease or cap the number hours for Galaxy support. Since the new business manager resigned abruptly and the prior business manager left without notice, any training provided to those positions and the prior business managers was lost. Imagine now has to refill the position and obtain intensive training for the new business manager. The Imagine business manager shared with another ISNP school seems to understand Galaxy fundamentals, but Imagine should ensure the permanent hire receives more in-depth training. Further, no Imagine personnel other than the shared business manager have Galaxy experience, and no one wants to learn the system because it is perceived as difficult to master. Failure to have more than one person trained in the Galaxy system is a violation of the internal control principal of cross-training and does not allow for the smooth operation of the charter in the event of illness, vacation or resignation.

FCMAT consulted with the county office on the need for Galaxy training at Imagine, and the county office offered to provide Imagine with an introduction to one or more of its smaller school districts to foster another source for follow up and support with Galaxy.

ISNP’s Policy Procedures Manual 4.12 is heavily weighted toward procedures attached to revenue, but includes procedures for purchase orders, expense reports and purchasing cards. Purchase orders are to be used for all purchases, created by the person requesting the item(s) and approved by the principal and business administration. The template indicates that expenditure amounts of more than \$1,000 require regional director approval, and interviewees reported that purchase orders of more than \$5,000 require the approval of the regional executive vice-president. The latter policy, however, was not included in any written policies provided to FCMAT. The principal’s approval is also required for all reimbursements.

Although most areas of charter school operation are not subject to Public Contract Code, adoption of these regulations provide a framework and best practices that can ensure prudent expenditure of public funds. These rules also allow adoption of board policy as well as business office policies and procedures to determine the dollar level for quotes used in nonpublic works expenditures, the number of quotes required per expenditure, the rubrics for evaluating bids/quotes, and templates for board actions to award bids/quotes/projects. Templates and examples of these items as well as instruction on their use and retention are best obtained from the charter's attorneys to ensure compliance with all applicable laws and regulations.

Specifically, the Public Contract Code Sections 20111, 20651 and 22002 require local educational agencies (LEAs) to formally bid and award to the lowest responsible bidder contracts involving the expenditure of more than \$50,000 adjusted for inflation, which was set at \$86,000 effective January 1, 2015. These thresholds apply to purchases of equipment, materials or supplies to be furnished, sold or leased as well as services and repairs that are not construction services. Limits are reduced to \$15,000 for the construction, reconstruction, erection, renovation, alteration, renovation, improvement, demolition and repair of publicly owned leased or operated facilities. The \$15,000 limit is not subject to inflation indexing.

Code Section 20116 further prohibits splitting or separating into smaller work orders or projects any work, project, service or purchase to evade the law requiring competitive bidding.

Competitive bidding is required for charters that participate in the National School Lunch/Breakfast Program. Under 7 CFR 210.16, .19 .21 and 2 CFR 200.317-.326, the charter is required to bid for the services of a vended meal contractor and "obtain written approval of invitations for bids and requires for proposals before their issuance when required by the State agency."

A review of Imagine's detailed general ledger found instances where Public Contract Code and Code of Federal Regulations would have been applicable regarding a building repair, materials for the facilities grant and food services vendors. FCMAT's review of Imagine's charter petition, MOU and board policies indicated that they have not agreed to adopt and follow Public Contract rules. Consequently, the building repair and materials for the facilities grant would have been exempt from bidding. The purchases from food vendors; however, would not have been exempt if the charter was participating in the National School Lunch Program/School Breakfast Program. Imagine provided FCMAT with the invitation for bid approval letter from the California Department of Education, School Food Service Contracts Unit and its invitation for bid for the 2015-16 fiscal year.

Imagine used a meal vendor in the 2014-15 fiscal year, but provided documentation that it did not participate in the National School Lunch Program/School Breakfast Program before fiscal year 2015-16. As a result, bidding and approval of the bid would not have been required.

While the policy manual covers preapproval of purchases, the recent turnover in the business manager position has resulted in Imagine sharing this position with the Imagine School in Imperial County. As a result, Galaxy numbered purchase orders were not used for purchases. Instead, charter and ISNP administration indicated that an unnumbered purchase order is generated. Failure to utilize the Galaxy purchase order system to requisition and preapprove purchases can allow budgets to be exceeded. FCMAT's testing of transactions found many instances where preapproval was lacking; 28 of the 35 samples excluded a purchase order in the accounts payable packet. The failure to use a purchase order was most prevalent in the 2015-16 year, when all 14 transactions lacked this document.

According to the policy manual and interviews with Imagine administrators and staff, the normal course of business involves distributing copies of the signed purchase order (whether numbered or unnumbered) to the business manager, office manager and the requestor. Requestors are responsible for placing their own orders. The Imagine business office accepts all deliveries, and the office personnel compare the purchase order with the order's packing list. If any items are missing, the business office personnel are to contact the vendor to resolve the issue. The packing slips are signed and dated by the person who verifies that items were received, stapled to the purchase order or order form and forwarded to the business manager for payment processing. Because Imagine was not using the prenumbered purchase orders in the Galaxy system Galaxy's direct payment process is used to generate warrants for vendors.

Purchases of technology items follow a different process. The regional information technology (IT) director approves all technology purchases and sends a copy of the purchase order to the technician in charge of the campus, the business manager and systems administrator. The systems administrator adds the item(s) to the inventory list. When the business office receives the order, the office personnel contact the regional IT director to inform her of the delivery. The campus technician is responsible for unpacking the items, checking for damage or incorrect items, attaching an asset tag, placing it in the office/classroom and updating the equipment inventory with serial numbers. Any missing or damaged items are reported to the regional IT director, who determines whether she will work with the vendor or the technician will handle the matter. The packing list is sent to the business manager for processing. FCMAT checked the technology items in the classroom used for interviews. All had inventory tags attached.

All invoices received are forwarded to the business manager for processing. Imagine uses Galaxy to generate warrants according to county office processes. The Galaxy system utilizes a soft stop, which allows purchases to continue even in cases where there is insufficient budget. The soft stop is also present in the direct payment application as long as there is override approval, which has been provided to the business manager. The business manager is also responsible for adding or updating vendor information.

Once the county office processes warrants, they are sent by overnight delivery service to Imagine for processing and mailing. The warrants are delivered to the front desk at Imagine's business office in a sealed blue bag that contains the warrants and a list of issued warrants. Either the business manager or the office assistant opens the bag, and the contents are given to the business manager who compares the warrant list to the warrants received. The warrants are then given to the office manager, who places postage on them and brings them to the locked mailbox that is on the premises. The year-end posting of accounts payable items is also assigned to the business manager.

The process outlined above violates the internal control concept of segregation of duties because incompatible duties are assigned to one individual. In this case, the business manager can generate a purchase order, add a vendor, pay a vendor and process the warrants without the knowledge of ISNP administrators or Imagine's governing board.

In addition, FCMAT's testing of accounts payable transactions found the following in the 35 transactions:

- One vendor packet could not be located.
- Payment was made without an invoice in two transactions. One used a quote to issue payment, and another an e-mail to eliminate the beginning balance in a restricted resource. Payments should never originate from anything other than an original invoice. Using

a document such as a quote increases the likelihood of duplicate payment, one issued from the quote and another from receipt of the invoice.

- Six transactions involved the actual receipt of physical goods, but only one of those packets contained a receiver document. While all of them contained initials approving the transaction, the best practice is to have proof of receipt before payment is issued.
- One employee reimbursement included a meal receipt that did not detail the food/beverages purchased. The section below discusses the need for detailed receipts for meal reimbursements.

Items processed in accounts payable include reimbursements to employees, some including travel costs. The charter has not adopted policies on travel reimbursements. Lack of a travel expense policy or an inadequate reimbursement policy can increase overhead costs, affect workforce morale and encourage behavior that is not in the charter's best interest such as the purchase of an expensive meal. It is important to consistently identify the basic rules and options of travel expense reimbursement in both documents so employees and board members can choose the most efficient plan for travel and expenses such as the following:

- Maximum reimbursable rates for transportation, hotel accommodations and meals.
  - Transportation: Imagine's policy will need to consider when an employee is allowed to use air transportation, car rental or when the use of the employee's vehicle is appropriate. A policy on employee-vehicle use should clearly state that the employee's personal auto insurance would apply first if an accident occurs, and Imagine will reimburse the employee based on the mileage driven. Any policy on mileage reimbursement should not cite a specific mileage rate, but tie the amount to the established IRS rate. This will avoid the necessity of updating the policy each time the IRS rate changes. Another problem arises when the charter's rate exceeds that of the IRS. The difference paid to the employee is considered taxable employee wages subject to inclusion on the employee's W-2. The policy should also require the most economic mode of travel to be used, and indicate that all traffic or parking tickets generated by employees is their personal responsibility.
  - Hotel Accommodations: Imagine's policy will need to set parameters for when an overnight stay is warranted such as a required number of miles or hours of travel, multiple day events, etc. Charter schools are public schools and therefore qualify to use state government rates at hotels. Board policy should include the requirement to use these rates whenever possible. Imagine should also consider whether it would require the use of quotes from a specific number of hotels to justify the requested rate or whether the hotel attached to a conference/workshop can be used regardless of the rate.
  - Meals: Imagine will need to determine if it will reimburse actual costs or pay meal per diems. Policies using actual costs can use strict actual costs or those with maximum limits set by meal or per day. In either case, reimbursement of actual expenses should require the employee to include a detailed receipt to ensure that alcohol is not purchased and that meals are only purchased for employees/charter representatives that are approved for travel. Establishment of a meal reimbursement policy often necessitates setting timelines for specific meals to qualify. For example, the policy could state that travel must start before 6:30 a.m. for breakfast, prior to 11:30 a.m. for lunch and end after 6:30 p.m. for dinner. Tipping limitations are

also recommended. If a per diem plan is adopted, the same principle regarding excess mileage reimbursement holds true for excess per-diem meal amounts that exceed the IRS established rates; these are \$51 per day in most small localities, but higher in the areas listed at [www.gsa.gov/perdiem](http://www.gsa.gov/perdiem). Over the past few years, the IRS has placed additional scrutiny on meal reimbursements or payment of per diems on travel that did not warrant an overnight stay (Internal Revenue Code Section 162(a)(2) Revenue Regulation 75-170). If the charter includes nonovernight travel in its policies, it should review IRS Publication 5137 and consult its independent auditors.

- A requirement that any staff member requesting travel must complete a travel request form with complete information on the trip, including the purpose and cost, before incurring the expense. The travel request form would also provide evidence of preapproval.
- A submission deadline for travel reimbursement. Some entities require the reimbursement to be submitted within a specified number of days of return from the trip. Others require them to be submitted monthly. Whatever interval is chosen, it should not allow too much time to pass so that reimbursement expenses are entered timely into the charter's financial records.

The charter has issued to the principal a bank credit card with a limit of \$1,500 used for travel expenses and to expedite purchases. Imagine has developed policies and procedures for its credit cards that require the individual to do the following:

- Sign a purchase card agreement prior to issuance of the credit card acknowledging receipt of the card and agreeing to the terms for use and reimbursement
- Obtain and keep detailed receipts
- Reconcile monthly statements
- Submit the reconciled monthly statement to his or her supervisor for review and approval within 10 days
- Avoid using the card for personal purchases
- Maintain the card in a secured location and write "require ID" on the back of the card

Imagine does not use debit cards, and FCMAT saw no evidence of their use in Imagine's bank statements for the 2014-15 and 2015-16 fiscal years.

The charter provided FCMAT with board minutes showing that the county office certificate of signatures was updated at the August 13, 2015 meeting to add the new principal. The certificate shows three of the four board members were present and grants the principal signature authority for warrant orders, salary payments and notices of employment. However, the charter was unable to provide FCMAT with a resolution designating those with signature authority on behalf of Imagine to sign other legal documents such as contracts, checks, etc. None of the transactions tested by FCMAT, which should have included a contract within the accounts payable packet, had such a document attached. Therefore, it is unknown who signs those documents on behalf of Imagine or whether he or she has the authority to do so.

In the public sector, disbursements are required to be fully disclosed and available for public review, and the governing board is responsible for final approval of all contracts, commitments

and expenditures. FCMAT's review of board minutes from August 2015 through September 2015 shows that the board did not review purchase orders, pay vouchers, warrants or electronic transactions at its monthly meetings. The best practice is to submit a list of all these transactions to the governing board for approval and/or ratification at least monthly.

An organization's purchasing department is often assigned to maintain an inventory of goods purchased. Education Code Section 35168 states the following:

The governing board of each school district shall establish and maintain a historical inventory, or an audit trace inventory system, or any other inventory system authorized by the State Board of Education, which shall contain the description, name, identification numbers, and original cost of all items of equipment acquired by it whose current market value exceeds five hundred dollars (\$500) per item, the date of acquisition, the location of use, and the time and mode of disposal.

While charters are not required to follow this Education Code section, it is a sound business practice. When items have been purchased with consolidated application funds, charters are required to follow the California Code of Regulations. Specifically, Title 5, Section 3946 requires an inventory to be maintained of items purchased with these funds and, in accordance with 34 CFR 80.3 and 80.32, a physical inventory to be conducted of equipment and the results reconciled with property records at least once every two years to verify the existence, current utilization, and continued use.

Any differences between the quantities determined by the physical inspection and those in the accounting records should be investigated. Those results can be used to write off items that were lost, stolen, or discarded and for adding unrecorded items. Removal of assets from the inventory also requires board approval before disposal. These procedures are another way to safeguard Imagine's physical property.

Imagine administrators and staff indicated that charter-owned technology assets were physically inventoried and tagged. However, the internal control inventory practice gives employees who purchase technology equipment the authority to approve the vendor payment, which leaves the charter school vulnerable to abuse.

The most recent notice of violation issued by the county office included the charge that Imagine's records were not kept in accordance with Generally Accepted Accounting Procedures. This was based on the fact that Imagine did not post any items to accounts payable when it produced its 2014-15 unaudited actuals. Imagine's staff confirmed that no accounts payable items were entered, but indicated this occurred because of the departure of the business manager without prior notice on July 24, 2015. This departure during the school's summer recess left Imagine with little information on the status of purchases. Imagine administration report that the postings of accounts payable will be corrected with the issuance of the independent audit report for 2014-15. Cross-training would ensure that key operations such as this would continue with the resignation of personnel.

## Recommendations

*The charter school should:*

1. Reconcile and balance the Galaxy and MAS500 systems to one another monthly.



2. Immediately fill the business manager position.
3. Seek immediate and intensive training from the county office for the Galaxy accounting software system for its business manager and at least one other office position.
4. Consider establishing relationships with the county office's small school districts to assist with Galaxy follow up and support.
5. Ensure that written policies and procedures are updated as changes are made.
6. Develop and adopt board policy and develop business office policies and procedures on the use of bids, requests for proposals/qualifications, and quotes. Templates and examples of these items as well as instruction on their use and retention should be obtained from the charter's legal counsel.
7. Utilize the Galaxy accounting system for issuance of purchase orders to allow for proper encumbering of funds.
8. Modify its accounts payable procedures to have the office manager entering purchase orders into the Galaxy system and processing invoices for payment. The principal and/or business manager should review and approve invoices. The business manager should approve accounts payable batches. The office assistant's duties should include adding or changing vendor information and processing warrants for mailing.
9. Work with the county office to modify Galaxy system access based on the internal control model implemented by Imagine.
10. Ensure all accounts payable transactions are initiated from original invoices or reimbursement requests and include evidence of receipt of goods or services. Reimbursements for actual meal costs should be based on detailed receipts.
11. Ensure year-end closing procedures include processes to identify and post accounts payable transactions.
12. Revise board policy to include specific rules and options for travel expense reimbursement such as car, mileage, meal and lodging rates, use of a travel request form, and the deadlines to submit reimbursements. These revisions should also be included in the policy manual.
13. Consider moving from a traditional bank-issued credit card to cards specifically geared toward government/tax-funded agencies to provide greater controls over their use. Examples include CAL-Card from the California Department of General Services.
14. Continue to prohibit the use of debit cards.
15. Immediately submit a resolution to the board designating those who have the authority to sign checks on the charter's behalf as well as legally bind the charter by their signature on contracts.

16. Ensure that the board approves and/or ratifies all purchase orders, warrants, checks and electronic transactions at least monthly.
17. Develop an inventory policy to include procedures to tag assets above certain dollar thresholds, tag all technology assets, assign custody of assets to locations or people, perform a physical inventory biannually, reconcile differences between the charter's book amount and the inventory amount, and submit a list of assets to be removed from the inventory to the board for approval.
18. Consider installing theft recovery, data protection and secure asset tracking software on laptops purchased by the charter to enable accurate tracking of technology assets.



## Cash Receipts and Deposits

The charter school maintains two separate bank accounts in addition to the account it maintains with the Riverside County Treasurer. The first bank account is a local account through Bank of America and is used to collect cash and checks from parents primarily related to the purchase of school meals and school uniforms. The amount of money collected is minimal and averaged approximately \$300 per month from July 2014 to October 2015. As of October 2015, the account balance was \$4,446.57, and the monthly service fees were the only withdrawals during that period.

The second is an out-of-state account with Branch Banking and Trust Company that allows for fund transfers between ISNP and Imagine. This account is also used to transfer funds to the Riverside County Treasurer. Between July 2014 and October 2015, the account received deposits totaling \$703,099.56, and withdrawals totaled \$736,845.08, resulting in an ending balance on October 30, 2015 of \$14,745.61. Approximately \$502,000, or 71%, of the deposits were composed of cash payments from ISNP to assist with Imagine's cash flow needs. FCMAT's testing confirmed that all cash assistance payments from ISNP were transferred from the Branch Banking and Trust Company account to the county treasurer and recorded in the Galaxy accounting system.

Instead of having warrants issued from the county office Galaxy accounting system for payroll taxes, Imagine makes its monthly and quarterly tax payments to the various taxing authorities through automated clearinghouse payments from the Branch Banking and Trust Company account. FCMAT's review of the remaining deposit amount of approximately \$202,000 showed that it consisted of transfers from the county treasurer to Branch Bank and Trust Company for these payroll tax payments. The rationale behind this decision was that this process eliminates the need for a paper warrant and ensures timely receipt by the taxing authority. However, cash disbursement transactions should issue from only one account, in this case, the account with the county treasurer. This ensures proper and accurate recording in the Galaxy accounting system and avoids the possibility of duplicate payments when two accounts are used.

The ending balances of the Bank of America and Branch Banking and Trust Company accounts have not been recorded in the Galaxy accounting system. Although the balances are minimal, accurate accounting of all cash accounts is essential for proper oversight by the chartering agency. Normal school business practices suggest educational agencies use their local bank accounts solely as a means of collecting small deposits and then transferring funds electronically or "sweeping" them to their account maintained with the county treasurer. The Bank of America and Branch Banking and Trust Company accounts should be "swept" periodically to the county treasurer. In instances where a bank account requires a minimum balance to be maintained, Imagine should develop a policy that ensures that the amount in the account is periodically updated in the Galaxy system.

Based on FCMAT's review of the cash deposits, Imagine receives minimal cash or checks monthly. Monies received are mostly related to food sales and uniform sales for its students. FCMAT's discussions with staff involved in the cash deposit process found most of the internal control processes are acceptable, including those on segregation of duties and proper security of assets. Policies and procedures include the following:

- Prenumbered receipt books are used when cash or checks are received.
- Receipts are assigned by both the payee and receiver.

- Cash is counted and verified by two people.
- Cash and checks are locked in a safe until the deposit is prepared.
- Deposits are made weekly by a person separate from those who receipt the funds.
- Bank issued deposit receipts are returned and attached to backup documentation for each deposit.
- The business manager posts deposits in the Galaxy general ledger.
- The business manager receives and reconciles bank statements.

Internal controls can be further strengthened. Imagine staff reported that deposits are made weekly and cash and checks are stored in the business office safe. Before placing the checks in the safe, all checks received should be stamped “for deposit only.” Marking the checks in this manner would help prevent unauthorized endorsement before deposit. Imagine could also consider using software that allows checks to be scanned, uploaded, and credited to its accounts from a desktop deposit scanning machine without the necessity of transporting them to the bank. This would allow processing of checks more quickly, but cash would still require bank delivery. Bank reconciliations are not always completed in the month immediately following the receipt of the bank statement, and they include no notation or signature showing the person who performed the reconciliation or that someone reviewed that work.

## Recommendations

*The charter school should:*

1. Transfer the balances from the Bank of America and Branch Banking and Trust Company accounts to its account held at the county treasurer’s office. If accounts require a minimum balance, develop a policy requiring the balance of the account to be periodically updated in the Galaxy system.
2. Eliminate the process of depositing tax payments into the Branch Banking and Trust Company account and have all cash disbursements issue from its county treasury account.
3. Stamp all checks “for deposit only” upon receipt.
4. Consider whether the charter’s banks can enroll the school in a desktop deposit scanning machine program.
5. Ensure bank reconciliations are performed monthly and include notations or signatures showing the person who performed the reconciliation and the person who reviewed the work.

## Subsequent Event

Following the completion of FCMAT's fieldwork, Imagine's independent audit report for fiscal year 2014-15 was released. It contained one finding related to the need to establish internal controls to ensure that transactions are posted "timely and in accordance with generally accepted accounting principles for financial statement reporting purposes." The auditors noted that a significant number of adjustments were required to Imagine's books, which then served as the basis for the financial audit. Three causes were noted for this finding as follows:

- Significant turnover in Imagine personnel;
- The need for training in the Galaxy software and reconciliation of Galaxy to MAS500; and
- Lack of procedures to transfer and close accounting transactions.



# Appendices

**A: Sample Credit Card User Agreement**

**B: Study Agreement**



## Appendix A: Sample Credit Card User Agreement

### District Cal-Card Usage Policies & Procedures

Congratulations! You have been selected as a site/department for the District's CAL-Card Program. The broad intent of the program is to assist the District in allowing additional flexibility for your site/departmental purchasing needs. The card's intent is that it be used for conferences (advance approval for conferences must still be obtained through the Conference Attendance Form process and POs will be necessary for the items to be paid with the CAL-Card) and Internet purchases **only** at this time (POs must still be submitted and approved in advance of making the purchase in order to encumber the funds property). By accepting the attached CAL-Card and signing below, you agree as follows:

1. To read, review and abide by the terms of the attached Cardholder Guide.
2. To sign the back of the card and call U.S. Bank Customer Service at the telephone number on the front side of the card to activate. Be aware that you might be asked for your "CVV" numbers, which stands for "Card Verification Value." The "CVV" number is a three-digit number following the account number within the signature block on the reverse side of your card. You may also be asked for the following information:
  - a. Single Purchase Limit:
  - b. 30-Day Limit:
  - c. Telephone Number Assigned to Card:
  - d. Zip Code Assigned to Card:

Once this has been accomplished, your card is ready for use.

3. To allow no one, other than yourself, to use the card and to retain physical custody of the card in a safe and secure location at all times.
4. To retain physical, hard copy proof of all purchases made with your card. In the event that the receipt cannot be located, you agree to notify me in writing of such circumstances. You further agree to include in the notification all facts surrounding the missing receipt as well as all documentation available to provide evidence of receipt of the merchandise. Due to audit requirements, recurring and/or frequent instances of missing receipts may result in forfeiture of your card.
5. To review, reconcile and sign your monthly statement immediately upon receipt but in no circumstances later than 5 days after receipt of the statement – our billing cycle date is the 22<sup>nd</sup> of each month and we typically receive statements around the 1<sup>st</sup> of the next month. You are also to provide a complete description of each item purchased on the appropriate description line of the monthly statement and attach the original receipts. The executed, reconciled statements should then be forwarded to me. The sooner these reconciled statements are processed and sent to me for review and then forwarded to Accounts Payable for payment, the larger the payment rebate received by the District and the larger your site's/department's portion of the rebate. For example, if the rebate was \$100 based on total District purchases of \$3,000 and your purchases totaled \$600, your portion of the rebate would be calculated as follows:  $\$600/\$3,000 = 20\% \times \$100 = \$20$ .

6. You understand that should interest charges be incurred due to your failure to process your monthly statement in accordance with item number 4 above, those charges will be applied first to directly reduce your portion of the rebate and any remainder will be applied against budgeted amounts. Recurring and/or frequent instances of untimely submission of monthly statements may result in forfeiture of your card.
7. If, because of travel or extended leave, you are scheduled to be away for more than 5 days at the time you would normally receive the monthly statement, you agree to contact me so that we can make arrangements for your monthly statement to be processed on a timely basis.
8. Should there be an error on the statement, you agree to be responsible for the completion of the Cardholder Statement of Questioned Item form (CSQI) and forwarding it to the U.S. Bank Government Services address or fax number listed below. A copy of the CSQI is also to be included with your executed and reconciled monthly statement. Keep in mind that the District will lose its dispute rights if the CSQI is not submitted within 60 days from the cycle date.

U.S. Bank Government Services  
P.O. Box 6346  
Fargo, ND 58125-6346

Fax: (701) 461-3910

Toll free: (800) 227-6736

Outside the U.S., call collect: (701) 461-2020

You further agree to attempt to resolve the dispute directly with the vendor and keep detailed records of those attempts. This documentation will be required by U.S. Bank and must be submitted along with the cardholder CSQI form.

9. Once disputes are resolved and you have received notification from U.S. Bank, you agree that you are responsible for instructing the Billing Office (Accounts Payable) to either apply a credit or certify a payment to the original Statement of Account where the dispute occurred.

Purchases are to be for work-related expenses only. Please refer to page 7 of the Cardholder Guide for a list of Prohibited Purchases. Your CAL-Card has been programmed so that use of it for these Prohibited Purchases will be disallowed at the time of the transaction. Keep in mind that should you use the card for meals while traveling on District business, no alcohol can be purchased using the CAL-Card – ask your waitress for a separate bill and use another means for payment (e.g. cash or your personal credit card). Additionally, should you use the card for business related meals while traveling, your per diem will be adjusted accordingly. For example, if you were to receive 3 complete days of meals (\$43/day x 3 = \$129) and used the CAL-Card for lunch (spending \$16 on that lunch), the per diem payable to you at the end of the trip would be \$113 (\$129 - \$16). In the event that you received the per diem in advance, you would be required to submit your personal check for all meals purchased at the time of submission of your executed and reconciled statement.

Use of the CAL-Card for personal items will result in termination of your CAL-Card privileges and confiscation of the card. Should you inadvertently use the CAL-Card for a personal charge, you should notify me immediately (e-mail or voice mail messages are perfectly acceptable given you may be out of town at the time) and payment for the charge should be submitted upon your return.

10. To immediately report lost or stolen cards to U.S. Bank Government Services at the number provided in the Cardholder Guide. You are also to immediately notify me via telephone or e-mail of such loss.



11. Likewise, any fraudulent activity must be immediately reported to the U.S. Bank Government Services -- see your Cardholder Guide for contact information. The activity must also be reported to me with the following particulars:

- The account number on which the fraud has been detected;
- The date and dollar amount of the fraudulent transaction(s);
- The date the cardholder first contacted, or was contacted by, U.S. Bank regarding the fraud;
- The name of the U.S. Bank Fraud Representative investigating the account; and
- The new account number (if established).

You should reconcile your Statement of Account by circling any unauthorized items and writing "fraud" next to the item(s). Deduct the fraudulent charges from the total amount owed and process the statement as usual. Do not submit a cardholder CSQI for fraudulent transactions.

You are also responsible to:

- Monitor future statements for (a) any trailing fraudulent charges; and (b) credits for previous fraud charges; and
- When the credit appears on the statement, provide written instructions on the Statement of Account for the Billing Office to apply the credit to the previous Statement of Account where withheld the payment(s) and/or fraudulent charge(s) originally appeared.

Again, welcome to the CAL-Card Program. We hope that you will find it to be a more convenient system to aid you in making purchases. Should you have questions or concerns, please do not hesitate to contact me.

I hereby acknowledge receipt of CAL-Card Number \_\_\_\_\_ and the Cardholder Guide. I also hereby acknowledge that I have read the foregoing and agree to the conditions therein.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

Print Name: \_\_\_\_\_



## Appendix B: Study Agreement



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**FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM  
STUDY AGREEMENT  
September 28, 2015**

The Fiscal Crisis and Management Assistance Team (FCMAT), hereinafter referred to as the team, and the Riverside County Office of Education, hereinafter referred to as the COE, mutually agree as follows:

**1. BASIS OF AGREEMENT**

The team provides a variety of services to school districts and county offices of education upon request. The COE has requested that the team assign professionals to study specific aspects of the operations of Imagine Charter School. These professionals may include staff of the team, county offices of education, the California State Department of Education, school districts, or private contractors. All work shall be performed in accordance with the terms and conditions of this agreement.

**2. SCOPE OF THE WORK**

**A. Scope and Objectives of the Study**

FCMAT will conduct an internal control review of the Imagine Charter School on behalf of the Riverside County Office of Education and make recommendations for improvement, if any. The charter provides educational services for grades K-2 with an enrollment of approximately 192 students based on data for the 2014-15 fiscal year. While proper internal controls may be difficult to attain because of the charter's size and number of employees in the organization, the primary focus is to provide the county office and charter school with reasonable assurances that the governance and business practices performed have adequate management controls for reporting and monitoring financial transactions. Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. Specific review objectives will include evaluating the board policies and administrative regulations, procedures, internal controls and transactions performed by the Imagine Charter School related to the following:

1. Governance (board policies and organizational structure)
2. Payroll
3. Accounts Payable
4. Cash Deposits
5. Purchasing/Contracts

B. Services and Products to be Provided

1. Orientation Meeting - The team will conduct an orientation session at the county office to brief its 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 county office and at the charter school sites if necessary.
3. Progress Reports - The team will hold an exit meeting at the conclusion of the on-site review to inform the county office of significant findings and recommendations to that point.
4. Exit Letter – Approximately 10 days after the exit meeting, the team will issue an exit letter briefly summarizing significant findings and recommendations to date and memorializing the topics discussed in the exit meeting.
5. Draft Reports - Electronic copies of a preliminary draft report will be delivered to the county office's administration for review and comment.
6. Final Report - Electronic copies of the final report will be delivered to the county office's administration following completion of the review. The final report will be published on the FCMAT website. Printed copies are available from FCMAT upon request.
7. Follow-Up Support – If requested, FCMAT will return to the county office at no cost six months after completion of the study to assess the the charter school's progress in implementing the recommendations included in the report. FCMAT will document the progress in implementing the recommendations in a management letter to the county office

3. **PROJECT PERSONNEL**

The study team will be supervised by Michael H. Fine, Chief Administrative Officer, Fiscal Crisis and Management Assistance Team, Kern County Superintendent of Schools Office. The study team may also include:

- A. *Julie Auvil, CPA, CGMA* *FCMAT Fiscal Intervention Specialist*
- B. *To be determined* *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 as follows:

- A. \$500 per day for each staff team member while on site, conducting fieldwork at other locations, preparing and 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.
- C. The COE will be invoiced at actual costs, with 50% of the estimated cost due following the completion of the on-site review and the remaining amount due upon county office's acceptance of the final report.

**Based on the elements identified in section 2 A, the total estimated cost of the study will be \$10,000.**

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

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

## 5. RESPONSIBILITIES OF THE COE

- A. The county office or charter school will provide office and conference room space during on-site reviews.
- B. The county office or the charter school will provide the following if requested:
1. Policies, regulations and prior reports that address the study scope.
  2. Current or proposed organizational charts.
  3. Current and two prior years' audit reports.
  4. 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 county office and sent to FCMAT in electronic format.
  5. 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 county office shall upload all requested documents.
- C. The county office's administration will review a preliminary draft copy of the report resulting from 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 before completion of the final report.

Pursuant to EC 45125.1(c), representatives of FCMAT will have limited contact with pupils. The county office shall take appropriate steps to comply with EC 45125.1(c).

## 6. PROJECT SCHEDULE

The following tentative schedule outlines the planned completion dates for different phases of the study:

<i>Orientation:</i>	<i>to be determined</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>
<i>Board Presentation:</i>	<i>to be determined, if requested</i>
<i>Follow-Up Support:</i>	<i>if requested</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 COE and any other parties from which, 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. Before completion of fieldwork, the county office 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 county office does not provide written notice of termination prior to completion of fieldwork, the team will complete its work and deliver its report and the county office will be responsible for the full costs. The county office 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 county office 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 county office. 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 county office in any manner without prior express written authorization from an officer of the county office.

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 county office, 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.

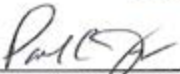
10. **HOLD HARMLESS:**

FCMAT shall hold the county office, 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 county office 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.



**11. CONTACT PERSON**

Contact person: Bill Spires, Executive Director, Fiscal Services  
Telephone: (951) 826-6559  
E-mail: [bspires@rcoe.us](mailto:bspires@rcoe.us)

  
\_\_\_\_\_  
Paul Jessup, Deputy Superintendent  
Riverside County Office of Education

9.30.15

Date

  
\_\_\_\_\_  
Michael H. Fine  
Chief Administrative Officer  
Fiscal Crisis and Management Assistance Team

September 28, 2015

Date