



CSIS California School Information Services

Fresno County Office of Education regarding the Parlier Unified School District

Extraordinary Audit

May 6, 2016

Joel D. Montero
Chief Executive Officer







May 6, 2016

Jim A. Yovino, Superintendent
Fresno County Office of Education
1111 Van Ness Avenue
Fresno, CA 93721

Dear Superintendent Yovino:

In September 2015, the Fresno County Office of Education and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement to conduct an AB 139 Extraordinary Audit of the Parlier Unified School District to determine if fraud, misappropriation of funds or other illegal activities may have occurred. Specifically, the agreement states that FCMAT will perform the following:

The primary focus of this review is to provide the County Superintendent with reasonable assurances, based on the testing performed, that the District has adequate management and internal controls to report and monitor financial transactions, and that fraud, misappropriation of funds or other illegal activities have not occurred. Internal 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 evaluation of policies, procedures, internal controls and transactions performed by the District.

The team will review and test transactions for fiscal years 2012-13 through 2014-15 to determine if fraud, misappropriation of funds or other illegal activities may have occurred. Testing for this review will be based on transactions and records for this period. Testing and review results are intended to provide reasonable but not absolute assurance regarding the accuracy of the District's financial transactions and activity to accomplish the following:

- Prevent internal controls from being overridden by management.
 - Ensure ongoing state and federal compliance.
 - Provide reasonable assurance to management that the internal control system is sound.
 - Help identify and correct inefficient processes.
 - Ensure that employees are aware of the proper internal control expectations.
1. Evaluate the District's internal control structure, policies and procedures to test transactions and reporting processes to determine if adequate procedures are in place to safeguard assets; and sample agendas and minutes of the

FCMAT

Joel D. Montero, Chief Executive Officer

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District's governing board to ensure compliance with procedures, policies, laws and regulations.

2. Evaluate the reliability and integrity of information used for internal management decisions and external agency reports.
3. Determine if authorization procedures are appropriate and consistently followed. Review administrator and manager approvals and whether signature authority is delegated only to authorized employees.
4. Determine whether proper segregation of duties exists.
5. Evaluate policies and procedures:
 - a. Review compliance with policies and procedures including, but not limited to, those in the areas of human resources, finance, purchasing, granting agencies, and state and federal government.
 - b. Review document and records retention procedures to determine whether the District provides reasonable assurance that asset records are safeguarded and transactions are correctly recorded.
6. Assess reporting processes:
 - a. Evaluate monitoring procedures and verify that controls are operating properly.
 - b. Evaluate controls that prevent management from overriding internal controls to prevent misappropriation of funds.
7. Determine if the organizational chart demonstrates the proper lines of authority. Evaluate whether clear established lines of authority and responsibility exist within and between the District's departments for proper review and reporting purposes.

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

Sincerely,



Joel D. Montero
Chief Executive Officer

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About FCMAT

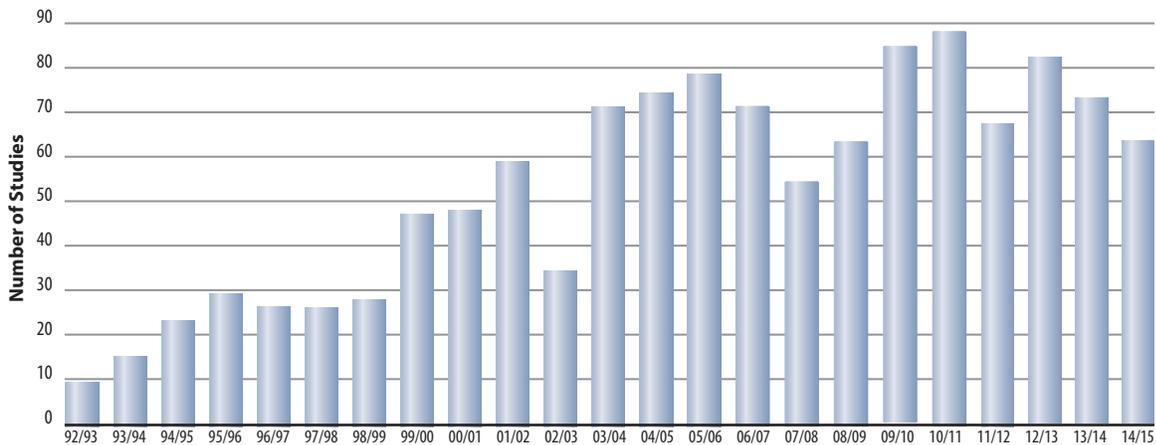
FCMAT’s primary mission is to assist California’s local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related 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.

Background

Parlier Unified School District is located in Fresno County and serves approximately 3,400 students in four elementary schools, one middle school, one comprehensive high school and one continuation high school. The district is located outside of Fresno and, as of the 2010 census, had one of California's largest percentages of Latino population (97.5%), a large portion of which are seasonal migrant laborers. Parlier's citizens do not enjoy large household incomes and were reported by City-Data.com to have a 2013 estimated median household income of \$34,057. This is significantly less than the state's \$60,190 median household income and places a family of four only \$10,507 above the U.S. Department of Health & Human Services' poverty guideline for the same year. Parlier's unduplicated pupil count of English language learners, those eligible for free or reduced-price meals or who are foster youth mirrors these statistics and encompasses approximately 99.5% of its student enrollment.

While having a high unduplicated pupil count generates additional funds under the state's Local Control Funding Formula, effective 2013-14, to serve students who are either English language learners, eligible for free or reduced meals or are foster youth, there is no guarantee that additional funding will produce increases in academic scores. Because of the transition to the new California Assessment of Student Performance and Progress system, calculation of Academic Performance Index (API) scores was suspended and the most recent scores available are those from 2013. A school or district with an API score of 800 or above was considered to be a well performing school or district. Both the district's schools' scores and its scores as a whole show reductions between 2012 and 2013. None have reached the goal of a score of 800 or above as shown here:

**PARLIER UNIFIED SCHOOL DISTRICT
API Score Analysis**

	2012 Base	2013 Growth	Difference
Parlier Unified School District	688	673	-15
Cesar E. Chavez Elementary*	672		
John C Martinez Elementary	709	703	-6
Mathew J Brletic Elementary	726	703	-23
S Ben Benefidez Elementary	782	762	-20
Parlier Junior High	693	688	-5
Parlier High School	638	636	-2
San Joaquin Valley High**		433	

* This school has been certified to the CDE that during the administration of the statewide academic testing programs, the school had an irregularity in the testing procedure affecting 5 percent or more of pupils tested.

** School did not have a valid API score in 2012

Another measure of the effectiveness of a local educational agency is whether or not the school's or district's API score has achieved Adequate Yearly Progress (AYP). If AYP has not been achieved for two consecutive years, the school or district is considered to be in Program Improvement (PI). Once in PI, a school or district that fails to make AYP advances further into PI, and that is expressed in the form of the number of years in PI. To exit PI, schools and districts must meet all AYP criteria for two consecutive years. Of Parlier's seven schools, three are in year five of PI,

one is in year two, one is in year one, and two of its elementaries are not in PI. On December 10, 2015, President Obama signed the Every Student Succeeds Act (ESSA), which reauthorized the federal Elementary and Secondary Education Act and replaced the No Child Left Behind Act (NCLB). Utilizing AYP criteria is effective only through August 1, 2016; however, a school identified as being in PI under NCLB “must continue to implement interventions applicable to the school or LRA through the 2016-17 school year.”

Based on a citizen complaint, the Fresno County Grand Jury conducted an investigation to “determine if the Parlier Unified School District elected and appointed leaders are adequately managing the district to best serve its students.” This investigation occurred during the 2014-15 fiscal year, and the grand jury’s report was issued on July 21, 2015. The report raised numerous concerns related to the district’s use of credit cards, contracting and hiring procedures, use of the Sunshine Club fund, meal expenditures for local meetings, travel and conference expenditures and governance.

Education Code Section 1241.5(b)(c) permits a county superintendent of schools to review or audit the expenditures and internal controls of any school district or charter school in that county if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. According to the Education Code, the review or audit conducted by the county superintendent will focus on the alleged fraud, misappropriation of funds, or other illegal fiscal practices and is to be conducted in a timely and efficient manner. This is in accordance with Education Code Section 42638(b), which states as follows:

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

Therefore, the Fresno County Office of Education (county office) requested FCMAT to provide for the assignment of professionals to study specific aspects of alleged fraud, misappropriation of funds or other illegal fiscal practices that may have occurred in the Parlier Unified School District.

Fieldwork

FCMAT provides a variety of services to school districts, charter schools and county offices of education upon request.

Investigating allegations of fraud requires a number of steps, including interviews with potential witnesses and gathering evidence from internal and external sources. FCMAT reviewed, analyzed and tested the following:

- Business records including:
 - General ledger activity
 - Accounts payable packets
 - Bank statements and reconciliations
 - Check registers
 - W-2s
- Board policy and administrative regulations
- Board meeting agendas and minutes

- Employment agreements with district personnel
- Agreements with vendors/independent contractors
- Statements of Economic Interest – Form 700
- Independent audit reports
- Authorized signature permits
- Internal documents secured from various departments and from independent sources

FCMAT visited the county office and Parlier, and conducted interviews with Parlier's current and past governing board members, business office and other district staff to obtain information related to general business practices and events that occurred during the three preceding fiscal years, including any alleged mismanagement, fraud or abuse. FCMAT's interviews of these individuals occurred on December 14-16, 2015 and January 25-26, 2016.

FCMAT encountered difficulties in gaining the district's cooperation for interviews, which resulted in a protracted interval between the county office signing the study agreement and FCMAT being able to talk with Parlier's current and former board members and employees. FCMAT had originally scheduled interviews on October 12 and 13, 2015 and provided the district the schedule approximately one month in advance. Parlier requested advice from its attorneys regarding whether to make its employees available for those interviews, but that advice did not arrive in time to timely notify interviewees and the interviews were cancelled. Parlier's legal counsel then determined that they would attend all interviews so that information from the interviews could be reported back to its board for possible personnel action. Due to the chilling effect that these circumstances would have had on interviewees being truthful and forthcoming with information, legal counsel for both FCMAT and the county office became involved. From those conversations it was determined that district legal counsel would not be present during interviews and that only the personal legal counsel of interviewees would be allowed, if requested by interviewees. If that occurred, FCMAT requested advance notice so that its legal counsel could also be present.

Interviews were then scheduled for December 14-16, 2015; however, the superintendent, his wife (a Parlier employee) and his brother (a former Parlier employee) did not attend their appointments. Information provided to FCMAT indicated that the superintendent's wife encountered a family medical emergency and his brother did not want to take time from his teaching position at another district. The superintendent sent a message to FCMAT that he was considering bringing personal counsel, but the communication did not allow sufficient time for FCMAT to notify its legal counsel. FCMAT provided its attorney's contact information to the superintendent through his secretary so that the two attorneys could communicate with one another on the matter. No one contacted FCMAT's legal counsel on behalf of the superintendent, and these three interviews were rescheduled to January 25, 2016.

On January 25, FCMAT was able to interview the superintendent's wife and brother; however, the superintendent did not appear for his appointment. There was no communication in advance that he would not be attending or why.

FCMAT conducted sample tests of financial transactions and other data and contracts to determine if fraud, misappropriation of funds or other illegal activities may have occurred. Testing used in the review of Parlier was based on sample selection and does not include all transactions and records for the sampled period(s). Sample testing and review results are intended to provide

reasonable but not absolute assurance as to the accuracy of the district's transactions and financial activity.

Based on the information gathered through this process, FCMAT focused on the areas of alleged misappropriation of assets, misuse of district credit cards and district funds, and bidding and contracting violations to determine if Parlier and/or its personnel may have been involved in or committed fraudulent activities.

Scope and Procedures

The primary focus of this review is to determine and report to the county office whether there is reasonable assurance, based on testing performed, that there are adequate management controls for Parlier's reporting and monitoring of financial transactions, and whether fraud, misappropriation of funds or other illegal activities may have occurred.

Fraud investigations consist of gathering adequate information regarding specific allegations and performing audit tests and procedures to determine whether fraud may have occurred, and if so, evaluating the loss, determining who may have been involved, and how it may have occurred.

During interviews, team members asked questions and examined documentation pertaining to levels of authority to enter into contracts, governing board oversight, financial management policies and procedures, job duties and responsibilities, cash handling, and equipment and other assets. Team members followed up during interviews by asking open-ended questions designed to elicit information about other possible irregularities related to the scope of work.

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

Study Team

The study team was composed of the following members:

Michael Fine
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Bakersfield, CA

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

Laura Haywood
FCMAT Technical Writer
Bakersfield, CA

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

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.

Fraud Definition, Internal Controls and Gift of Public Funds

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

A material weakness is an internal control deficiency that may result in fraud. Because of the weakness, employees in the normal course of business may not detect errors in time to correct them. A material weakness also can be a violation of law or regulations.

Although all employees have some degree of responsibility for internal controls, the governing board, superintendent and senior management are ultimately responsible.

Occupational Fraud

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

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

Occupational fraud is one of the most difficult types of fraud and abuse to detect; however, the most common method of detection comes from tips, which help prevent this type of fraud three times as often as any other method. According to the 2016 Report to the Nations conducted and published by the Association of Certified Fraud Examiners, corruption schemes accounted for 35.4% of all occupational fraud cases reported 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.

Internal Controls

The accounting industry clearly defines "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:

1. Prevent management from overriding internal controls.
2. Ensure ongoing state and federal compliance.

3. Assure the governing board that the internal control system is sound.
4. Help identify and correct inefficient processes.
5. Ensure that employees are aware of the expectation that proper internal controls will be utilized.

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

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

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

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

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

A system of internal controls consists of policies and procedures designed to provide the governing board and management with reasonable assurance that the organization achieves its

objectives and goals. Traditionally referred to as hard controls, these include segregation of duties; limiting access to cash; management review and approval; and reconciliations. Other types of internal controls, typically referred to as soft controls, include management tone; performance evaluations; training programs; and maintaining established policies, procedures and standards of conduct.

A strong system of internal controls that includes all five of the above elements can provide reasonable but not absolute assurance that the organization will achieve its goals and objectives.

Control Environment

The internal control environment is critical because it establishes the moral tone of the organization. Though intangible, it begins with the leadership and consists of employees' perception of the ethical conduct displayed by the governing board and executive management.

The control environment is a prerequisite that enables other components of internal control to be effective in achieving the goals and objectives to prevent and/or deter fraud or illegal acts. It sets the tone for the organization, provides discipline and control, and includes factors such as integrity, ethical values and competence of employees.

The control environment can be weakened significantly by a lack of experience in financial management and internal controls.

Control Activities

Control activities are a fundamental element of internal controls, and are a direct result of policies and procedures designed to prevent and identify misuse of a district's assets, including preventing any employee from overriding controls in the system. Control activities include the following:

1. Performance reviews, which compare actual data with expectations. In accounting and business offices, this most often occurs when budgeted amounts are compared with actual expenditures to identify variances, and followed up with budget transfers to prevent overspending.
2. Information processing, which includes the approvals, authorizations, verifications and reconciliations necessary to ensure that transactions are valid, complete and accurate.
3. Physical controls, which are the processes and procedures designed to safeguard and secure assets and records.
4. Segregation of duties, which consists of processes and procedures that ensure that no employee or group is placed in a position to be able to commit and conceal errors or fraud in the normal course of duties. In general, segregation of duties includes separating the custody of assets, the authorization or approval of transactions affecting those assets, the recording or reporting of related transactions, and the execution of the transactions. Adequate segregation of duties reduces the likelihood that errors will remain undetected by providing for separate processing by different individuals at various stages of a transaction, and for independent review of the work.

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, district administrators and program managers, governing board members and auditors have particular roles to play.

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

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

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

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

FCMAT found that the district has adopted myriad board policies and administrative regulations through its subscription to the California School Boards Association (CSBA) Gamut program that include subjects such as conflict of interest and a code of ethics; however, there is no policy for rules of conduct. Parlier has developed a fiscal policies and procedures manual covering topics such as payroll, travel/conference, associated student body (ASB), overtime/compensatory time and leave authorization, but that manual showed the policies were last updated on July 1, 2008. The district'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, standards of conduct and control environment philosophies, along with developing a comprehensive fiscal policies and procedures manual that encompasses areas such as cash/checks handling, credit cards, purchasing, payroll, budgets, fixed assets, debt management and banking. These philosophies include the following:

- Personal and professional leadership is based on the highest levels of integrity.
- Leadership philosophy and operating style promote internal control throughout the district.
- Accountability is enhanced by assigning authority and responsibility at the highest possible level.
- The district's policies and procedures reflect its internal control objectives and are strictly followed.

- All employees know and understand district 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.

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 district 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 district does not have an employee training and awareness program and the culture of the district has been to use district assets for personal use as well as for friends, family and political and other connections. Employees should be regularly trained in what constitutes fraud, how it hurts everyone in the organization, common 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 districtwide culture that supports appropriate reporting.

The district should also implement common fraud detection methods such as an anonymous employee hotline, surprise 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 Parlier 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 district’s internal control, and they should not be the district’s only approach to monitoring internal controls.

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

- System of checks and balances – Formal procedures should be implemented to initiate, approve, carry out, 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 should be implemented and necessary changes made to segregate job duties and protect the district’s assets. No single employee should handle a transaction from initiation to reconciliation, and no single employee should have custody of an asset, such as cash, and maintain the records of its transactions.
- Staff cross-training – More than one employee should be able to perform each job. Each staff member should be required to use accrued vacation, 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 district. 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 district’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.

FCMAT’s work found many of the district’s customs violated best practices, rules, regulations and laws and reflect a culture where the governing board failed in its duty to oversee the district superintendent, board policies and spending. FCMAT also found a culture that fostered adults acting to enrich themselves and others at the district’s and, ultimately, its students’ expense. In many cases, governing board members were direct participants in the acts and behavior questioned. While there are multiple deviations from normal school agency internal controls, many of which reflect significant weaknesses in the district’s internal control environment and increase the probability of fraud, waste and/or abuse, rather than list them here, FCMAT has elected to include and discuss them in the pertinent sections of this report that follow.

Gift of Public Funds

Article 16, Section 6 of the California Constitution specifies that the state Legislature cannot authorize any county, city, or other political subdivision to make any gift of public funds to an individual or corporation. Basically, Article 16 states that in the absence of a statute granting public local educational agencies (LEAs) the legal authority to make a special expenditure (i.e., for food, clothing, awards, etc.), the legality of any expenditure is determined by the “gift of public funds” provision in the California Constitution, Article 16, Section 6. This constitutional provision prohibits making any gift of public money to any individual (including public employees), corporation, or other government agency. It states, “... the Legislature shall have no ... power to make any gift, or authorize the making of any gift, of any public money or thing of value to any individual ... whatever ...”

In general, the constitutional prohibition against the gift of public funds is not an issue when a direct and primary public purpose is accomplished so that the public receives a benefit from the expenditure. However, if the gift is to an employee or other individual and there is no benefit to the public as a result, it can be considered a gift of public funds.

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

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

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

Noble or Virtuous Purpose

An example of a noble or virtuous purpose that may be considered a gift of public funds is the purchase of flowers from district funds for the funeral of an employee or the immediate family of an employee.

Moral or Justifiable Obligation

A moral or justifiable obligation is the most common form of gift of public funds resulting from a desire to convey some form of gratitude. Often, staff members who are not formally trained in school district, ASB, and governmental policies and procedures unknowingly participate in giving gifts of public funds due to a moral or justifiable obligation. For example, a superintendent may be grateful to a number of individuals who have helped him in his new duties, or to individuals who are considered high-value stakeholders, well-known contributors, longtime friends or contributed countless hours of assistance, and the superintendent may organize a holiday party or staff appreciation breakfast/lunch to thank them for all of their efforts.

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

Findings and Recommendations

Governance

Governance Culture

The culture established by the district's governing board and superintendent should establish and foster the structures and processes for decision-making, accountability, transparency, fairness, control and behavior at all levels of the organization. The culture is either receptive to change, continuous improvement, excellence and positive values, or it is not. The culture either fosters important boundaries, sets expectations regarding relationships, and values systems and processes that support a strong internal control environment, or it does not.

The internal control environment is critical because it establishes the moral tone of the organization. This is commonly referred to as “the tone at the top” and is an intangible element that consists of the perception of stakeholders regarding the ethical conduct displayed by the governing board and executive management. The control environment is the foundation of all other components of internal control and determines the effectiveness of those control components in preventing and deterring fraud or illegal acts. The control environment sets the tone of the organization, provides disciplined processes and control, and takes into account factors such as integrity, ethical values and the competence of leaders and employees. While the district has adopted Board Bylaw 9270 – Conflict of Interest, which states that “[t]he Governing Board desires to maintain the highest ethical standards and help ensure that decisions are made in the best interest of the district and the public,” this is not what FCMAT found.

FCMAT's observation, document review and interviews of governing board members, executive management and other staff found the internal control environment in Parlier to be significantly deficient. First and foremost, the culture established at the highest levels of the organization in Parlier for the three-year period under review can be described as toxic, insular and arrogant. Parlier lacked leadership at the governing board and executive management level that fostered strategic, systematic and structured continuous improvement. Parlier's culture lacked accountability, fairness and transparency.

By the tone and content of admonitions made by community and board members during board meetings and the admission of several governing board members and senior managers during FCMAT interviews regarding questioned expenditures, administration's qualifications and leadership style, Parlier is a district that made the needs and comfort of adults such as governing board members and the executive management team a priority, while ignoring priorities that would focus on student needs. FCMAT found little evidence that the governing board exercised adequate oversight of itself and its sole employee, the superintendent. FCMAT found that members of the governing board and executive management team actively eroded internal controls through their management style of control, fear, intimidation, manipulation and undue influence. FCMAT found evidence of a superintendent that ruled through anger and intimidating behavior, even toward governing board members who may have disagreed with him.

The governing board and executive management of Parlier believe and act as if the laws and regulations of the state do not apply to them. This attitude is reinforced by the fact they have not suffered any consequences for their poor actions and omissions. This belief is evident in both spoken and unspoken actions during FCMAT's interviews.

Board Policies

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. Board policies and regulations provide guidelines and directives for the operation of the district and for its personnel to follow and are a key component of internal controls. It is important to ensure the board policies are updated to reflect changes in legislation.

In designing 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 district should carefully consider the specific guidelines that promote behavior that secures the assets of Parlier from misuse or fraud.

As a part of this study, FCMAT requested copies of Parlier's board policies and administrative regulations, and the district provided FCMAT with access through its online link to California School Boards Association's (CSBA) Gamut Online program. FCMAT's review of those policies and their adoption dates shows they were adopted en masse by section but have largely remained untouched since that date. Further comparison of the district's adoption dates to those of the CSBA Gamut master policy manual reveals policies in each section that have undergone revision due to changes in law since the district's adoption dates. The following chart reflects the dates when the district's policies and administrative regulations were adopted and the number that have changed since the district's adoption:

Policy Number	Section Title	District Last Updated (Month/Year)	Number Gamut Updated Since District's Update
0000	Philosophy, Goals, Objectives and Comprehensive Plans	1/14	11
1000	Community Relations	2/13	13
2000	Administration	2/13	1
3000	Business and Noninstructional Operations	1/13	27
4000	Personnel	11/12	53
5000	Students	10/13	41
6000	Instruction	2/13	41
7000	Facilities	1/13	2
9000	Board Bylaws	3 @ 11/12, 32 @ 1/13, 1 @ 5/15	9

Despite this, and as noted throughout this report, the governing board and superintendent failed to follow their own board bylaws and board policies. Examples include, but are not limited to, the following:

- Board Policy 3311 – Bids (adopted 1/22/13) – as evidenced in this report, the district does not routinely follow the prescribed bidding process.
- Board Policy 3312 – Contracts (adopted 1/22/13) – as evidenced in this report, the district does not routinely follow the provisions of this policy and the Education Code requiring board approval of contracts.
- Board Policy 3600 – Consultants (adopted 1/22/13) – the district does not routinely require consultants to submit a conflict of interest statement.

- Board Policy 3300 – Expenditures and Purchases (adopted 1/22/13) – as evidenced in this report, the superintendent did not exercise fiduciary responsibility for the prudent expenditure of funds, did not develop and maintain an effective purchasing procedure consistent with sound controls, and did not comply with Public Contract Code 20111.
- Board Policy 3460 – Financial Reports and Accountability (adopted 1/22/13) – as evidenced in this report, the governing board and superintendent did not provide for the required audit in a timely manner.
- Board Bylaw 9250 – Remuneration, Reimbursement and Other Benefits (revised 11/13/12) – as evidenced in this report, the district does not prorate monthly board member compensation based on attendance.
- Board Bylaw 9310 – Board Policies (adopted 1/8/13) – board policies are binding on the district, are to be updated and available to the public. However, as is discussed many times in this report, the board does not follow its own policies. It does not regularly review its policies for purposes of updating them, and the district no longer provides a link to access its policies online.
- Board Bylaw 9324 – Minutes and Recordings (1/8/13) – accurate minutes of the previous meeting shall be distributed at the next regular meeting and the board shall approve the minutes as circulated or with necessary amendments. As is discussed below in the Transparency and Open Governance section, minutes of governing board meetings were routinely delayed for several weeks and, sometimes, months.

Board Member Compensation

Education Code Section 35120 provides the basis for compensating governing board members. Three portions of that law apply to Parlier and are cited below:

- Section 35120(a)(5):

“In any school district in which the average daily attendance for the prior school year was 10,000 or less but more than 1,000, each member of the city board of education or the governing board of the district who actually attends all meetings held may receive as compensation for his or her services a sum not to exceed two hundred forty dollars (\$240) in any month.” [emphasis added]

- Section 35120(e):

“On an annual basis, the governing board may increase the compensation of individual board members beyond the limits delineated in this section, in an amount not to exceed 5 percent based on the present monthly rate of compensation. Any increase made pursuant to this section shall be effective upon approval by the governing board.”

- Section 35120(a)(8):

“Any member who does not attend all meetings held in any month may receive, as compensation for his or her services, an amount not greater than the maximum amount allowed by this subdivision divided by the number of meetings held and multiplied by the number of meetings actually attended.”

While minutes of the regular board meeting held on November 18, 2014 have never been provided to the board for approval, FCMAT was able to review the agenda of that meeting.

Based on actions after that meeting, the Parlier governing board had approved a consent agenda item to increase their monthly compensation in two 5-percent steps from \$252.00 to \$264.60 and from \$264.60 to \$277.83. The agenda item shows the first 5-percent increase was retroactive to 2013-14 and the second 5-percent increase was effective for 2014-15. As written, the terms of the agenda item are contrary to the provisions of Education Code Section 35120 and exceed the provisions of Education Code Section 35120(e) limiting annual increases to 5 percent and establishing the effective date of any such increase as “upon approval,” thus prohibiting retroactive adjustments.

However, the actual implementation of the November 18, 2014 action reflects compliance with Section 35120(e) in that monthly compensation was limited to an increase of 5 percent (\$252.00 to \$264.60) and the adjustment was made effective with the December 2014 payroll and not implemented retroactively.

While the board acted in accordance with the law on the issue of their compensation, the lack of transparency to record meeting minutes and subsequently take action to approve such minutes may be a violation of law. The validity of the compensation adjustments apparently approved on November 18, 2014, which not only included compensation for the governing board members but also the superintendent, are subject to a court’s interpretation given the lack of public disclosure. A record of all actions taken by the governing board is the one item that is required to be disclosed in minutes of every board meeting pursuant to Education Code Section 35145. Government Code Section 54953(c)(2) requires that the board publicly announce all actions taken and the roll call votes on them. This provision became effective January 1, 2014 and would apply to the actions taken at the November 18, 2014 meeting. The law does not specifically address adoption of minutes, but it is standard practice for Parlier and other local educational agencies across the state to adopt minutes at subsequent meetings so that, if need be, the clerk/secretary of the governing board can attest that they are a true record of the actions taken. The adoption of minutes would normally satisfy the requirement to publicly announce actions and roll call votes taken on them. Furthermore, the district’s Board Bylaw 9324 – Minutes and Recordings – requires accurate and timely distribution of minutes and the board’s approval.

The law does not address the consequence of the board not maintaining a record of actions taken at meetings (Education Code Section 35145). The action to raise governing board compensation would have had to be taken in a public meeting. The absence of a record of the actions taken at a meeting raises the question whether this happened in public and what, if any, discussion was held. The staff report that accompanied the agenda item recommended specific action and contained analysis that is inconsistent with the ultimate implementation of the compensation adjustment. Since this failure to announce the action taken would be a Ralph M. Brown Opening Meetings Act violation, with a very short statute of limitations, the time for challenging its validity may be long past. The public still has a right to demand, or ask a court to mandate, that any record of an action to raise pay be included in the minutes of the meeting.

As noted above, during the three-year period under review, the Parlier governing board was paid \$252 per month through November 2014, and \$264.60 effective December 2014. Each seated board member was paid the monthly stipend without regard to their actual attendance at board meetings, which is in violation of Education Code Section 35120(a)(8). That section of the law requires monthly stipends to be prorated based on attendance. This condition represents an overpayment to all but four current and former board members and could be considered a gift of public funds. FCMAT sampled board members’ compensation against that reported on their W-2s and found no discrepancies.

Board members Reyes, Banuelos, Moreno and Pelayo had perfect attendance at all regular and special board meetings during their terms throughout the review period of July 1, 2012 to June 30, 2015. As such, they are the only board members who were entitled to the full monthly stipend. Absences of other board members represent overpayments as shown in the table below, totaling \$4,397.40.

Board Member	Number of Absences	Dates of Absence*	Overpayment Amount
Betancourt	3	8/28/12 (1/3), 11/13/12 (1/2), 11/28/12 (1/2)	\$336.00
Cano	14	8/2/12 (1/3), 10/23/12 (1/2), 2/22/13 (1/3), 3/5/13 (1/2), 5/14/13 (1/2), 6/11/13 (1/2), 7/23/13 (0/1), 12/10/13 (0/1), 2/25/14 (1/2), 5/13/14 (1/2), 8/12/14 (0/1), 9/9/14 (0/1), 11/10/14 (1/3), 11/26/14 (1/3)	\$2,100.00
Escoto	5	1/27/15 (1/2), 3/28/15 (1/2), 4/11/15 (1/3), 5/19/15 (1/2), 6/4/15 (1/2)	\$617.40
Maldonado	2	9/11/12 (1/3), 9/24/13 (1/2)	\$210.00
Torrez	7	1/22/13 (1/3), 1/22/13sp (1/3), 2/22/13 (1/3), 3/5/13 (1/2), 4/17/13 (1/3), 7/23/13 (0/1), 10/22/13 (1/2)	\$840.00
Villanueva	3	10/9/12 (1/2), 11/10/14 (1/3), 11/26/14 (1/3)	\$294.00

*The fraction represents the number of meetings missed by the particular board member versus the number of meetings in that particular month. For example, a fraction of 1/2 means that the board member was absent for one of the two meetings held in that particular month. The number of absences is also shown without regard to Board Bylaw 9250, which requires a board member to be present for at least 50% of the meeting to be considered in attendance.

sp = special board meeting

Transparency and Open Governance

Despite having adopted Board Bylaw 9324 – Minutes and Recordings, requiring that minutes be approved at the next regular board meeting, minutes of governing board meetings were routinely delayed for several weeks and, sometimes, months and are not considered for approval at the subsequent regular meeting. For the 2012-13 fiscal year, 27 of the 33 meetings (or 82%) had minutes that were late by at least one regular board meeting, with the longest delay being three regular board meetings. In the 2013-14 fiscal year, 10 of the 19 board meetings (or 53%) had minutes that were late by at least one regular board meeting, with the longest delay being two regular board meetings. In the 2014-15 fiscal year, seven of the 25 board meeting (or 28%) minutes were late by at least one regular board meeting, with the longest delay being two regular board meetings. This delay hinders the public's ability to monitor the district and can create significant delays in processing certain transactions that require timely attention.

FCMAT's review of minutes reflects multiple errors and a lack of careful attention to detail. For example:

- August 14, 2012: This meeting combined a regular and a special meeting into one. The special meeting added a closed session item. Only one set of minutes was issued.
- April 17, 2013: The arrival time of board member Maldonado was noted as "5:65 p.m." and the meeting adjourned at 6:17 p.m. It is unknown exactly what time "5:65 p.m." is but it becomes important when determining if the board member was present for 50% of the meeting for payment of the board stipend.
- June 25, 2013: The board voted down the agenda and yet the meeting proceeded and items were approved by the board.

- January 27, 2015: Minutes of the meetings of October 27, 2014; November 10, 2014; November 18, 2014 and November 26, 2014 were approved. However, the three new board members were not board members at these meetings and it is unknown whether they were present in the audience. Consequently, it is unknown how they would have known if the minutes were correct. Additionally, these minutes contain the approval of the Youth Centers of America (YCA) contracts, which means that the executive director of YCA (who is also a member of the governing board) approved the minutes that approved his company's contracts.
- March 28, 2015: Board members Escoto and Moreno are recorded as absent at the beginning and ending of the meeting; however, votes are recorded for both during the course of the meeting.
- January 26, 2016: A special board meeting was held to correct minutes from "January 27, 2016," which was a typo and should have read "January 27, 2015." This minutes correction was made at the behest of board member Maldonado to correct the official record regarding his actions during the board's deliberations of the ratification of an agenda item in hiring his son. This item sprang from FCMAT's questions to him about what occurred at the January 2015 meeting. The original minutes recorded him as having passed the gavel to vice president Pelayo and abstaining from voting. No mention was made that he left closed session for these deliberations; however, after FCMAT's questions, the minutes were then corrected to include that "Maldonado declared a potential conflict, did not make, participate in making, or in any way use or attempt to use his official position to influence the decision on this matter and recused himself from voting on this item." Since the board elects to conduct its personnel actions in closed session, even those routinely held at other districts in open session such as the hiring of employees, it is unknown which is the true record of the board meeting. A member of the public tried to get clarity at the January 26, 2016 meeting regarding what exactly was being corrected, but the minutes of the meeting are not clear that the community member received the clarifying information.

The governing board has also taken steps to limit public involvement in district governance. On November 26, 2014, less than a week after seeking compensation increases for themselves and the superintendent, the governing board approved changes to Board Bylaws 9320 and 9323. Board Bylaw 9320 – Meetings and Notices – was modified to reduce the previous policy of two regular meetings per month to one regular meeting per month. Board Bylaw 9323 – Meeting Conduct – was also modified to reduce the amount of time the public is given to make comments on agenda and non-agenda items at board meetings. The modification reduced the duration of individual comments from five minutes to two minutes and reduced the total amount of time allocated to public comments on an agenda item from 20 minutes to 10 minutes. BB 9323 was further updated on September 22, 2015 to allow three minutes per speaker, 15 minutes total for public input on agenda items and 20 minutes for non-agenda items.

As is discussed above, the district uses the Gamut Online program to assist it in crafting board policy and bylaws. The Gamut standard language for this particular board bylaw allows individual speakers three minutes to address the board on each agenda or non-agenda item and a total of 20 minutes for each item, with an option that the board can increase the time depending on topic and number of people wishing to be heard.

As is noted above, the governing board also reduced its regular board meetings from two per month to one. However, FCMAT's review of its board meeting agendas shows that in some years

of the review, special board meetings were more prevalent than regular board meetings. In fiscal year 2013-14, of the 25 meetings held, 14 (or 56%) were special board meetings requiring only 24-hour notice. In one 60-day period, between March 24, 2015 and May 26, 2015, the board held five special meetings with no regular meetings even though the agenda of some of those special meetings contained routine agenda items typically found in a regular board meeting. Although some of the special meetings may have been necessary to conduct critical business before deadlines, having some with regular business items without having a regular board meeting and the number of special meetings sends the message to constituencies that this is a deliberate effort to exclude the public.

The purpose of open governing board meetings is to conduct the public's business in public. The board's actions at the November 2014 board meeting suggest that this was an effort to suppress transparency and minimize open governance.

Financial Stewardship and Accountability

Parlier's governance culture and structure does not support financial stewardship. The governing board and superintendent left the district's chief business official (CBO) position vacant from July 1, 2012 to November 30, 2014. During this time period, the subordinate business manager position was vacant from April 1, 2012 to October 31, 2012. Between the hiring of a business manager and the hiring of a CBO, the business manager reported directly to the superintendent. FCMAT's interviews found the district's business manager to be less than accomplished on matters that would cross a CBO's desk, and her demeanor suggested that she would have been and still was susceptible to pressure from board members, the superintendent, deputy superintendent or others in positions of power.

Even after hiring a CBO at the insistence of the county office, the superintendent failed to integrate the position into his leadership structure, for all intents and purposes ignoring the incumbent. The superintendent did not participate in the interview or selection process of the CBO, instead delegating that responsibility to a temporary employee and a consultant retained by the district for construction management services. The consultant did not have any known expertise in school district business management. The CBO position was filled on December 1, 2014, but there were few interactions between the CBO and the superintendent up to the point of the superintendent being placed on administrative leave eight months later. The exclusion of the CBO in the district's executive cabinet continues, even though the CBO position has been filled for approximately 15 months. She is not a part of executive cabinet meetings and is not always consulted in district decision-making.

The role of CBO in a school district is a unique and critical position, and a key element of the district's system of internal controls. The superintendent did not interact with the CBO and instead worked with subordinate staff in the business office.

Other examples of the board's and superintendent's lack of stewardship are that:

- Budget development and adoption is performed in a reactive manner, not as a planning and accountability tool – see discussion regarding purchase orders (POs) below.
- Key personnel lack an understanding of the basic elements of an internal control system as it applies to the use of POs, encumbrances, account code structure and invoice processing – see discussion in Accounts Payable section below.
- Required annual independent audits were submitted to the State Controller's Office late in two of the three years of the review. Education Code Section 41020 requires that

audits be submitted no later than December 15. For fiscal year 2012-13, the district's annual audit was dated April 9, 2014. For the 2013-14 fiscal year, the annual audit was dated March 30, 2015. While the district applied for and received multiple extensions to the deadlines, the lack of preparation for the annual audit process was evident and reflective of a lack of priority placed on accountability by the governing board and executive management.

Finding 2013-1 in the 2012-13 annual audit notes that a "significant amount of items requested in advance of the scheduled visit by the auditors were not ready and/or available during the audit visit." The report also noted that numerous reminders were made to no avail and that two extensions were requested of the State Controller's Office to obtain the necessary information. The first extension was to February 28, 2014, and the second to March 31, 2014. The audit was ultimately dated April 9, 2014. The items required were described by the auditors as "documents and information that should be readily available" and included bank account reconciliations, deposit information, backup for expenditures, and explanations of interfund transfers.

Additionally, the 2012-13 audit includes the following findings. Findings 2013-2 and 2013-3 were deemed to be material weaknesses that are "deficiencies, or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the district's financial statement will not be prevented, or detected and corrected on a timely basis."

- Finding 2013-2: Misstatement of the Financial Statements.
- Finding: 2013-3 (a repeat of prior year Finding 2012-1): Bank reconciliations are not done or not available, raising concerns over fraud and mismanagement of funds.
- Finding 2013-4: Attendance reports overstated resulting in questioned costs.
- Finding 2013-5 (a repeat of prior year Finding 2012-3): Longer day and longer year compliance is questionable given that instructional minutes are not accounted for correctly.
- Finding 2013-6 (a repeat of a prior year Finding 2011-7): Violation of Education Code Section 60119 regarding the sufficiency of textbooks for students. This is particularly disturbing in light of the information contained in the Purchasing/Contracting section regarding Voyager Sopris Learning (formerly Sopris West Educational), Cambium Learning Group.

The 2013 audit also included a separate management letter addressed to the governing board regarding deficiencies in the district's internal controls.

Finding 2014-1 in the 2013-14 annual audit contains a finding identical to the 2013-1 finding and states a "significant amount of items requested in advance of the scheduled visits by the auditors were not ready and/or available during the audit visit." In fact, the district cancelled the auditor's visit just two days before the auditors were scheduled to arrive. Like the prior year, the auditors made numerous reminders to no avail, and an extension was requested of the State Controller's Office to February 28, 2015. The audit ultimately was dated March 30, 2015. The items required by the auditors were "documents and information that should be readily available" and included bank account reconciliations, capital asset database, instructional minutes calculations (which should have been done for the 2013-14 school year well before the school year began), actuarial study, school accountability report cards and Williams Act facilities inspection reports.

Additionally, the 2013-14 audit includes the following findings:

- Finding: 2014-2 (a repeat of prior year Findings 2012-1 and 2013-3): Bank reconciliations are not done or not available, raising concerns over fraud and mismanagement of funds. As in the prior year, this was also designated as a material weakness.
- Finding 2014-3 (a repeat of prior year Findings 2012-3 and 2013-5): Longer day and longer year compliance is questionable given that instructional minutes are not accounted for correctly.

The 2013-14 audit also included a separate management letter addressed to the governing board regarding deficiencies in the district's internal controls.

It is the auditor's task to evaluate the design of the internal control system, determine if it has been implemented and evaluate its effectiveness. With the similarities and repeated behavior of district personnel noted in these audit reports, the governing board and superintendent demonstrated their failure to take ownership of the findings outlined in the audit reports, including ensuring that the information required by the auditors to perform their duties was available.

Political Reform Act – Disclosure, Conflicts of Interest and Compliance

The Political Reform Act (PRA), Government Code Sections 81000 – 91014, was enacted by Proposition 9 in June 1974. The stated intent of the act was to establish a process for most state and local officials as well as certain designated employees to publicly disclose their personal income and assets as follows:

“[a]ssets and income of public officials which may be materially affected by their official actions...[are] disclosed and in appropriate circumstances the officials...[are] disqualified from acting in order that conflicts of interest may be avoided.”

The PRA provisions are enforced by the Fair Political Practices Commission (FPPC) and require every state and local governmental agency to adopt a conflict of interest code. The FPPC is the state agency responsible for interpreting the provisions of the laws and issuing California Form 700 – Statement of Economic Interests. Because local educational agency board members are considered public officials and governing boards are considered legislative bodies, board members and certain designated individuals must file Form 700 annually (calendar year basis), or upon taking office/position or leaving office/position. Additionally, the PRA states that a consultant to the organization “who makes, participates in making, or acts in a staff capacity for making governmental decisions” may be required to complete Form 700.

The Parlier governing board adopted Board Bylaw 9270, Conflict of Interest pursuant to the PRA on January 8, 2013. The Parlier conflict of interest Board Bylaw 9270 Exhibit states:

“Governing Board members and designated employees shall file a Statement of Economic Interest/Form 700 in accordance with the disclosure categories listed in the attached Appendix. The Statement of Economic Interest shall be filed with the district's filing officer and/or, if so required, with the district's code reviewing body. The district's filing officer shall make the statements available for public review and inspection.”

Designated employees defined in the Parlier Board Bylaws 9270 Exhibit are:

“Governing Board Members, Superintendent of Schools, Assistant/Associate Superintendent, Purchasing Agent, Director, Principal, Assistant Principal, Maintenance and Operations Director, Program Coordinator, Project Specialist, Supervisor, Dean of Students”

“Consultants are designated employees who must disclose financial interests as determined on a case-by-case basis by the Superintendent or designee. The Superintendent or designee’s written determination shall include a description of the consultant’s duties and a statement of the extent of disclosure requirements based upon that description. All such determinations are public records and shall be retained for public inspection along with this conflict of interest code.”

Pursuant to Government Code 82011 the county board of supervisors is the reviewing body for local government agencies other than a city, and the Fresno County Board of Supervisors is the reviewing body for Parlier.

In addition to the requirements under PRA, Parlier is also subject to Government Code Section 1090. The intent of Government Code Section 1090 is to prohibit a public official, officer or employee from engaging in a contract in which he or she has a financial interest in both a governmental and personal capacity. Section 1090 states as follows:

“(a) Members of the Legislature, state, county, district, judicial district, and city officers or employees shall not be financially interested in any contract made by them in their official capacity, or by any body or board of which they are members. Nor shall state, county, district, judicial district, and city officers or employees be purchasers at any sale or vendors at any purchase made by them in their official capacity.”

“(c) As used in this article, ‘district’ means any agency of the state formed pursuant to general law or special act, for the local performance of governmental or proprietary functions within limited boundaries.”

Contracts found to be in violation of Government Code Section 1090 may be voided pursuant to Government Code Section 1092.

FCMAT requested Parlier’s Form 700 – Statement of Economic Interests – for each governing board member and designated employee in the district’s Conflict of Interest Code for the calendar years 2011, 2012, 2013, 2014 and 2015. These forms include a cover page and, as applicable, schedules A-1, A-2, and B through E, or six disclosures representing the filer’s stocks, business entities, rental property in the jurisdiction, non-governmental salaries of public official and spouse/registered domestic partner, gifts from businesses, such as tickets to sporting and entertaining events, and travel payments from third parties.

For the calendar years 2011, 2012, 2013, 2014 and 2015 a total of 31 Form 700s were provided by Parlier, representing past and present board members and designated employees. Examination of these 31 documents revealed numerous Form 700s for governing board members and designated employees and consultants that were either not filed as required by state law and Parlier’s own board bylaws, or were not made available to FCMAT. Additionally, many forms that were filed were done so with incomplete information. The most common deficiency of information on filed forms was the failure to complete Section 4 on the cover sheet of Form 700. In many respects this is the most critical section of the cover sheet because Section 4 denotes if there are any reportable interests. No filings appear to have been made for 2012, depriving the public

of requisite transparency. FCMAT's examination of Parlier's Statements of Economic Interests filings demonstrates a complete lack of attention to this important area of public policy and disregard for existing state law and transparency to the public. Specifically, FCMAT found the following anomalies:

2011:

1. One form for a designated employee contained only the filer's and agency's names and the filer's signature. All other sections of the cover sheet were left blank.
2. One current board member failed to include their name on the form but was identified by their signature.
3. One current board member left Sections 4 (showing reportable interests) and 5 (verification) of the cover sheet blank.

2013:

1. The form filed when the superintendent assumed office in 2013 was filed approximately seven months late and Section 4 (reportable interests) was left blank.
2. One current board member's office assumption Form 700 was filed approximately two months late, and when it was filed Section 4 (reportable interests) was left blank.
3. Three current board members left Section 4 (reportable interests) of the cover sheet blank.

2014:

1. One current board member left Section 4 (reportable interests) of the cover sheet blank.
2. Two executive management positions, the deputy superintendent and CBO, were not on the designated employee list and, therefore, not required to complete a Form 700 but did so for 2014. However, as executive level positions that participate in decision making, they should have been included on Parlier's list of designated employees, but the Board Bylaw 9270 Exhibit was not revised to reflect the positions.
3. The same two employees identified above who were not on the designated employee list also filed assuming office Form 700 filings late. The longest delay was three months. Both employees signed the filings in a timely manner; however, the forms were not filed timely with Parlier's reviewing body.
4. Two candidates for the board who ultimately won election and were seated as new board members in December 2014 filed candidate Form 700s that were inconsistent with their subsequent filings as board members.

2015:

1. One current board member left Section 4 (reportable interests) of the cover sheet blank but included a Schedule A-2 disclosing investment interests in business entities (including certain independent contracting), sole proprietorships, partnerships, LLCs, corporations, and trusts.

Furthermore, several additional Form 700s should have been available to be examined but were not accessible, either from Parlier or the Fresno County Clerk of the Board of Supervisors. Based on FCMAT's review, additional Parlier Form 700 filings that should have been required or were not available for review were:

2011:

1. Only one designated employee filed a 2011 Form 700. Based on the list of designated employees, several additional 2011 Form 700s should have been filed including one by the then-superintendent.
2. One current board member either failed to file a 2011 Form 700, or their Form 700 was lost.

2012:

1. All governing board members, designated employees and consultants either failed to file Form 700s in 2012, or their 2012 Form 700s were lost.

2013:

1. The superintendent either failed to file a Form 700 in 2013, or the Form 700 was lost.
2. One current board member either failed to file a Form 700 in 2013, or the Form 700 was lost.
3. One former board member either failed to file a Form 700 in 2013 upon resigning from the governing board on October 8, 2013, or their Form 700 was lost.
4. Only one designated employee filed a Form 700 in 2013. Based on the list of designated employees, several additional Form 700s should have been filed in 2013.

2014:

1. Three former board members either failed to file their annual Form 700 in 2014, as well as the form required upon the completion of their terms in December 2014, or the Form 700s were lost.
2. Three current board members either failed to file a Form 700 upon assuming office, or their Form 700s were lost.
3. Only four designated employees filed a Form 700 in 2014. Based on the list of designated employees, several additional 2014 Form 700s should have been filed.

2015:

1. Only one designated employee filed a Form 700 in 2015. One executive management position, the CBO, was not on the designated employee list and, therefore, not required to complete a Form 700 but did so for 2015. Based on the list of designated employees, several additional Form 700s should have been filed in 2015.
2. Before this report was issued but after the filing deadline, it is noted that the superintendent did not file a Form 700 in 2015.
3. The superintendent, two board members, the deputy superintendent and assistant superintendent of curriculum and instruction each failed to disclose their acceptance of hotel accommodations and meals that were provided by Apple for their February 19-20, 2015 trip to Apple headquarters in Cupertino, which were in excess of the reporting requirements.
4. Additionally, the superintendent's wife and brother, as district employees, were also present on this trip to Cupertino and their accommodations and meals should have been reported on the superintendent's forms.
5. The superintendent, two board members, the deputy superintendent, assistant superintendent of curriculum and instruction each failed to disclose their acceptance of a meal from SGI (a significant contractor working for the district) that was provided on February 5, 2015.
6. Additionally, the superintendent's wife, as a district employee, was also present at this dinner and her meal should have been reported on the superintendent's form.

During interviews of staff and governing board members, it was reported to FCMAT that certain vendors were encouraged to make significant (up to \$5,000) financial contributions to the 2014 election campaigns of three board members. FCMAT also heard allegations regarding claims that vendors were promised business with Parlier in exchange for campaign contributions. Parlier's financial records indicate significant purchases were made from the named vendors, which is discussed in detail in the Purchasing section below. FCMAT confirmed that a campaign committee was established in 2014 for the purpose of supporting the election of candidates Edgar Pelayo, Stephanie Moreno and Jackie Garcia-Escoto. FPPC Form 410 – Statement of Organization Recipient Committee – was filed on August 27, 2014, to establish the Committee to Elect Educated Leaders for Progress. FCMAT verified with the Fresno County Registrar of Voter's office that no additional filings were made, either to close the committee or to report contributions. Consequently, FCMAT was unable to determine who contributed to the board members' campaign or the extent of those contributions to test the veracity of the statements made.

While Parlier's board policy states that the superintendent determines the filing of Form 700 by consultants on a case-by-case basis, FCMAT did not observe any consultant who had been so identified. Based on the documents in the accounts payable packets, there was no overt identification of relationships or financial transactions that represented a conflict of interest. However, information provided to FCMAT during interviews of current and former governing board members and employees repeatedly referenced the hiring of contractors and employees, and the purchases of goods and services, from parties with close personal connections to board members.

Additionally, multiple parties indicated instances where one or more contractors were awarded work in exchange for the promise of campaign donations or assistance for governing board members. FCMAT's concerns regarding specific contractors and service providers are discussed in the Purchasing section of this report below.

Recommendations

The district should:

1. Institute procedures so that board policies are updated in the Gamut system as soon as they are revised or adopted.
2. Ensure that the board receives training on the necessity for them to follow and adhere to board policies and administrative regulations.
3. Immediately adopt minutes from the November 18, 2014 governing board meeting.
4. Work with its attorneys to determine if excess board compensation constitutes a gift of public funds or requires repayment by the individual board members. If repayment occurs, issue corrected W-2s. Base future board compensation payments on roll call and attendance at board meetings.
5. Monitor its board meetings to ensure that public access and input is not being unnecessarily suppressed.
6. Ensure that its CBO is included as a participating member of the district's executive cabinet.
7. Develop a process by which audit findings are reviewed and corrective action plans are developed and implemented to eliminate repetitious annual audit findings.
8. Require its executive management staff and filing officer to undergo appropriate training regarding the requirements of the PRA.
9. Require its governing board to immediately adopt a revised Board Bylaws 9270 – Conflict of Interest to reflect current designated employees.
10. Comply with the provisions of FPPC Form 700 – Statement of Economic Interests – consistent with the revised Board Bylaws 9270 – Conflict of Interest.
11. Report to the county superintendent regarding compliance with items 1 through 10 above.

The county superintendent should:

1. Notify the Fair Political Practices Commission of the findings above related to completion and filing of Form 700s and request that the FPPC initiate the appropriate investigation and, as applicable, enforcement action.
2. Monitor the district's compliance with the recommendations to the district stated above.

Organizational Structure

An educational agency's organizational structure should establish the framework for leadership and the delegation of duties and responsibilities. As Parlier's enrollment increases or declines, the organizational structure should adapt to these changes. The district should be staffed according to the 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 International).

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, in Parlier, the superintendent has direct line authority over the CBO. 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 supervisory personnel. The organizational structure of local educational agencies contains both line and staff authority.

The purpose of any organizational structure is to help district management make key decisions to facilitate student learning while balancing 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 district's goals and objectives.

Authority in school districts originates with the governing board, which hires a superintendent to oversee the district. Through the superintendent, authority and responsibility are delegated to the district's administration and staff.

The district's five-member governing board is composed of both new and veteran members. During the three years that are subject to this review, 11 individuals have served as governing board members. Interviews indicated that despite frequent travel and conference attendance on the subject of governance roles and responsibilities, the governing board and superintendent remained unsettled and lacked clarity in differentiating the roles and responsibilities of the board from those of the district's administration. FCMAT found that some governing board members involve themselves in daily operations that should be the responsibility of district administrative staff.

Parlier provided FCMAT with a 2014-15 organizational chart dated February 7, 2015 that includes several reporting relationships that do not follow the professional standards and best practices of the industry. The chart does not reflect a reporting relationship between the CBO and the superintendent; however, the CBO should report to the superintendent and be a member of the executive cabinet, helping to guide and implement critical decisions with full authority to enforce a fully functional system of internal controls. Currently, the human resources department and facilities department report to a certificated administrator who does not hold an administrative credential issued by the California Commission on Teacher Credentialing. While an administrative credential is not required for this role, the incumbent lacks other qualifications based on experience and training that would normally be found in such a position. The chart shows the facilities department includes a father and son reporting relationship that creates a conflict of interest and is inappropriate.

Another organizational structure defect in Parlier was the reassignment of the superintendent's brother from a classroom teacher to teacher on special assignment (TOSA) during the superintendent's term in office. The brother had no applicable administrative or school business experience but stated that he was charged with conducting "efficiency studies and cost-benefit analysis." He was

further charged with marketing efforts to increase enrollment and, by his own admission, things looked better on paper and not so good in reality. During interviews of senior management and governing board members, no one could describe the TOSA's role except to mention that he was paid extra and acted on behalf of his brother, challenging employees, including his superiors, and following in his brother's footsteps by ruling through fear and intimidation. The TOSA worked out of his brother's superintendent office and acted, according to some people interviewed, as the superintendent during his brother's frequent absences. FCMAT's review of the TOSA's letter of resignation shows that he resigned from the district in July 2015 at the same point in time that allegations against him surfaced and he was to be placed on administrative leave.

Several employees at Parlier are confused as to whom they report to or whom they supervise. The TOSA indicated that he reported to the deputy superintendent, but the deputy superintendent indicated that he did not have that responsibility and only signed the TOSA's timecards for extra compensation under duress from the superintendent. The district's business manager is supposed to supervise the accounts payable technician and the payroll technician but views their activities as separate from her duties. Both the accounts payable and payroll technicians referred to both the business manager and the CBO as their supervisor. The supervisor of technology reported that his supervisor was the administrator on special assignment; however, the organizational chart reflects that to be the assistant superintendent of curriculum and instruction.

Ultimately, Parlier's organizational structure was and is constructed to support the governance style of the board members, superintendent and their closely aligned friends and associates. Interviewees stated that qualifications for key positions are based on who you know, where you graduated from high school, your familial relationships and the particular governing board member's wishes rather than the normal qualifications of experience, education, training, and merit found in other California school districts.

The district's employment practices and leadership style produce high turnover, frequent administrative actions to place employees on paid administrative leave, retaliatory actions toward employees, monitored email communication and other actions that ultimately interfere with the district's obligation to support students in their personal and academic growth.

Recommendations

The district should:

1. Provide training to the board so that they understand their roles and responsibilities as they relate to the school district and extract themselves from day-to-day management.
2. Update its organizational chart to reflect its current situation and update the document as changes occur.
3. Confirm that the HR department has worked with employees so that they are aware of the organizational structure, know who their immediate supervisor is and understand the concept of the chain of command.
4. Report to the county superintendent regarding compliance with items 1 through 3 above.

The county superintendent should:

1. Monitor the district's compliance with the recommendations to the district stated above.

Records Retention

As discussed in various sections of this report, FCMAT found that a consistent and complete audit trail of documentation was not available for all accounts payable transactions. While an occasional missing document is to be expected in any organization, the missing accounts payable documents at Parlier are significant, especially given the questions that have been raised about the appropriateness of some expenditures. It should also be noted that the number of missing documents diminished over the three-year period of FCMAT's review. Specifically:

2012-13

1. Noncontract related transactions: Of the 233 accounts payable packets sampled, 11 could not be located. These transactions represented \$64,196 in payments made by the district or 7% of the total dollar value sampled for review. Included in the missing documents were entire files for the following vendors (amounts shown are sampled invoice values):
 - Colima's Carniceria y Taqueria, \$647.72
 - Global Rush Company, \$26,486.18 – This is a company whose tax identification number matches that of a district employee.
2. Contract-related transactions: FCMAT sampled 208 contract-related transactions worth \$1,683,417.01. Of those 208 items, 72 were missing representing payments of \$1,154,085.35 or 68.56% of the dollar value sampled for review. Noteworthy is that entire accounts payable/contract files for the following vendors were missing (amounts shown are sampled invoice values):
 - AMS Net, \$31,519.31
 - Bear Data Solutions, \$118,777.45
 - Best Buy Gov LLC, \$63,920.78
 - Education and Leadership, \$43,210
 - Dell Marketing LP, \$79,740.10
 - Pacific Rim Business Services, \$38,000
 - S C Anderson, \$628,694.05
 - Seville Group (The), \$30,122.50

2013-14

1. Noncontract related transactions: Of the 435 transactions sampled, 20 could not be located. These transactions represented \$10,604.86 in payments made by the district or 2% of the total dollar value sampled for review. As in 2012-13, the file for Global Rush Company was missing, with its sampled transactions totaling \$3,921.80 of the \$10,604.86.
2. Contract-related transactions: FCMAT sampled 121 contract-related transactions worth \$3,849,400.57. Of those 121 items, 34 were missing, representing payments of \$283,472.25 or 7.36% of the dollar value sampled for review.

2014-15

1. Noncontract related transactions: Of the 580 transactions sampled, 34 could not be located. These transactions represented \$125,608.37 in payments made by the district or 9% of the total dollar value sampled for review. This number is skewed due to a large credit entry with a description associated with the deputy superintendent. Elimination of the \$68,654.01 credit entry brings the total of missing transactions to \$194,262.38 or 14% of the transactions sampled.

Additionally, FCMAT was unable to locate the receipt noted in the grand jury's report associated with alcohol purchased at a restaurant on November 3, 2014 in the district's accounts payable records. A copy was eventually located in copies of the records provided to the grand jury.

2. Contract-related transactions: FCMAT sampled 271 contract-related transactions worth \$2,930,063.42. Of those 271 items, 20 were missing, representing payments of \$107,770.43 or 3.68% of the dollar value sampled for review.

In an issue that crosses fiscal years, the district passed a general obligation bond measure under Proposition 39 in 2014 known as Measure P. Some of the contractor and vendor records that are missing are related to expenditures of local bond proceeds. Without the necessary documentation, the district would be unable to demonstrate compliance with the oversight, audit and performance data required for a Proposition 39 local general obligation bond.

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 district can use various effective methods to organize documents. California Code of Regulations (CCR) – Title 5, Commercial Code and Government Code establishes records retention guidelines for California school agencies. 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 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: These are not required by law to be retained permanently, but 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 accounts payable 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.

A review of Parlier's board policies found that Board Policy/Administrative Regulation 3580, District Records, was adopted on January 22, 2013; however, the district does not have department policies and procedures to implement the board's directives. Interviewees expressed that the physical movement of the business office has impacted their ability to locate records. FCMAT

found many instances where items were misfiled, indicating a lack of training in basic filing processes and procedures.

Recommendations

The district should:

1. Ensure that each employee has been provided with training and dedicated time, as needed, to ensure that they understand their responsibility for records retention and to ensure compliance with the records retention requirements of CCR Title 5, Sections 16020-16027.
2. Report to the county superintendent regarding compliance with item 1 above.

The county superintendent should:

1. Monitor the district's compliance with the recommendations to the district stated above.

Human Resources

The basic hiring process at a school district is that a position is identified that needs to be filled, the position is advertised, candidates apply by the stated deadline, interviews occur, references are checked and the chosen candidate is then brought to the governing board for approval.

The district has a document entitled “Overview of Hiring Process” that follows this same trail; however, interviewees stated that this is not always the path that Parlier followed. It was not an unusual occurrence for a board member or administrator to insist on hiring a specific person based on their personal or family affiliations or in exchange for promises made during board election campaigns, whether or not a position had actually been posted. Instances were reported where there was no position posted or available but that one was made for a specific person.

While the district has the Gamut online service for board policy templates, it has deviated from Gamut’s suggested language in this area. Gamut’s BP 4111 template suggests that “[t]he Superintendent or designee shall develop fair, open, and transparent recruitment and selection processes which ensure that individuals are selected based on demonstrated knowledge, skills, and competence and not on any bias, personal preference, or unlawful discrimination.”

Instead, Parlier has developed a board policy that can allow for bias, personal preference and possible unlawful discrimination which states “[t]he Superintendent or designee shall develop selection procedures that identify the best possible candidate for each position based on screening processes, interviews, observations and recommendations from previous employers.” Application of Parlier’s BP 4111 has allowed nepotism and favoritism to flourish. Multiple interviewees reported that jobs would be found or created for those who were favored by the former board president or superintendent. Recent examples that were brought to FCMAT’s attention were:

- The movement of the superintendent’s brother from the classroom to the position of a TOSA. District administration confirmed that no recruitment was performed for this job and that the superintendent appointed his brother to the position. No job description existed at the time of the board’s approval of this hiring, but interviewees stated that he possessed the appropriate unique qualities to fill the position. However, the person who had filled the position told FCMAT that no special qualifications were needed to perform the duties. While he reported that he holds a master’s degree in business and was performing cost/benefit analysis work during the approximately seven months that he held this position, no work product was provided to FCMAT.
- FCMAT was told about a resource specialist (RSP) math teacher hired as a result of being the waitress for the former board president and superintendent at a local restaurant. When FCMAT inquired of the district about this hiring, it was stated that the RSP math teacher was hired from a “special recruiting event.” The district provided the recruitment file for this position, which included a vacancy announcement, employee status form, governing board statement for district intern credential and certificated application. FCMAT’s review of the recruitment file shows that the vacancy announcement reflects a posting date of July 28, 2014 while the job applicant in question’s certificated application was signed and dated June 4, 2014. The application further asks the applicant about how they learned of the vacancy. This job applicant checked the box for “walk-in” even though the question allowed the applicant to check the “recruitment” box. While the applicant did not list the restaurant under her prior experience, she did obtain a letter of recommendation from the restaurant co-owner, which was included in the packet and describes the applicant as the lead bartender. FCMAT’s direct questions about the hiring

of this person revealed that the district was unable to provide evidence as to the nature or sponsor of the special recruiting event and was unable to locate documentation showing her name on an interview list or any person who actually interviewed her. She was hired as an intern in the fall of 2014 and will finalize her efforts to obtain a clear teaching credential in May 2016 – one and a half years after her hiring. The information gathered in this case gives additional weight to the assertion of hiring based on favoritism and the district’s attempts to hide the true circumstances of this particular hire.

- Attempting to promote the superintendent’s brother from TOSA to director of technology. Other than teaching using technology, FCMAT was not made aware of any credentials that would qualify the brother for this position. When the matter was brought to the board for decision, two board members voted in favor and the remaining three voted “Nay” and the motion died. Of the two board members who voted in favor of this action, one was the then board president who many interviewees identified as commonly designating specific people for hire and the other was a board member who stated to FCMAT that he would be pressured by the then board president to vote a specific way.
- During the public comment portion of the October 13, 2015 board meeting, a community member made statements regarding various promises by board members in exchange for votes in the last board election. These were the same allegations that FCMAT heard from numerous interviewees regarding jobs offered in exchange for votes.

It is common practice for a board to enter into a contract with its superintendent and, during the term of that contract, enter into revisions. However, in FCMAT’s experience superintendents tend to minimize the number of times they bring their contract to the board for revision or review. That was not the case in Parlier. As of the writing of this report, the superintendent’s tenure was at the two and a half year mark and his contract had not only been approved at hire but experienced five revisions, as follows:

- June 13, 2013: The board approved his initial contract with:
 - A base salary of \$147,000;
 - \$500 a year for his master’s degree;
 - Per diem rate based on a 261-day year;
 - 22 days of vacation with payment of unused days at termination of the agreement or retirement of the superintendent up to a maximum of 40 days;
 - 12 days of sick leave;
 - Life/health/dental/vision as provided to other district employees;
 - Health and dental benefits for he and his spouse until they are eligible for Medicare;
 - Cash payment to the superintendent of the amount that the district would have paid for health and welfare payments on his behalf if he elects to waive participation;
 - District paid membership dues for the American Association of School Administrators (AASA), Association of California School Administrators (ACSA), Parlier Chamber of Commerce, memberships in local service agencies such as Rotary, Kiwanis, etc.;

- District paid annual physical examination; and
- \$500 per month for “the use of his/her personal automobile for District business.”
- June 25, 2013: This action modified the base upon which the superintendent’s per diem rate was based from 261 days to 225 days. Assuming the inclusion of only the superintendent’s base salary and educational stipend in this calculation, that reflected a 16% increase from \$565.13/day to \$655.56/day; however, the superintendent’s annual salary did not change. Government Code Section 53262 requires that “[a]ll contracts of employment with a superintendent, deputy superintendent, assistant superintendent ... shall be ratified in an open session of the governing body which shall be reflected in the governing body’s minutes.” FCMAT’s review of the minutes for the June 25, 2013 meeting does not reflect that the board voted on this matter.
- January 28, 2014: Modified paragraph 6.4 to allow the superintendent to receive payment of accrued vacation in January and/or June of each year. Accruing benefits in one year and then paying them in another is often termed as “deferring payment”; however, the IRS could define this as a constructive receipt issue since the superintendent is earning the vacation in one year but electing to receive payment in another. Constructive receipt applies to a cash-basis taxpayer and provides that the taxpayer include amounts in income when they are actually or constructively received. According to IRS Publication 538, “[i]ncome is constructively received when an amount is credited to your account or made available to you without restriction. You need not have possession of it.” Under this doctrine, there may be a circumstance where an amount is payable to a taxpayer even before it is received.
- July 8, 2014: Modified paragraph 1 to automatically increase the superintendent’s salary to “an amount equal to the percentage increase granted to the District’s certificated employees” and commencing July 1, 2014. This action resulted in a 2% one-time bonus for the 2013-14 fiscal year, a 5% increase in base salary for the 2014-15 fiscal year and a 4% increase in base salary for the 2015-16 fiscal year. While it is not uncommon to have the superintendent’s salary increases tied to a specific class of employees – in this case the certificated unit, it should be noted that the superintendent was acting as the district’s negotiator in its discussions with its bargaining units. This calls into question whether his actions represented his fiduciary duty to the district and its interests or his own when the outcome of those negotiations was so intimately tied to his own personal finances.
- November 18, 2014: This addendum increases the superintendent’s salary by \$10 per hour commencing July 1, 2014. A 261-day paid work year (225 work days plus 22 vacation days plus 14 holidays) and an 8-hour workday equals 2,088 hours per year. Increasing the superintendent’s base salary by \$10/hour results in a 13.5% increase from \$154,350/year (or \$73.92/hour) to \$175,225 per year (or \$83.92/hour) and is in addition to the 5% increase approved on July 8, 2014. While this matter was agendized at the regular November 18, 2014 board meeting, FCMAT could not locate the minutes for this meeting nor find action by the board approving the minutes. As referenced above, this is a violation of GC 53262. It is also highly unusual to move between annual and monthly compensation in an executive contract to an hourly wage because this position is typically considered to be overtime exempt. Without setting forth the conversion of annual/monthly salary to hourly rates or vice versa, this can cause confusion with the board and public as to the actual fiscal ramifications of such a decision.

- January 27, 2015: This agreement revised the superintendent's base pay from \$154,350 to \$172,350 and provided a \$9,000 stipend.

With regard to a district retroactively approving salary increases for employees, specifically those who hold individual contracts, retroactive pay raises are not permitted by law unless the contracted salary is said to be indefinite. Retroactive increases for past performance or inducement for future performance may constitute a gift of public funds.

In the vast majority of districts, employee positions below executive level administrators are included on salary schedules and, with the exception of teachers, a district does not normally enter into individual employment contracts at this level of the organization. Additionally, again with the exception of teachers, if a position is included on a salary schedule, most districts find that there is no need to enter into an individual employment contract. However, that is not the case in Parlier. Some individuals, but not all, who hold directorship level positions have individual employment agreements with the district even though their positions are reflected on the district's salary schedules. The rationale given to FCMAT was that the district wanted to provide these individuals with some security in their positions. FCMAT's review of three employment agreements with administration/director level employees showed, again, a disparity in handling their termination without cause.

The first was that of the director of special projects. This employment agreement was approved by the governing board in February 2015 and reflects a provision normally only afforded superintendents and assistant superintendents. That provision is a payment for termination without cause that equals the director's monthly salary multiplied by the number of unexpired months in the agreement or 18 months, whichever is less. For this particular position, this could represent a \$187,733 payment to the employee if all 18 months are paid and is an unnecessary liability to the district. The second agreement was that of the principal at the alternative education high school/coordinator of alternative education, which was approved by the governing board on June 11, 2013. This agreement provided the employee with no guarantee of monthly salary payment in the event of termination without cause. The third agreement was that of the chief academic officer of college and career readiness, which was approved by the governing board on May 27, 2014. Like that of the principal, the agreement provided the employee with no guarantee of monthly salary payment in the event of termination without cause.

There is no requirement for individual employment agreements at this level, and it is highly unusual to see them in use at the directorship/principal level. Employment agreements are normally reserved for the executive level and are provided to these individuals primarily so they may give the governing board unvarnished information with which to make their decisions. However, as is noted in various areas of this report, Parlier has a practice of employing people based on their connections. The disparities in individual employment agreements reflect this practice and are another way of protecting those who are in favor with the administration that exists at the time of their hire.

Further review of the contract for the director of special projects also shows there is no provision for vacation time for this person or how many days of vacation they may earn. The agreement specifies in paragraph 6 that the work year for this position is 261 days – the person is “required to render 261 days of service to the District during each fiscal year.” Using the 365 days in a non-leap year and subtracting 104 Saturdays and Sundays leaves the 261 days. The contract does provide for 14 district-paid holidays, so it brings into question whether the contract equates vacation days and holidays as part of the work year. If so, this could entitle this particular employee to unlimited vacation. FCMAT's review of the Absence Information report on this employee shows

three days of vacation used since February 2015; however, it is unknown if this report is up-to-date because the last date of any entry in the report is June 30, 2015.

Recommendations

The district should:

1. Modify its BP 4111 to reflect hiring practices that are fair, open, and transparent where selection processes ensure that individuals are selected based on demonstrated knowledge, skills, and competence. The policy should specifically include procedures that avoid family members supervising one another and require disclosure of all relationships between board members and district personnel and those being considered for employment.
2. Upon modification of BP 4111, ensure that it adopts a practice of ensuring fair, open and transparent hiring processes.
3. Work with its attorneys to determine if the June 25, 2013 and November 18, 2014 amendments to the superintendent's contract were valid and, if not, whether funds are due from the superintendent to the district.
4. Carefully examine employment contracts and include detailed information in the board item as to the cost of any revisions so that the board and the public can be fully informed regarding the action being considered.
5. Consult with its auditors to determine if the election of Parlier's superintendent to receive vacation payouts in the year after they are earned creates a constructive receipt issue.
6. Work with its attorneys to determine if the retroactive payment of salary increases to the superintendent or others violates California Constitution Article 11, Section 10(a).
7. Revise its internal processes and procedures to ensure that executive level employment contracts are approved by the board as soon after entering into them as is possible.
8. Revise its practice of entering into individual employment contracts and adhere to use of normal employment practices and salary schedules.
9. Report to the county superintendent regarding compliance with items 1 through 9 above.

The county superintendent should:

1. Monitor the district's compliance with the recommendations to the district stated above.

Payroll

The payroll department at Parlier is staffed with a full-time payroll technician, a full-time business manager who supervises the payroll technician and a full-time CBO to oversee the entire business department. They are responsible for processing the regular monthly payroll for both salaried and hourly personnel, as well as overtime, one-time bonuses, stipends, etc., and any payroll errors.

FCMAT's interviews regarding the processes used for payroll and its review of the district's general ledger revealed that payroll errors were being processed through accounts payable. This can result in a violation of Education Code Section 45167, which requires correction of any district payroll error within five working days. Most districts establish a revolving cash fund at a local bank, which operates as a checking account for payment of payroll errors if they are unable to process an emergency pay warrant through the county office's payroll system. Having a revolving cash fund would allow the district to issue a check immediately upon learning of an error and avoid the inevitable delays in using the processes and procedures established through the county office to issue a warrant through the district's accounts at the Fresno County Treasury.

The governing board approved the hiring of the superintendent's brother as a TOSA at its November 26, 2014 meeting. The district was unable to provide FCMAT with a copy of the board agenda item showing what the board had approved for working days for this position. However, they did provide the Employee Status Form that showed an additional 112 hours "from Dec 1 through June 10, 2015." As was noted above, the board did not approve the job description for the position until May 28, 2015, at which time the supervisor for the position was designated as the deputy superintendent. The superintendent's brother tendered his resignation effective July 29, 2015.

Examination of the timesheets submitted by the TOSA show that he started his duties on October 4 and that the timesheets for October, November and December 2014 reflect a total of 80 hours, or \$3,832.80, paid on December 29, 2015. All three of these timesheets were signed and dated by the TOSA on December 22, 2014, and his brother, the superintendent, signed them as his supervisor. Given the dates authorized pursuant to the Employee Status Form, this raises questions about whether the hours worked in October and November were authorized. A supervisor did not sign the timesheets for the months of May and July 2015; however, the district cancelled the warrant for the July 2015 timesheet and the employee has not contacted the district regarding nonpayment. The remainder of the timesheets were signed by the deputy superintendent although he reported to FCMAT that he was not aware that he was the TOSA's supervisor, did not control the activities of the TOSA and had been uncomfortable in signing them but was following the directive of his supervisor, the superintendent. Multiple interviewees reported that members of the governing board and the superintendent used fear, intimidation and an expectation of compliance when requests were made of employees. Failure to comply was met with efforts to remove the employee from the district primarily through dismissal. FCMAT, found almost without exception, that employees complied with requests made of them.

Employment agreements can contain items that can be paid through the accounts payable system which, according to the Internal Revenue Code are considered taxable income and are subject to applicable income and payroll taxes. IRS Publication 15 states:

"Wages subject to federal employment taxes generally include all pay you give to an employee for services performed. The pay may be in cash or in other forms. It includes salaries, vacation allowances, bonuses, commissions, and fringe benefits. It doesn't matter how you measure or make the payments."

The district's payments for membership in professional organizations' dues on behalf of its executive administrators falls into the category of fringe benefits and should have been included in their W-2s but were not.

In addition, items over and above regular wages are defined as "supplemental wages" by the IRS, subject to withholding and reporting on an employee's W-2. Publication 15 provides:

"They include, but aren't limited to, bonuses, commissions, overtime pay, payments for accumulated sick leave, severance pay, awards, prizes, back pay, retroactive pay increases, and payments for nondeductible moving expenses."

Interviewees reported that employees received raffle prizes (such as Keurig coffee machines, blenders and other appliances) at a district sponsored holiday event in December 2014. The CBO reported that nothing other than wages paid was included on employee W-2s. Payment for the prizes came from district funds as was confirmed by the district's business manager. Additionally, the district entered into a Retirement and Settlement Agreement on August 14, 2012 whereby \$76,110.02 was paid through the accounts payable process directly to a former superintendent to purchase two additional years of service in the California State Teachers' Retirement System. Such a payment should have been considered supplemental wages and should have been included on the employee's 2012 W-2. FCMAT's review of the district's 2012 W-2s and 1099s for this former employee showed that this payment was reported on a 1099 in box 14 as "gross proceeds paid to an attorney" yet the check was made payable to the employee.

As was noted above, the current superintendent's contract included a \$500 per month payment to the superintendent for "the use of his/her personal automobile for District business." Payment of a car allowance is a very common practice to conveniently and expeditiously pay a person who frequently uses their personal vehicle to conduct district business. This alleviates the need for them to keep logs to track their trips and mileage and file numerous expense reimbursement claims as well as saving the district's business personnel from having to process myriad claims. Many times the contract clause will include language that limits the area to which the car allowance is applicable such as a mileage radius or mileage within the county borders. That was not the case with the current superintendent's contract. It included all use of his vehicle for district business to be covered by the payment of \$500 per month.

However, the superintendent used rental cars and the district's gas credit card to pay for items that should have been included in his car allowance. These items included rental cars to attend workshops/conferences in Burlingame, Sacramento, Cupertino, Los Angeles, San Diego and Monterey as well as for destinations not included when processing vendor invoices. Sometimes the car rental would last for days longer than the event for which the vehicle was taken. Gas credit card charges were often attached to the dates on which car rentals occurred or were in progress; however, there were instances where the gas credit card was used for the superintendent's personal vehicle at local gas stations, and the reason for the use was "school business," "visiting school sites" or "visiting other districts." These car rental and gas charges totaled \$3,302.96 and \$345.95, respectively, for the 2013-14 fiscal year and \$5,361.37 and \$380.97 for the 2014-15 fiscal year. Given that the employment contract did not provide geographical boundaries beyond which the district would pay for other modes of transportation or fuel expenses, these would be considered supplemental wages by the IRS and includable on the superintendent's W-2s.

The district has also adopted a methodology for monetarily rewarding personnel over and above what is paid via their salary schedule placement. These payments are termed "one-time bonus" or "stipend," and FCMAT found the following one-time bonuses/stipends in board meeting minutes:

- \$28,000 awarded to the executive assistant to the superintendent on July 23, 2013 for “significant overtime as well as extra duties outside the scope of her job in assisting with management functions during the last six (6) months.” This stipend represents 28.68% of her annual 2013-14 salary or approximately 598 hours of overtime. The position of executive assistant to the superintendent is a highly compensated position and, during the 2013-14 fiscal year, received the highest compensation for unified districts of a similar size as reported by the county office’s comparison research of compensation paid to superintendents’ secretaries:

Salary Comparison for Executive Assistant to Superintendent

<u>District</u>	<u>2013/14 ADA</u>	<u>Total Compensation*</u>
Kerman Unified	4937	\$ 66,637
Parlier Unified	3363	\$ 131,843
Washington Unified	3178	\$ 91,272
Mendota Unified	3025	\$ 43,117
Fowler Unified	2425	\$ 55,034

*Includes base salary and such items as stipends, overtime, vacation payouts, etc.

- \$6,233 awarded to four employees for extra duties at the April 8, 2014 board meeting. These duties were related to the local control accountability plan (LCAP), instructional rounds, and out of class duties related to “OCR” and filling in for the vacant assistant superintendent, curriculum and instruction position.
- \$8,085 awarded at the May 13, 2014 board meeting to a certificated employee for performing duties related to a temporary special assignment.
- \$22,971.45 to the principal of San Joaquin Valley High School/coordinator of alternative education for, according to the May 27, 2014 board minutes, “significant overtime as well as extra duties outside the scope of his job in assisting with management functions. The extra duties were necessitated in large part by extended leave by the former Superintendent, in order to assist the Board during transitions in the Superintendent’s Office.” His accounting of the time reflects 608 hours spent as acting superintendent and the stipend represented 21.5% of his 2012-13 base salary, which was the year the work was to have been accomplished. The stipend was approved by the board nearly a full year after it had been performed.
- \$5,008.75 awarded to the deputy superintendent at the board’s January 27, 2015 board meeting for significant overtime and extra duties involved in and filling in for the vacant assistant superintendent, curriculum and instruction position. It is highly unusual for a district to pay an administrator for overtime. Exempt employees (those who are paid a salary rather than an hourly wage) do not qualify for such compensation as that is already built into the parameters of their salary and their job duties.

FCMAT also reviewed the employee payroll earnings reports of the district’s executive level employees to determine whether all compensation provided under their individual employment contracts had been included on their W-2s. During this review, it was noted that the deputy

superintendent may have been overpaid for the fiscal year 2014-15 and, based on information gathered during that inquiry, may have also been complicit in obtaining that overpayment.

The deputy superintendent served as the Parlier High School principal for the period November 13, 2012 through June 30, 2014 and became the district's director of special projects as of August 1, 2014. He was then promoted to the position of the deputy superintendent effective January 27, 2015. Most administrators are paid their salaries over a 12-month period; however, principals in Parlier are paid on an 11-month schedule. Neither the principal position nor the director position would have generated payment for the month of July 2014; however, a timesheet was submitted for 176 hours worked in July for a gross payment amount of \$12,453.76. The timesheet was generated and signed by the deputy superintendent on August 11, 2014 and approved by the superintendent that same date. The governing board approved neither the timesheet nor the additional duties performed.

As noted above, the deputy superintendent also received a one-time stipend/bonus of \$5,008.75 for additional duties, which was approved by the governing board. Since both the director of special projects and the additional duties paid for work associated with the assistant superintendent, curriculum and instruction are positions that are subordinate to that of the deputy superintendent, normal reasoning concludes that the compensation attached to those other positions/duties should not raise the salary paid to the deputy superintendent beyond that in his contract. However, that is not what occurred. The annual salary attached to the deputy superintendent's contract was \$138,885 plus a \$500 per year educational stipend for a master's degree. The deputy superintendent was paid \$153,494.50 during the 2014-15 fiscal year, which is \$9,100.73 more than the total compensation of \$144,393.75 (\$138,885 + \$500 + \$5,008.75) approved by the board.

Recommendations

The district should:

1. Use its revolving fund for payment of district payroll errors.
2. Work with its auditors and the IRS to issue corrected W-2s for those employees who either had items paid on their behalf through the accounts payable process, received supplemental wages, or received prizes.
3. Ensure that it institutes policies and procedures to capture items paid through accounts payable for inclusion in employees' W-2s, as applicable.
4. Work with its auditors to ensure that the 1099 issued to the former superintendent correctly reported his settlement with the district.
5. Work with its attorneys to determine if the funds paid to the district's TOSA for the months of October and November 2015 were authorized by the board. If not, determine if this would be considered a gift of public funds and if it should seek reimbursement.
6. Work with its attorneys and auditors to determine if an overpayment was made to the deputy superintendent.
7. Report to the county superintendent regarding compliance with items 1 through 6 above.

The county superintendent should:

1. Monitor the district's compliance with the recommendations to the district stated above.

Accounts Payable

Transaction Sampling Analysis

Many of the concerns raised by the grand jury report that were of concern to the county office related to items associated with meals, reimbursements, credit cards, travel/conference expenses and purchasing/bidding/contracting. These specifically included large numbers of meals paid with district credit cards, credit card usage with missing receipts, frequent in-state and out-of-state travel for workshops/conferences and the district's Sunshine Club account.

To accomplish testing, in-depth analysis and an understanding of Parlier's transactions, FCMAT developed testing procedures and was provided with Parlier's general ledger expenditure transactions from July 1, 2012 through June 30, 2015:

Fiscal Year	Total Transactions	
	Count	Dollars
2012-13	18,998	\$8,813,949
2013-14	23,511	\$14,764,357
2014-15	27,288	\$13,954,480
Total	69,797	\$37,532,786

Specifically, FCMAT performed audit sample testing of Parlier's general ledger transactions, bank statements, disbursements, and employment agreements, which included the following:

- Review of the detailed general ledger records from July 1, 2012 through June 30, 2015.
- Review of revolving bank statements and bank statement reconciliations for the period July 1, 2012 through June 30, 2015.
- Review of proper authorization and available supporting documentation.
- Review of bidding documents and contracts.
- Review of credit card transactions and payments.
- Analysis of supporting documentation for credit card transactions.
- Review of Parlier's fiscal policies and procedures.
- Review of governing board meeting agendas and minutes.
- Review of Parlier's internal control process and procedures to determine possible weaknesses in the prevention and detection of fraud, misappropriation and/or criminal activity.

FCMAT previewed all of Parlier's general ledger transactions related to payments coded to object codes 3901-6999. The population of transactions considered for review excluded those related to payroll but included those related to other payroll benefits such as annuities, deferred compensation or professional dues that benefit an individual. Previewing transactions means that all were reviewed in total and individually to determine if any should be examined in further detail by reviewing the detailed supporting documentation and making inquiries regarding the status and type.

FCMAT requested that the county office convert the district's general ledger into an Excel document. Extraneous lines (such as titles, totals, subtotals, encumbrances, disencumbrances) were

then removed to produce a spreadsheet containing only expenditures paid. Based on the number of transactions in each year of the general ledger, examination of Parlier's accounts payable transactions, the areas of concern and professional judgment, FCMAT identified approximately 1,850 total transactions for further review and divided them into two categories. Those related to books, materials, supplies, noncapitalized equipment, travel/conferences, dues/memberships, operations/housekeeping services, rentals/leases/repairs, operating expenditures and communications and those connected to contract-related transactions for capital purchases and consultants.

Fiscal Year	Selected Noncontract-Related Transactions	
	Count	Dollars
2012-13	233	\$ 974,086
2013-14	435	\$ 523,631
2014-15	580	\$1,359,936
Total	1,248	\$2,857,653

Fiscal Year	Selected Contract-Related Transactions	
	Count	Dollars
2012-13	208	\$1,683,417
2013-14	121	\$3,849,401
2014-15	271	\$2,930,063
Total	600	\$8,463,881

It is essential to establish consistent proper procedures to ensure that the purchasing process supports the district's needs while also supporting the accounting process and maintaining the goals of fairness and transparency in the use of public funds. A review of detailed transaction documentation is the process of auditing selected transactions for supporting documentation and customary processes such as the following:

- Purchase orders (POs) being issued in advance of the purchase of goods or services. The use of purchase orders is an important element of the district's internal control system. Signed purchase orders are legal contracts between the district and its vendors.
- The documentation's appearance, calculations of extended prices and quantities, and description of transaction line items.
- Receipt documentation such as notes and description of the business purpose.
- Proper transaction and contract authorization, including governing board approval, bidding processes, management approval, and conformity to internal accounting policies and procedures.
- Proper coding of transactions in the general ledger chart of accounts.
- Vendor names and check payee names that are supported by valid business license(s).
- Properly authorized reimbursement transactions that contain supporting documentation.
- Contracts and transactions associated with the contracts that are valid for the appropriate time period, contain authorized signatures, and are traceable back to the proper governing board and management authorizations.
- Other proper documentation depending on the type of purchase or contract.

While the district has written procedures for processing requisitions and POs that require appropriate signatures based on the budget being used and POs being issued prior to orders/requests being made, these procedures were last revised July 1, 2008 and have largely been ignored. FCMAT's testing of the 1,800 transactions revealed areas in which the district could improve its internal controls and efficiencies such as the following:

- Ensuring that each PO includes two signatures. Best practices have both the requestor/supervisor and the CBO approving POs to assist in ensuring proper budgeting and coding.
- FCMAT noted many instances where coding was incorrect.
 - Items over the district's capitalization threshold (set at \$5,000 by BP 3400) being coded to noncapitalized equipment or supplies instead of capital outlay accounts.
 - Items over the district's equipment inventory level (set at \$500 per Education Code Section 35168) being coded to supplies instead of noncapitalized equipment.
 - Admission tickets for a student field trip being coded to supplies instead of professional/consulting services and operating expenditures (per CSAM, Procedure 330-24).
 - Repairs to a vehicle coded to professional/consulting services and operating expenditures instead of splitting the charges appropriately between supplies and rentals, leases, repairs and noncapitalized improvements.
 - Office furniture charged to travel and conferences instead of noncapitalized equipment.
- Preparation of a single PO per contract/transaction instead of the district's current practice of preparing a separate PO for each invoice. For example, if the total contract price were \$90,000 paid in 10 monthly installments, a separate PO was prepared by the district for each \$9,000 monthly installment instead of one PO for \$90,000. FCMAT also observed instances where a PO was prepared for each service ticket, invoice dates predating PO dates, invoice dates on the same date as the PO dates, and payment for construction work occurring one or more days following the PO date. It was also observed that POs were issued based on receipts for purchases already made and received.
- Encumbrances, normally done automatically through the financial software system when a PO is approved, are frequently delayed until payment is due as opposed to at the time a financial commitment is made by the district. FCMAT also observed that the district does not produce POs through its electronic financial system on a consistent basis. The district's current practice not only violates its own procedures but overburdens staff and does not allow for encumbering the funds necessary for payment and proper budgeting, which also produces misleading information for users of the district's financial reporting, accounting and budgeting system.
- POs should also be prepared as soon as the underlying transaction (e.g. requisition or contract) has been approved. Despite this being the requirement in the district's PO procedures, FCMAT noted that it was the exception and not the rule. Most POs were prepared well after the transaction had been entered into, work commenced and, in some cases, after work was completed. POs are viewed and used as a ministerial step in a paperwork process as opposed to an important element of sound internal control.

- Ensure that contracts are executed only by those who are given the authority by the governing board to bind the district to such contracts. FCMAT noted instances where the deputy superintendent, site principal and English Learner (EL) administrator had executed contracts on the district's behalf even though they were not authorized signatories. While this is discussed further later in this report, it is also important that site administrators understand who does and does not have that authority. Their signatures on contracts could potentially lead to personal liability should they sign a contract, not have authority to bind the district and something goes wrong with the transaction.
- When entering reimbursements into the accounting software, consider consolidating them to produce one amount to be entered into the system rather than entering each line to reduce the burden to staff.
- Proper documentation of a transaction should be included and payment should not be issued without a proper receipt. FCMAT noted an instance where an adding machine tape was used as a receipt in the records of the district's Sunshine Club.

Meals

One of the chief concerns raised in the grand jury report, and shared by the county office, was that of meals eaten by district personnel at local restaurants. Based on this concern, FCMAT included in its sample any payments made using district credit cards, meal reimbursements to individuals and payments made directly to restaurants. Of the approximately 1,800 transactions tested, 546 were payments related to meals that totaled approximately \$61,000. Of these 546 transactions, 172 or 32% were either missing a receipt or the receipt did not provide information on who was in attendance and what district business was discussed.

FCMAT's detailed review of the receipts available as well as interviews with Parlier's current and former board members, administrators and staff members revealed a culture where meetings were routinely and frequently held in local restaurants instead of in district office space and adults used the district's funds for their own enjoyment.

The following are the items noted by FCMAT during its review:

- It was not an unusual occurrence to see two or even three meals per day being paid for with district funds.
- Open or blanket POs to restaurants so that the district is billed at some interval for employees' meals. One particular restaurant that was frequented often by district personnel, Mi Casita, was issued open purchase orders of \$3,000 in fiscal year 2013-14 and \$7,200 in fiscal year 2014-15. These types of POs are normally used for low dollar, recurring purchases, such as a PO with a hardware store for the small, frequent needs of the maintenance department. Issuance of open purchase orders to restaurants invites unauthorized use and reflects a massive lack of internal control in this area. As is discussed in the Records Retention section of this report, the district was unable to provide FCMAT with the totality of records requested. Records from this particular restaurant were among the missing records. The numbers quoted in this paragraph reflect the documents FCMAT was able to view. Consequently, these numbers may be conservative.
- Meals frequently included such items as bacon shrimp appetizers, lamb lollipop appetizers, filet mignon, steak and lobster, lamb chops, rib eye steaks (with or without

lobster added), New York steaks, porterhouse steaks, “The Sheriff” (a two pound piece of sirloin), prime rib, crab, and desserts.

- Multiple interviewees reported that the superintendent would not only pay for the meal of the group that he had brought to a particular restaurant but would also pay for the meals of other parties who happened to be at the restaurant at the same time. These would include current or former employees who might be present with their families or other business associates. One interviewee reported having seen the superintendent pay for the meals of a separate party including one of his children.
- For the meals where the receipts detailed the attendees, FCMAT used the total amount paid and divided it equally among those present and then calculated totals for the amount paid for the meals and the number of meals as follows. If the meal was paid with the superintendent’s credit card but no information was provided on the meal receipt as to who else was in attendance, the entire meal was allocated to him.

PARLIER UNIFIED SCHOOL DISTRICT
Allocation of Meals Pursuant to Information Written on Restaurant Receipts

Name	2012/13		2013/14		2014/15		Sunshine Club		TOTALS	
	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number
Board Members										
Enrique Maldonado	\$ 300.83	16	\$ 1,225.50	72	\$ 635.44	36	\$ 220.00	13	\$ 2,381.78	137
Jose Reyes	\$ 52.96	3	\$ 461.83	29	\$ 295.31	12	\$ 176.05	12	\$ 986.14	56
Fernando Banuelos			\$ 421.36	26	\$ 50.69	4	\$ 76.28	2	\$ 548.33	32
Mary Helen Villanueva	\$ 150.86	9	\$ 132.58	6	\$ 72.83	6	\$ 57.25	3	\$ 413.53	24
Melissa Cano	\$ 94.12	7							\$ 94.12	7
David Torres	\$ 70.57	5							\$ 70.57	5
Edgar Pelayo					\$ 81.00	3			\$ 81.00	3
Jackie Garcia-Escoto					\$ 69.43	2			\$ 69.43	2
Administration										
Gerardo Alvarez	\$ 252.13	15	\$ 5,636.80	182	\$ 4,375.89	115	\$ 2,888.13	53	\$ 13,152.95	365
Edward Lucero	\$ 7.15	1	\$ 360.66	29	\$ 591.83	36	\$ 22.27	3	\$ 981.91	69
Rene Rodriguez	\$ 30.62	2	\$ 317.78	24	\$ 521.94	31	\$ 50.38	5	\$ 920.72	62
Esperanza Zendejas	\$ 983.86	53							\$ 983.86	53
Gloria Gomez-Alvarez	\$ 117.14	9	\$ 160.23	11	\$ 228.99	9	\$ 26.11	2	\$ 532.47	31
Martin Mares			\$ 247.06	23	\$ 96.79	5	\$ 23.91	2	\$ 367.76	30
Raul Alvarez	\$ 25.64	1	\$ 78.03	5	\$ 758.32	20			\$ 861.99	26
Isreal Lara	\$ 210.35	14	\$ 60.45	5	\$ 16.90	1			\$ 287.70	20
Emilia Alvarez	\$ 21.19	1	\$ 57.29	4	\$ 147.40	7			\$ 225.88	12
Juan Sandoval	\$ 46.88	3	\$ 83.34	6			\$ 26.11	2	\$ 156.33	11
Sonjia Jasso	\$ 52.06	4	\$ 16.94	1	\$ 94.85	4	\$ 6.80	1	\$ 170.65	10
Irma Regalado	\$ 20.95	2	\$ 32.32	3	\$ 94.09	5			\$ 147.36	10
Agular					\$ 220.49	9			\$ 220.49	9
Lou Saephon					\$ 142.02	8			\$ 142.02	8
Javier Martinez			\$ 33.61	3	\$ 31.60	4			\$ 65.21	7
John Walkup	\$ 102.53	7							\$ 102.53	7
Iniguez					\$ 134.18	6	\$ 17.78	1	\$ 151.96	7
Rufina Paredes			\$ 32.32	2	\$ 110.04	3	\$ 26.11	2	\$ 168.47	7
Praxades Torres			\$ 32.83	1	\$ 90.87	4			\$ 123.70	5
Homar Garza			\$ 17.15	1	\$ 39.12	3			\$ 56.28	4
Mayra Villanueva					\$ 72.83	2	\$ 25.56	2	\$ 98.39	4
Sonia Hall	\$ 35.68	2	\$ 12.22	1					\$ 47.90	3
Brenda Wells			\$ 30.33	2			\$ 5.97	1	\$ 36.30	3
Nancy Pfeiffer	\$ 33.12	3							\$ 33.12	3
Mario Collazo					\$ 29.30	3			\$ 29.30	3
Jeanette Johnson					\$ 30.99	2	\$ 5.97	1	\$ 36.96	3
Terry Alvarez					\$ 4.73	2			\$ 4.73	2
Parish					\$ 24.44	2			\$ 24.44	2
TOTALS	\$ 2,608.64	157	\$ 9,450.64	436	\$ 9,062.32	344	\$ 3,654.68	105	\$ 24,776.28	1042

- While the district does have a per diem rate, which is discussed in further detail in the Travel and Conference section below, application of it in the circumstance where the meal does not involve overnight travel could be considered contrary to IRS rules and regulations. Over the past few years, the IRS has placed additional scrutiny on meal reimbursements or payment of per diems/meals on travel that did not warrant an overnight stay (Internal Revenue Code Section 162(a)(2) Revenue Regulation 75-170) and has determined that they are not an allowable reimbursement or per diem expenditure. This would be especially true considering the excessive number of meals that were engaged in and paid for by the district. Consequently, this type of expense could be considered supplemental wages and includable on an employee's W-2 as discussed above in the Payroll section, or could be considered a gift of public funds.
- As is noted above, FCMAT used the information regarding the names of attendees that had been written on the back of restaurant receipts. The majority of the handwriting was the same and FCMAT believed it to be that of the superintendent. During our interview with the superintendent's wife, a sample was shown to her and she confirmed this to be his handwriting. However, when discussing meals with various attendees during their interviews, some denied having been in attendance but made the statements without consultation of a calendar or even knowing which restaurant was involved. Consequently, FCMAT has relied on the information written on the restaurant receipts and, without the superintendent making himself available for interview, has no way to refute or confirm the written information.
- In addition to the meals where attendees were listed, there were approximately 100 meals where receipts were lost or information on attendees was omitted. Those meals are not included in the chart shown above but totaled \$125.36, \$1,279.87 and \$4,580.91 for fiscal years 2012-13, 2013-14 and 2014-15, respectively.
- While some interviewees expressed that they felt the meetings should have and could have occurred at the district office, they participated nonetheless, and no one spoke of measures that they took to curb the practice. Many were of the mindset that it was their supervisor asking them to attend; therefore, they should.
- The receipt for the March 12, 2014 meeting at Mi Casita indicates that three board members were present. Government Code Section 54952.2 defines a meeting under the Brown Act as "any congregation of a majority of the members of a legislative body at the same time and location ... to hear, discuss, deliberate, or take action on any item that is within the subject matter jurisdiction of the legislative body." Conducting a meeting where three board members are present would constitute a majority of the board and violation of this law.
- The receipt for the November 3, 2014 meeting at Cattlemen's included "6 Gentlemen Jack, 3 \$4 20z Draft, 1 Coke and 1 Seagrams 7." This is a violation of Education Code Section 32435(a), which states: "No school district, county board of education, or county superintendent of schools shall expend any public funds on the purchase of alcoholic beverages." While many interviewees spoke about alcohol being served and consumed by those participating in the meals/meetings, this was the only receipt found by FCMAT that contained alcohol. However, there were several instances where there was an excessive tip paid that could disguise the purchase of alcohol:

- 113% tip for the 8/2/13 meal at El Torito paid from the Sunshine Club account (discussed in the Other Expenditures section below)
- 45% tip for the 9/26/13 meal at Cattlemen's paid from the Sunshine Club account
- 27% tip for the 10/9/13 meal at Smokehouse BBQ paid from the Sunshine Club account
- 47% tip on the 1/27/14 meal at Cattlemen's paid from the Sunshine Club account
- 38% tip on the 12/17/14 holiday party at Irish O'Sullivan's

Parlier has no tipping policy in place to limit the amount paid for tips on meals.

- Food such as pizza, tacos, donuts, sodas and fruit punch was purchased and served at school sites outside the district's food service program, which violates the district's wellness policy pursuant to BP 5030 in complying with 42 USC 1758b, 1773 and 1779. Should the California Department of Education's Nutrition Services Division become aware of this situation either during an inspection or from a tip, this could jeopardize the district's entire school nutrition program.
- Incentive meals such as staff luncheons, staff/teacher appreciation meals, working lunches, departmental meetings, etc., totaled \$3,178.48, \$1,496.40 and \$2,472.15 for fiscal years 2012-13, 2013-14 and 2014-15, respectively.
- The district also had expenses for student incentives totaling \$159, \$5,834.60 and \$4,272.05 for fiscal years 2012-13, 2013-14 and 2014-15, respectively. These incentives were in the form of food provided to students such as pizzas and sodas for good behavior, tacos for completing lunch surveys, pizza and fruit punch for completing local control funding formula surveys, pizzas and sodas for 98% attendance and tacos for testing.
- The district also expended general fund monies on what was described as holiday parties by interviewees as follows:
 - December 23, 2013 holiday event for 34 attendees comprised of board members, district administrators, district staff and their guests at the Swan Court Convention Center. The menu included the guest's choice of chicken cordon bleu, chicken/tri-tip combination or prime rib. The total paid for the event was \$1,003.27, which included an 18% tip. The district's general fund paid the advance deposit of \$708.19 and the Sunshine Club paid the remaining \$295.08. Interviewees recalled alcohol being served, and most reported that they had paid for their own beverages.
 - December 17, 2014 event for 48 attendees comprised of board members, district administrators, district staff and their guests at Irish O'Sullivan's. The total paid for the event was \$1,402.48, which included a 38% tip. The PO for this item describes it as a "Staff/Team Building dinner" while the guest list is entitled "Holiday dinner list of attendees." Many interviewees recalled seeing alcohol being served but it was unclear whether any of the "tip" included the alcohol served.
- FCMAT found other incentive type items attached to supermarket purchases as well such as Gatorade and barbecue supplies for the maintenance and operations department.
- Whether or not such awards/incentives would be allowed is determined by the district's board policy. Education Code Section 44015 provides the basis for an employee or student awards/incentive program and states that:

- a. “The governing board of a school district may make awards to employees who do any of the following:
 1. Propose procedures or ideas that thereafter are adopted and effectuated, and that result in eliminating or reducing district expenditures or improving operations.
 2. Perform special acts or special services in the public interest.
 3. By their superior accomplishments, make exceptional contributions to the efficiency, economy, or other improvement in operations of the school district.

- b. “The governing board of a school district may make awards to pupils for excellence.

“Before any awards are made pursuant to this section, the governing board shall adopt rules and regulations. The board may appoint one or more merit award committees made up of district officers, district employees, or private citizens to consider employee proposals, special acts, special services, or superior accomplishments and to act affirmatively or negatively thereon or to provide appropriate recommendations thereon to the board.

“Any award granted under the provisions of this section that may be made by an awards committee under appropriate district rules, shall not exceed two hundred dollars (\$200), unless a larger award is expressly approved by the governing board.

“When an awards program is established in a school district pursuant to this section, the governing board shall budget funds for this purpose but may authorize awards from funds under its control whether or not budgeted funds have been provided or the funds budgeted are exhausted.”

- If it so chooses, the board could expand its awards/incentive policy to include such things as staff appreciation luncheons and the like but as is stated in the law, the board policy must provide for the award before it can be made. Parlier’s BP 4156.2, 4256.2 and 4356.2 for awards and recognition utilizes the criteria for employee awards as set forth in Education Code Section 44015(a) and further states “[a]s the district budget permits, the Superintendent or designee may recognize such employees by issuing service pins, certificates, plaques, and/or other mementos. In addition, he/she may recommend employees to the Board for recognition at a public Board meeting.” A further search of Parlier’s board policies using “meal” or “meals” did not produce a policy that would allow such meals. Failure to have a board policy that allows such items means that they are then contrary to the law governing employee awards and could be considered a gift of public funds.
- Likewise, the incentives provided to students are governed by Education Code Section 44015(b), and Parlier has adopted BP/AR 5126 to provide awards to its students for “exemplary achievement in academic, athletic, extracurricular, or community service activities.” BP 5126 specifically describes that those awards “may include verbal

recognition, a letter, a certificate, a Board resolution, public ceremony, trophy, gift, plaque, or cash gift.” Nowhere does it state that a student will receive food in exchange for completing a survey, attending school or completing a test. Without a board policy to allow such items, they are then contrary to law and could be considered a gift of public funds.

- Also nowhere in board policy does it speak to attendance awards of bikes, scooters, electronic tablets, Speed Ab trainers, headphones, Bluetooth speakers, sound bars, iPhone docks, MP3 players, walkie-talkies, pots, pans, cooking utensils, games, gift cards (Burger King, Regal Theaters, IHOP, Subway, Little Caesar’s, Dominos, iTunes), games, toys, sporting goods, hair dryers, watches, office supplies, candy or sodas. These items totaled \$16,029.18 and were primarily paid for using unrestricted general funds; however, Quality Education Investment Act (QEIA) and Tobacco Use and Prevention Education (TUPE) funds were used for \$2,818.58 or 18% of the purchases.

Even with these egregious examples of the use of public funds, there was an overlying theme that arose during interviews – that of the superintendent or his brother collecting cash from meal/meeting participants for their share of the bill. Many described to FCMAT that they would leave funds on the table or hand them to the superintendent or his brother. They were unable to provide information as to whether the funds were left on the table or what the superintendent or his brother did with the funds after they were given to them. However, FCMAT’s review of the restaurant receipts did not show a reduction in any receipt, district credit cards were used to pay for the meals in full and there is no record of cash having been returned to the district.

In one specific instance, district board members and administrators attended a dinner at Fleming’s in Fresno given by Voyager Sopris West on or about November 13, 2014 and brought other people to the event. Voyager didn’t cover the cost all of the attendees and the extra table of people brought by Parlier were asked to pay for their own meals. Two interviewees related that they had been asked for \$300 each to help cover the \$1,024 bill and gave those funds to the superintendent’s brother. The superintendent’s brother stated that he also paid a portion of the bill. As with all of the other meals where cash was purported to have been provided, the meal was paid with a district credit card and there is no record of cash returned to the district. The superintendent did not avail himself of the multiple opportunities FCMAT provided to him to discuss the cash he was alleged to have received from others at meals, how the lawsuits/judgments discovered by FCMAT in court filings might bear upon his need for cash, or to provide FCMAT with copies of bank statements and other financial documents to confirm that other income was not flowing to him from these meals. As a result, FCMAT was unable to determine the exact extent of this practice, but evidence suggests that it starts at \$600 and could reach into the tens of thousands of dollars based on the magnitude of the credit card receipts for meals.

Frivolous Spending

As is discussed in the Background section of this report, Parlier is a rural, farming community where the average citizen’s income is not far above the federal poverty line. No matter the setting, school board members and administrators should be very cognizant that care should be taken when using district funds. Even districts in more wealthy areas of the state utilize the maxim that they spend funds only in ways that they would not be ashamed to see published in the local paper. As has already been discussed in the Payroll and Meals sections of this report and as will be discussed in other sections that follow, this was not the case in Parlier.

FCMAT's review of the expenditures from accounts payable found:

- \$5,688.31 paid from the unrestricted general fund for a sound system installed into a golf cart.
- \$8,225 used to purchase an inflatable mascot tunnel from the unrestricted general fund.
- \$12,640.08 from the unrestricted general fund for six 55-inch televisions and one 80-inch television for a conference room. This is a portion of a reported \$100,000 total in expenditures for a conference room designed to mimic that of the conference room the district saw during its visit to Apple computers. This conference room was outfitted with a custom U-shaped table, 20 chairs, leather banquettes featuring various electronic ports, two podiums with connectivity to projectors, televisions, etc. and painted in gradating shades of gray.
- \$32,563.82 for new office furniture for the deputy superintendent, curriculum and instruction department, human resources technician, one unidentified conference room and one unidentified office. With the exception of the furniture for the curriculum and instruction department, the funding came from the unrestricted general fund. However, the account coding for the curriculum and instruction department furniture shows Title I funds were used. These are federal funds whose intent "is to meet the educational needs of low-achieving students enrolled in the highest poverty schools." FCMAT fails to see the nexus between new district office furniture and serving the needs of low-achieving students.
- \$2,998.34 for prizes for parent meetings from Title I funds. These prizes consisted of such items as CD's (Jennifer Lopez and Ariana Grande), Kindles, gift cards to Burger King, Subway and Little Caesar's, lanterns and pro football team totes. As with using Title I funds for office furniture, FCMAT fails to see the nexus between prizes for parents and serving the needs of low-achieving students.
- \$4,671.69 from the unrestricted general fund for 174 "Tshirt bag combos" for the maintenance and operations department.
- \$1,897.95 paid for embroidered shirts for staff from Medi-Cal Administrative Activities funds.
- \$2,400 - \$4,700 spent annually for student trips to Magic Mountain from the following funding sources:
 - \$2,440.16 in fiscal year 2012-13 for 84 students to go on a California High School Exit Exam (CAHSEE) incentive trip to Magic Mountain using Economic Impact Aid (EIA) funds. The California Department of Education (CDE) website reports that EIA funds were to be used to "support programs and activities designed to assist English learners achieve proficiency in the English language and to support programs and activities designed to improve the academic achievement of educationally and economically disadvantaged pupils. Allowable expenditures may include the purchase of supplemental materials and expenses that support paraprofessionals, supplemental resource teachers, and the operation of EL advisory committees." FCMAT contacted the CDE program representative regarding the use of EIA funds to purchase Magic Mountain tickets. They found no nexus between an amusement park and student achievement and viewed the use of EIA funds in such a manner as "an abuse of funds."

- \$2,937.00 in fiscal year 2013-14 for 80 students to go on a CAHSEE fieldtrip to Magic Mountain using EIA funds. As is discussed in the previous paragraph, this is not an appropriate use for these funds.
- \$1,767.50 from the 2014-15 unrestricted general fund for grad night activities. Grad night activities are normally something paid with outside funding because at the point that students have gone through a graduation ceremony, they are no longer district students and district funds should not be used for them.
- \$2,913.60 in fiscal year 2014-15 from LCFF: Supplemental and Concentration grant funds for the CAHSEE 10th grade trip. Use of these funds would also require that the district's LCAP include "a description of the specific actions a school district will take during each year of the local control and accountability plan to achieve the goals identified" (Education Code Section 52060). Additionally Education Code Section 52064 requires "a listing and description of the expenditures for the 2014-15 fiscal year implementing the specific actions included in the local control and accountability plan." The 2014-15 LCAP included in the agenda packet for the district's June 25, 2014 special board meeting does not include goals or expenditures that could lead a reader to conclude that student incentive trips were part of the district's plans to support pupil outcomes. The 2015-16 LCAP included in the agenda packet for the June 23, 2015 regular board meeting does mention "LEA-wide awards for student recognition and incentives" associated with its goal regarding reducing truancy and chronic absences. However, the PO references a trip for its 10th grade, which does not comply with an LEA-wide goal.
- While the actual event would occur outside of the scope of FCMAT's work, the initial payments totaling \$21,482.02 for the hotel accommodations at the district's July 22-25, 2015 Professional Learning Community (PLC) meeting in Monterey occurred during the 2014-15 fiscal year. FCMAT noted that the conference room similar to Apple's had been completed before this event would have occurred, and the district could have used it instead of spending this sum plus additional amounts for meal per diems and transportation costs for this event.
- \$12,767.99 for registration, meal per diems, air fare and hotels for the superintendent, three board members and two district administrators to travel to Texas on August 3-6, 2014 to attend an E-Colors in Education workshop. Pursuant to the information on its website, E-Colors is "a communications tool that helps you understand people's tendencies and personalities ... an individual can learn more about the strengths and potential limiters they possess." The website shows that they will come to your site for a fee of \$1,200 per session for a six-hour training.

While items such as a sound system for a golf cart, an inflatable mascot tunnel or trips to Magic Mountain may improve student spirit or morale, they are more appropriate to come from Associated Student Body (ASB) funds or be paid through donations from outside sources. District funds should be used toward educational goals and improved outcomes for students.

Credit Cards

Parlier adopted BP 3350 on January 22, 2013, which states: "Authorized employees may use district credit cards while attending to district business. Under no circumstances may personal expenses be charged on district credit cards." The district is in the process of adding BP 3314.1 regarding the issuance and use of district authorized credit cards. The new policy went through

its first reading at the district's December 15, 2015 regular board meeting. At the time of writing this report, FCMAT was unable to review its contents thoroughly because the agenda and attachments were no longer available via the district's website. However, the attachment regarding the recommendations of who would be issued a card, their credit limit and reason for needing a district-issued credit card was forwarded to FCMAT as follows:

Parlier Unified School District
Government Services Credit Cards
Recommended Credit Limits
2015-16 School Year

Staff	Amount	Reason
Edward Lucero	\$ -	Declined a card
Gloria Gomez	\$ 2,500.00	Board & superintendent supplies, internet orders
Lou Saephan	\$ 1,000.00	C&I supplies, internet orders
Richard Rochin	\$ 1,000.00	Nutritional Services supplies and immediate purchases food necessary for student use
Rudy Gonzales	\$ 2,500.00	M&O supplies & immediate purchases at vendors not currently under a credit arrangement
Frank Barella	\$ 3,500.00	IT Supplies, internet orders
Rufina Paredes	\$ 39,500.00	Travel & conference costs, internet orders, expedited payments without a check
	\$ 50,000.00	

The district's credit cards were issued through Rabobank and one was given to the superintendent at the time of his hiring with a \$5,000 credit limit. There were two other credit cards that had been issued previously: one to the executive assistant to the superintendent with a credit limit of \$3,500 and the other to the assistant superintendent of curriculum and instruction with a credit limit of \$5,000.

The card issued to the assistant superintendent was cancelled when he left the district. Another was issued to the new assistant superintendent of curriculum and instruction upon his hire. Each credit card receives its own statement showing charges separate from the other two credit cards.

In FCMAT’s testing of transactions it was noted that the superintendent lost credit card receipts frequently. The district’s practice would be that to pay the credit card company, the superintendent was required to write a memo documenting that the receipts were lost. In one case, the memo stated, “[t]he following receipt posted and charged to the VISA card are not available due to the fact of a break-in of the Business Office and I am not able to obtain another copy.” No one interviewed could recall such a circumstance occurring and the superintendent chose not to be interviewed by FCMAT, so further details could not be obtained.

At the point that the credit limit was reached on the Rabobank card in approximately January 2015 and no further credit could be obtained from that bank, the superintendent obtained a second credit card from Bank of the West with a \$50,000 credit limit. The problems with lost receipts continued and, based on FCMAT’s review of accounts payable transactions, the district would make payment on credit cards without either a receipt or a credit card statement.

Travel/Conference

Travel and conference expenses were another key area of concern for both the grand jury’s report and the county office. The county office’s questions regarding the totality of the district’s travel and conference expenses led its staff to run reports from its accounting software to compare Parlier to its other unified districts (excluding Clovis and Fresno Unified). The results of that comparison confirm that under the leadership of this superintendent, the cost of travel and conference rose by 98.3% between the 2012-13 and 2013-14 fiscal years and by an additional 32.7% between the 2013-14 and 2014-15 fiscal years. In both the 2013-14 and 2014-15 fiscal years, Parlier led the unified districts reviewed in their expenditure of funds for travel and conference in terms of dollars per average daily attendance by 33.8% and 13.7%, respectively.

District	2012-2013			2013-14			2014-15			3-Year Avg.
	52xx	P-2 AD	Dollars/ADA	52xx	P-2 ADA	Dollars/ADA	52xx	P-2 ADA	Dollars/ADA	
Parlier - 49	\$207,258.92	3,090.26	\$67.07	\$411,073.31	3,185.22	\$129.06	\$545,553.07	3,193.37	\$170.84	\$122.32

Parlier’s board policy on travel, BP 3350, was adopted on January 22, 2013 and consists of 10 sentences:

“The Governing Board shall authorize payment for actual and necessary expenses, including travel, incurred by any employee performing authorized services for the district.

“The Superintendent or designee may approve employee requests to attend meetings in accordance with the adopted budget.

“Expenses shall be reimbursed within limits approved by the Board. The Superintendent or designee shall establish procedures for the submission and verification of expense claims. He/she may authorize an advance of funds to cover necessary expenses.

“The Board may establish an allowance on either a mileage or monthly basis to reimburse authorized employees for the use of their own vehicles in the performance of assigned duties.

“All out-of-state travel for which reimbursement will be claimed shall have Board approval. Travel expenses not previously budgeted also shall be approved on an individual basis by the Board.

“Authorized employees may use district credit cards while attending to district business. Under no circumstances may personal expenses be charged on district credit cards.”

As with its policies regarding credit cards, Parlier is in the process of updating its travel board policy. It has now undergone two first readings on October 27 and November 17, 2015, with a second reading and adoption on December 15, 2015. However, Parlier has not updated its policies as listed in Gamut Online. It continues to show the January 22, 2013 travel expenses policy as being its official policy.

The district also has a July 1, 2008 business procedure regarding travel and conference that requires any travel or conference that exceeds a cost of \$300 to be approved by the governing board. Travel costing less than \$300 may be approved by the superintendent or designee, although neither the board policy nor the business procedures provide information on what position has been granted designee authority. The July 2008 procedure required that all conferences were to be approved by the district’s business manager, a “Request for Conference” form was to be used with attendees and expenses listed, budget lines noted and backup for all expenses attached: conference brochure, hotel reservation/confirmation and registration for any transportation expenses. Meals were to be paid at a per diem rate of \$8, \$12 and \$18 for breakfast, lunch and dinner, respectively, with meals provided by the conference eliminated.

Because of the superintendent’s and governing board’s actions in other areas, FCMAT concentrated its review of travel and conference expenditures on these individuals and found:

- Meals were assigned per diem values of \$13, \$20 and \$28 for breakfast, lunch and dinner, respectively. FCMAT was not provided with documentation to reflect the board’s specific approval of these amounts; however, they were consistently applied to per diem meals, which the board reviewed and approved when meal allowances were paid for travel or conferences.
- These rates exceed those for California, which were \$46 for all locations without specified rates in federal fiscal years 2011-12 through 2014-15, respectively. Per diem amounts that exceed IRS rates are considered taxable income to the person paid and subject to inclusion on the employee’s W-2.
- While the price per meal was consistently applied, rules regarding whether a departure or return time qualified for a meal payment were inconsistently applied. For example, for the 2015 trip to Boston for the second Harvard Instructional Rounds, all attendees arrived on an 8:44 p.m. flight. Some received payment for dinner; others did not. Inclusion of the conference brochure would assist in determining necessary arrival and departure times and also whether any meals are included in the registration fees that therefore would not be reimbursed to attendees.
- The district’s Request for Conference form was rarely included in accounts payable packets but was noted as being attached to many board agenda packets for conference approvals.
- Of the 52 trips/conferences tested, FCMAT was unable to locate governing board approval for five. Of the 47 that were approved, five were ratified after the travel/conference had occurred.
- The board approved the superintendent’s attendance at the ACSA Personnel Academy for the weekends of October 18-19, 2013; November 15-16, 2013; December 6-7, 2013; January 10-11, 2014; February 7-8, 2014; March 7-8, 2014; and April 4-5, 2014.

However, the district processed and paid \$1,057.39 in expenses for the weekend of January 17-18, 2014 purported to be part of the ACSA academy but not included on the list of weekends included in the program. These expenses included meals, hotel, parking, two rental cars and fuel. The rental car invoices showed that the superintendent had checked out both cars and those records also reflect that the cars were used for periods longer than their original reservation. FCMAT confirmed the schedule of classes with ACSA for this session of the academy, and the weekend of January 17-18, 2014 was not included in the curriculum. Consequently, without the superintendent making himself available for interview to provide further information on the trip, FCMAT would have to conclude that these expenditures were of a personal nature and that payment through district funds should not have occurred.

- It was also not unusual for the superintendent, his brother or board members to receive or benefit from duplicate payments for meals or other expenses during trips:
 - On November 30, 2012, the district's former superintendent was attending the CBSA annual conference in San Francisco and was paid the daily meal stipend and also charged a meal at Morton's Steakhouse on the district credit card.
 - During the November 15-16, 2013 session of the ACSA Personnel Academy, the superintendent collected both meal stipends and charged water, a personal item, to his room. The district paid both.
 - During the December 4-7, 2013 CSBA conference in San Diego, the superintendent and board members collected their daily meal stipends and charged \$677.98 in restaurant meals to the district credit card. The district expended funds for both the per diem meals and the credit card charges.
 - During the interview of one board member, he acknowledged that he should have returned to the district his payment for per diem meals from the 2013 CSBA conference in San Diego and pledged to FCMAT that he would do so. However, the district's business office has not received such reimbursement as of the writing of this report.
 - The superintendent was also given check number 1031 on July 1, 2014, which was drawn on the Sunshine Club account (discussed further in the Other Expenditures section) and made payable to "cash," allegedly to reimburse the district for the San Diego meals. Review of the copy of the fully negotiated check provided by the bank shows it was deposited into an unknown account number. Further review of Sunshine Club records showed that the unknown account was related to the conversion of the Sunshine Club check into a Bank of the West cashier's check number 1001602778 payable to Parlier Unified on July 1, 2014. FCMAT requested that the district contact the Bank of the West to determine who negotiated the check and the district found it had been deposited into the district's cash clearing account. The cash clearing account issued check number 1166 payable to Parlier Unified on October 23, 2014. This check shows deposit into the district's county treasury account. However, the district has no record of the cashier's check having been recorded in its general ledger. While board members received duplicate benefit from their per diems and the meals paid by the district credit card, the superintendent received a triplicate benefit – per diems, credit card meals and cash.

- The superintendent also received duplicate payments for his mileage for this trip, with one reimbursement from the district's general fund and the other from the Sunshine Club account.
- During the January 28-31, 2014 Superintendent's Symposium, the superintendent collected both meal stipends and charged water, a personal item, to his room. The district paid both.
- During the March 30-April 4, 2014 trip to Boston for the Harvard Instructional Rounds, the superintendent's mini bar usage was paid via district credit card. The superintendent received per diem meal stipends for this trip. The mini bar items would be personal items that the district should not have paid for on his behalf.
- Check number 4701 for \$1,900 was drawn from the district's revolving account (also discussed later in this report) and given to the superintendent for incidental expenses for the December 14-15, 2014 CSBA conference in San Francisco. The superintendent, his brother, deputy superintendent and four board members who attended the conference all received per diem meal allowances. The district reports that no funds have been returned from this check and no receipts have been provided to substantiate how the funds were used. Given that the check was provided directly to the superintendent in addition to the other expenditures paid by the district and exceeds any IRS limits for travel expenditures, these funds should be considered supplemental wages as discussed above in the Payroll section of this report.
- The superintendent's brother received a duplicate per diem stipend for the December 14-16, 2014 CSBA conference in San Francisco. The first payment of \$170 was drawn from the district's general fund on December 2, 2014. The second in the sum of \$48 was drawn from the revolving account.
- The superintendent, his brother and one board member received duplicate per diem payments for the January 22-23, 2015 Labor Law & Labor Arbitration workshop. The first payment was \$48 and the second was \$81.
- The superintendent received duplicate payments for his mileage to attend the January 27-30, 2015 ACSA Superintendent's Symposium in Monterey, with \$97.64 paid from the district's general fund and \$100 paid from the district's revolving fund.
- For this same conference, the superintendent's in-room water charges were paid via district credit card. The superintendent received per diem meal stipends for this trip. The water would be a personal item that the district should not have paid for on his behalf.
- In addition to duplicate payments, FCMAT's testing found personal expenses paid by the district:
 - Taxi fares of \$34.90 and \$40.90 paid in Long Island, New York during the time that representatives of the district were in Boston, Massachusetts for the first Harvard Instructional Rounds.
 - Enterprise Rental Cars:
 - The superintendent's brother and the human resources technician checked out vehicles to be used for transporting board members, the superintendent, his

brother and other district staff to the December 14-15, 2014 CSBA annual conference in San Francisco. While the PO related to the transaction states the vehicles were mini vans, interviewees stated they were large SUVs. Each vehicle was reserved for five days, and interviewees reported that the superintendent and his brother were the people driving the vehicles. The vehicle checked out by the superintendent's brother was returned after one month of use and the district paid \$1,515.95 for the rental. The vehicle checked out by the HR technician was returned after three weeks of use and the district paid \$1,176.92 for the rental.

- Two SUVs were reserved and checked out for use during the March 6-8, 2015 district colloquium held in Monterey. Enterprise noted that "Alvarez" checked out the vehicles. Both the superintendent and his brother were in attendance at the colloquium. The reservation for the vehicles was three days. One SUV was returned after four days for a charge of \$635.20 and the other was returned after one week, generating a charge of \$1,012.79. The district paid both invoices
- The superintendent upgraded his room for the January 27-30, 2015 ACSA Superintendent's Symposium in Monterey from the \$196/night block rate offered for the conference to a room costing \$296/night. The district paid for the superintendent's accommodations at the \$296/night rate.
- During the November 28-December 2, 2012 CSBA annual conference in San Francisco, it was noted that in-room dining was charged to a board member's hotel room and was paid by the district.
- The superintendent's wife accompanied him on the second trip to Boston for the Harvard Instructional Rounds April 26-May 2, 2015. The PO clearly states that she would reimburse the district for the cost of her travel. The travel agency billed the district and the district paid \$948.20 for her airfare. The district has been reimbursed \$898.20.
- The district also paid for the airfare for the former board president for the second Harvard Instructional Rounds trip. He was unable to attend but the ticket was non-refundable and non-changeable. While the travel agent noted that they can use the ticket on a future flight, there will be a \$250 change fee. Should the ticket become unusable, this could be considered supplemental compensation and subject to inclusion on a corrected W-2.
- The former board president traveled on a large number of trips involving the Reserve Officers' Training Corps (ROTC). Further investigation into the circumstances of that travel revealed that the former board president's great-niece was involved in the program. While the former board president was not along on every trip that the great-niece took, it was noted that the chaperone-to-student ratio for ROTC trips could range from 2-to-5 to 3-to-1. The district's board policies do not set or speak to chaperone-to-student ratios. A ratio of two chaperones to five students may be appropriate; however, having three chaperones (two males – one of which is the board member and one female) for one student (female) is excessive and wastes resources that should be directed to students.
- The district's practice of providing payments for per diem meals and mileage in advance of actual travel contributes to confusion about payment amounts and amounts due back to the district when travel is cancelled or changed. Advance payment for travel per diem meals causes additional paperwork to business staff and burdens them with the

responsibility to track down checks issued when travel has been cancelled or changed. This type of practice can also lead to amounts not being repaid and an issue with gift of public funds.

Other Expenditures

FCMAT's testing also found other items not discussed above:

1. Sunshine Club: This was a checking account opened at the direction of the superintendent by his executive assistant and the accounts payable technician on July 8, 2013. The usual business purpose of such an account would be to collect private funds to be used for employee morale items such as greeting cards for special occasions, birthday cakes, flowers for significant events, etc. The account was opened with the executive assistant's name "FBO Parlier Unified Sunshine Club," but the two people associated with the account were unsure of the tax identification number used to open the account and the account had two signatories comprised of the executive assistant to the superintendent and the accounts payable technician. The first set of checks were printed with "Parlier Unified Sunshine Club," but the second set of checks beginning in approximately December 2013 were ordered with the executive assistant's name for the benefit of the Parlier Unified Sunshine Club. Interviewees described the superintendent as having a very volatile personality with an attitude of expected compliance when something was requested from employees. There was no exception regarding the superintendent's expectation of compliance in his requests for generating and signing checks from the Sunshine Club. The executive assistant stated that she relied on the accounts payable technician to keep the check register and documentation; however, even though the accounts payable technician should have been more adept at business office procedures, documentation of transactions is limited. Upon hiring the new CBO, the CBO reconstructed the check register based on the bank statements and other documentation available.

Over the course of the 13 months that it was open, deposits totaled \$16,224.65 and were comprised of:

- \$100 deposited on July 8, 2013 from an unknown source.
- \$2,750 deposited on July 16, 2013 from an unknown source.
- \$774.65 deposited on August 7, 2013 from surplus sales. Surplus sale funds are generated from the sale of district assets and should be deposited into district accounts. They are not an appropriate deposit into a Sunshine Club account.
- \$500 deposited on November 19, 2013, which was a donation from the law firm of Garcia, Hernandez, Sawhney & Bermudez LLP. The letter from Garcia, Hernandez was signed by Jessica Occhialini but stated no specific purpose for the funds.
- \$10,000 deposited on November 21, 2013, which was a donation from Schafer Associates/Monterey Homes. FCMAT did not see documentation from the donor but reviewed a thank you letter from the district stating that the funds were to be used to "reward students and employees for their hard work and accomplishments and to promote positive team building activities."

- \$100 deposited on January 13, 2014 from an unknown source.
- \$1,000 deposited on April 15, 2014. One-half of the deposit was a refund from the Boston/Harvard trip from the superintendent and the other half had an unknown origin.
- \$1,000 deposited June 16, 2014 from the refund of a check issued from the Sunshine Club to an employee for a hardship loan.

FCMAT also reviewed the expenditures from this account and noted the following:

- \$814.34 for hotel and meal expenses for a June 29-30, 2013 weekend trip that the superintendent, his wife, a board member and her husband took to Napa to attend the 50th birthday party of an attorney from the Garcia, Hernandez firm. Barring a donor providing funds specifically for this purpose, this is not an appropriate use of funds from a Sunshine Club. The check reflected that the payment was for “meeting supplies reimbursement.” The board member reported to FCMAT that she had no idea where the funds that paid for her expenses came from and the superintendent did not avail himself of any of multiple opportunities to speak to FCMAT.
- \$416.93 for multiple meals having to do with district business such as working on board agendas or district facilities matters and not associated with student or employee accomplishments or positive team building. These are the responsibility of the district and are an inappropriate use of Sunshine Club funds.
- Excessive tips as noted above in the Meals section were paid from this account. Even with the hundreds of meals that FCMAT reviewed, only eight included tips and, of those eight, five (or 63%) came from the Sunshine Club account.
- Check No. 99015 for \$500 made payable to “cash” for reimbursement of expenses for “team building, board member inauguration.” Supplies purchased were all food items related to a function such as a barbecue, and receipts totaled \$484.60. There was a notation that \$15.40 was “due” but no documentation was provided for this portion of the transaction.
- Check No. 1001 for \$100 made payable to “cash” for the surplus sale change box dated December 1, 2013. There is no indication that these funds were returned to the Sunshine Club or where these funds or the funds from the surplus sale were deposited.
- Check No. 1005 for \$774.65 to Parlier Unified to return the surplus sale funds deposited into the account on August 7, 2013.
- Check No. 1002 in the sum of \$370.08 to pay the superintendent in advance for his mileage to the CSBA conference in San Diego. However, district records from Enterprise Rent-A-Car show that the superintendent checked out a car to drive to the conference. The district’s general fund paid \$835.94 to Enterprise including a \$98.09 refueling charge.
- Check No. 1004 for \$600 made payable to “cash” for “meeting supplies.” An attempt was made to tie this check to an open purchase order to Pizza Pirate in the sum of \$1,200 and receipts that totaled \$644; however, neither provides enough information to make that conclusion.

- Check No. 99019 for \$600 made payable to “cash” for “team building meeting CSBA Dec. 4-7, 2013.” According to interviews, it was not unusual for the superintendent to request a check from the Sunshine Club for “incidentals” when leaving for a conference. No receipts were returned to explain how the cash was spent and no cash was returned for deposit back into the account. As was noted in the Travel/Conference section of this report, the 2013 CBSA conference saw board members receiving duplicate benefits for meals and the superintendent receiving triplicate benefits for meals. Adding this check that was given to the superintendent provides him with quadruple payment for meals. The superintendent missed every opportunity provided by FCMAT to discuss these transactions.
 - Check No. 1012 payable to the former board president for “2/7-8/14 board/team building.” No records or receipts were provided as the basis for the transaction.
 - Check No. 1019 for \$500 made payable to “cash” for the Harvard trip. Expenses related to district authorized travel are the responsibility of the district and are an inappropriate use of Sunshine Club funds. However, the funds were returned to the account on April 15, 2014 as noted above in the Deposits section.
 - Check No. 1026 for \$5,045 made payable to “cash” for high school scholarships. Cashier’s checks were issued to five students for \$500 each and to one student for \$2,500. The remaining \$45 paid the fees for the cashier’s checks. Scholarship payments are more appropriately made payable to an educational institution, and it is unknown what scholarship program this entailed and under what selection criteria these scholarships were awarded.
 - Check No. 1028 for \$500 made payable to the superintendent for “cash advance Boston trip cashier’s check 32850371 4/4/14”; however, this check is dated June 30, 2014, three months after the 2014 Boston trip and almost 11 months before the 2015 Boston trip. No other documentation was available for this transaction, no further funds were deposited into the account after this date, and it is unknown how this could be an “advance” given the dates of the trips associated with Boston. Expenses related to district authorized travel are the responsibility of the district and are an inappropriate use of Sunshine Club funds. The superintendent missed every opportunity provided by FCMAT to discuss these transactions.
 - \$96.91 in restaurant charges related to the superintendent’s district authorized credit card where receipts were lost. These are the district’s responsibility and are an inappropriate payment from a Sunshine Club account.
 - \$337.58 for meals where no notation was made as to the purpose of the meal.
 - Check No. 1034, dated July 25, 2014 in the sum of \$401.05 made payable to Pizza Pirate. No documentation exists to support this expenditure. The Sunshine Club account bank statements reflect a zero balance as of July 2014 and the district confirmed the account was closed on September 2, 2015.
2. Superintendent’s Consulting Work: Prior to his employment as the district’s superintendent, he was hired as an advisor/consultant to the board for the term of November 1, 2012 to June 30, 2013. The Employment Agreement for Board Advisor/Consultant was approved by the board at its December 18, 2012 special board meeting and provides for work to be performed at \$50/

hour and “shall not exceed four (4) hours per day, unless the work involves a school board or administrative workshop.”

FCMAT’s review of the superintendent’s timesheets for his advisory services showed that he purported to work exactly four hours each day on 183 days which included holidays (such as Thanksgiving Day and New Year’s Day), weekends and most weekdays even while he was in a full-time teaching position in another district. With 242 days in the period under examination, this equates to his having worked 77% of the days as compared to 163 (or 67%) for a normal Monday-Friday schedule excluding holidays. While the superintendent’s contract does not specify who is to supervise his work, because he is providing services directly to the board, it could be assumed that the duty would fall to the board president. It is uncertain if anyone was acting as his supervisor because neither the invoices nor any of his timesheets in support of his invoices had been signed by a supervisor or administrator indicating approval. Interviewees were unable to provide FCMAT with examples of a work product that emanated from these advisory services and the superintendent missed every opportunity provided by FCMAT to discuss what this work entailed, provide copies of his work product and allow FCMAT to review any documentation such as journals, calendars, etc. to support the unusual work schedule presented by the timesheets.

3. Field Trips: These types of activities are a normal part of student life and can be an allowable expenditure from district funds. However, FCMAT’s review of the district’s accounts payable records found that the district did not always ensure that the third party carriers utilized to transport its students were School Pupil Activity Bus (SPAB) certified. California Vehicle Code Section 546 requires all charter buses and drivers used for schools to be SPAB certified.

Additionally, district funds were used for students’ expenses on the March 27 – April 4, 2015 Ivy League Project trip to visit colleges on the east coast. Approximately \$18,990 was expended for the airfare, hotel accommodations, ground transportation and sightseeing expenses for nine students. Education Code Section 35330(b)(3) states:

“No expenses of pupils participating in a field trip or excursion to other state, the District of Columbia, or a foreign country authorized by this section shall be paid with school district funds. Expenses of instructors, chaperones, and other personnel participating in a field trip or excursion authorized by this section may be paid from school district funds, and the school district may pay from school district funds all incidental expenses for the use of school district equipment during a field trip or excursion authorized by this section.”

4. Parent Transportation Payments: As is noted in the Background section of this report, the district is in PI status, which allows for students who would normally attend a PI school to choose to attend another that is not in PI.

However, since Parlier has only one middle school and one high school, students may attend non-PI schools in other districts.

The responsibility for the cost of the student's transportation to the new school can be borne by the parents, but it can also be paid by the district where the PI school is located. However, for that to be allowed, the new school must be a non-PI school and the district must have entered into a cooperative transfer agreement with the district where the new school is located.

FCMAT found in its testing of accounts payable transactions that parents were receiving payment for the transportation for their students, but district administrators reported that no cooperative transfer agreements have been entered into with other districts.

5. District Assets in Superintendent's Possession: FCMAT's review of accounts payable transactions found multiple items that had been purchased by the district and that should have been left in the superintendent's office upon his placement on administrative leave. FCMAT provided a list of those items to the CBO. As of the writing of this report, the following have yet to be returned to the district:
 - Beats Pill XL speaker
 - Bose Soundlink III Bluetooth speaker
 - Case for Apple laptop
 - Samsung i317/Note 2 folio case – gray
 - Samsung car charger
 - Two Samsung Galaxy Note 3 Icipio 2-in-1 wallet folios, black
 - Two Samsung Galaxy Note 3 Moshi iVisor XT screen protectors

Purchasing/Bidding/Contracts

Purchasing Policies

California school districts are required to abide by standards set forth in the California Education Code, California Government Code, California Public Contract Code, California Civil Code, California Labor Code and California Business and Professions Code, among other legal and professional standards. However, the overarching legal mandate for districts regarding purchasing transactions is contained in Government Code Sections 54202 and 54204.

Government Code Section 54202 reads:

“Every local agency shall adopt policies and procedures, including bidding regulations, governing purchases of supplies and equipment by the local agency. Purchases of supplies and equipment by the local agency shall be in accordance with said duly adopted policies and in accordance with all provisions of law governing same. No policy, procedure, or regulation shall be adopted which is inconsistent or in conflict with statute.”

Government Code Section 54204 reads:

“If the local agency is other than a city, county, or city and county, the policies provided for in Section 54202 shall be adopted by means of a written rule or regulation, copies of which shall be available for public distribution.”

In response to those requirements, the district adopted board policies 3300 – Expenditures and Purchases, 3311 – Bids, 3312 – Contracts, and 3600 – Consultants. All of these policies reflect an adoption date of January 22, 2013.

Purchasing Bid Limits

Transparency and fairness are essential in any public purchasing process where public funds are being expended. Competitive bid limitations are an important component of the process to promote transparency and fairness.

Specifically relevant to any competitive bid process are the provisions of the California Public Contract Code (PCC) as set forth in Section 20111. This section sets forth the dollar limitations for 1) equipment, materials and supplies, 2) services, except public works projects, and 3) repairs, including maintenance, that are not public projects. The PCC originally established the bid threshold at \$50,000; however, it is adjusted annually. Based on the scope of this review, those annual calendar year limitations are as follows:

Calendar Year	Bid Threshold
2012	\$81,000
2013	\$83,400
2014	\$84,100
2015	\$86,000

PCC Section 20111(b) requires a school district governing board to let any contract for a public project, as defined in PCC Section 22002, involving an expenditure of \$15,000 or more, to the lowest responsible bidder that meets the criteria established (also known as a “formal bidding process”).

California PCC Section 22003 provides an alternative method (also known as an “informal bidding process”) to award a contract for a public project and for maintenance work. Sections 22000 through 22045 establish the Uniform Construction Cost Accounting Act and its related procedures (UCCAP). UCCAP is designed to provide added flexibility for those public agencies that adopt its regulations while continuing to maintain the essential elements of transparency and fairness. Effective July 1, 2011, the informal bid limit prescribed by Section 22032 of the PCC was increased to \$175,000 and is reviewed every six years by the Uniform Construction Cost Accounting Commission.

The district’s governing board voluntarily adopted Resolution 11-0910 to utilize UCCAP as an alternative method for informal bidding on October 27, 2009 and, for an unknown reason, on November 12, 2013 adopted Resolution 10-1314 for the same purpose. An essential element of utilizing UCCAP is the requirement by PCC Section 22034(a) that public agencies maintain a list of qualified contractors, identified according to categories of work. As an alternative, the agency may notify all contractors or trade papers on a job-specific basis, soliciting informal bids. However, during the review period, the district was not in compliance with the procedures set forth in the authorizing resolution(s) or the PCC, essentially negating the use of UCCAP by the

district as a legitimate purchasing mechanism and alternative to the otherwise required formal bidding process. No evidence was provided to FCMAT that the district established, maintained or updated an informal bidders list, or the alternatively required notices. None of the district's board policies reference UCCAP. With no viable evidence that the foundations necessary to use UCCAP had been met, the validity of the transactions is in question. For that reason, FCMAT reviewed the transactions as they relate to the formal bidding processes contained in PCC Section 20111.

PCC Sections 20116 and 22033 make it unlawful to split or separate into smaller work orders or projects any work, project, service, or purchase for the purpose of evading the provisions requiring contracting after competitive bidding or contracting after an award under UCCAP.

In 2014, the governing board authorized travel for two current district employees and one former district employee serving as an interim business official to attend the California Uniform Public Construction Cost Accounting Act (CUPCCAA) Prequalification and Public Works Bids training conference in Sacramento. The district paid over \$2,900 in registration fees for the conference plus travel related expenses. However, items such as bidding and contracting regulations that would normally be presented at the conference have not been incorporated into practices in Parlier.

Other Purchasing Requirements

All businesses or individuals who construct or alter, or offer to construct or alter, any building, highway, road, parking facility, railroad, excavation, or other structure in California must be licensed by the California Contractors State License Board (CSLB) if the total cost (labor and materials) of one or more contracts on the project is \$500 or more. Contractors, including subcontractors, specialty contractors, and persons engaged in the business of home improvement (with the exception of joint ventures and projects involving federal funding) must be licensed before submitting bids. Licenses may be issued to individuals, partnerships, corporations, joint ventures or limited liability companies (LLC).

California Business and Professions Code Section 7028.15(e) provides:

“Unless one of the foregoing exceptions applies, a bid submitted to a public agency by a contractor who is not licensed in accordance with this chapter shall be considered nonresponsive and shall be rejected by the public agency. Unless one of the foregoing exceptions applies, a local public agency shall, before awarding a contract or issuing a purchase order, verify that the contractor was properly licensed when the contractor submitted the bid. Notwithstanding any other provision of law, unless one of the foregoing exceptions applies, the registrar may issue a citation to any public officer or employee of a public entity who knowingly awards a contract or issues a purchase order to a contractor who is not licensed pursuant to this chapter. The amount of civil penalties, appeal, and finality of such citations shall be subject to Sections 7028.7 to 7028.13, inclusive. Any contract awarded to, or any purchase order issued to, a contractor who is not licensed pursuant to this chapter is void.”

Purchase Orders and Contractual Terms

As was noted above, POs are an important element of the district's internal control system. However, for more complex engagements, a written contract or memorandum of agreement, in addition to the purchase order, is essential to more fully and accurately describe the relationship between the district and the vendor regarding a particular scope of services.

Complex engagements are better documented in a written contract or memorandum of understanding/agreement approved by the governing board. A PO is still necessary to facilitate the accounting and payment process by ensuring the proper encumbrance of funds, accounting for liabilities at year-end and/or consistent record keeping. Written contracts should either be written by the district or undergo a thorough review by district staff and/or legal counsel, looking for specific terms. Examples of contractual terms generally addressed include: detailed scope of services; performance criteria in which to evaluate the service for success and justify payment, beginning, ending and milestone dates; how to handle district or vendor proprietary information; ownership rights of end products produced; protecting student data; insurance provisions; either mutual or district-favored indemnification clauses; reasonable remedy clauses; disclosure of conflicts of interest, and other standard boilerplate provisions. All construction engagements should be documented through a written contract that goes beyond the examples above.

Complexity increases in construction matters and the written contract needs to clearly set forth the mutual understandings of the above items, with additional topics such as progress payments, retention, warranty, use of subcontractors, general conditions, bonds, liquidated damages, drawings, change orders, licensure, permits, and inspections, among others.

Education Code Sections 17604 and 17605 require contracts and memorandums of understanding to be approved by the governing board and, if entered into by a designee of the board, to be reviewed within 60 days. Based on responses to document requests during FCMAT's review, there is confusion and a lack of consistent process among responsible district staff regarding which contracts have or have not been approved by the governing board. Additionally, FCMAT observed incomplete terms of contracts presented to and approved by the governing board, unfavorable contract terms to the district or one-sided conditions favoring the vendor, a lack of evidence of insurance and validation of current contractor's license. Furthermore, FCMAT observed a series of contracts totaling almost \$900,000 for direct services to children that failed to include provisions and a process to safeguard their well-being regarding vendor employee background checks and child abuse reporting obligations (mandated reporter provisions).

FCMAT identified numerous contracts and transactions that, at a minimum, appear to raise questions about the lack of due diligence, conflicts of interest and favoritism. No-bid contracts worth millions of operating and bond-financed capital dollars were given at will to companies and individuals associated with the district, district employees and governing board members.

Parlier has loosely constructed policies and procedures regarding purchasing and contracting; and important administrative and internal control aspects of those policies are not followed, leading to pervasive and serious deficiencies. As measured by basic industry standards, contract and invoice terms were vague, which may have resulted in payments for services never rendered, or rendered unsatisfactorily. Some payments were made without clear explanation of work being done.

Interviews with district administrators, staff and governing board members confirmed what was observed through transaction testing (discussed in detail below). Namely:

1. The district does not follow a consistent policy or procedure in selecting contractors or contracting for other work subject to bidding. In fact, the most consistent procedure identified was one that is illegal – contractors were often selected based on association with, and at the direction of, the superintendent and then-governing board president.

2. The provisions of PCC Sections 20111, 20116 and 22033 were generally ignored, as were the exceptions provided under the UCCAP and regulations facilitating emergency conditions. Board policy was generally ignored.
3. Those responsible for processing POs indicated that they never questioned what management told them to do, even when the directions given were contrary to standard process, board policy or the law. Despite supervising accounts payable, one manager reported that she doesn't know if the accounts payable technician follows a prescribed process or not. In one case, staff questioned an invoice from a contractor known to be associated with the superintendent and then-governing board president but was directed by management to pay the contractor as invoiced.
4. Under the implicit threat by the superintendent and/or the deputy superintendent that employees felt they would lose their job otherwise, employees signed off on purchase requests, POs and invoices as "okay-to-pay."

During discussions and interviews with staff and governing board members, the term "bid" was frequently used to indicate the process of soliciting proposals and selecting a contractor, making an equipment purchase or procuring maintenance services. However, upon further questioning, the interviewees clarified that their use of the term "bid" was general in nature and was not by definition used to denote a competitive purchasing process. In several cases, personnel referenced interviews and discussions with potential contractors and, while competitive negotiations for goods and services may be allowed in limited instances, interviews and discussions with potential contractors is generally not reflective of a competitive process as prescribed by law.

FCMAT's testing of Parlier's transactions found the following:

1. Ten vendors sampled whose award of public works projects violated PCC Section 20111(a) or violated bid limits under PCC Section 20111(b):
 - a) Active Builders Service Group, Inc.

Four purchase orders were issued to Active Builders Service Group, Inc. of Fresno:

- Two for mold testing and remediation in classrooms 15 and 16 at John Martinez Elementary School in the aggregate amount of \$40,000.
- For mold testing and remediation in Room 15 (PO #151680), the invoice date was December 3, 2014. The purchase order date was December 11, 2014 and the \$20,375 invoice was paid one day later on December 12, 2014.
- For mold testing and remediation in Room 16 (PO #151758), the invoice date was December 14, 2014. The purchase order date was December 16, 2014 and the \$19,625 invoice was paid one day later on December 17, 2014.

The scope of work detailed on these invoices was similar to, and the format of the invoice identical to, invoices for mold testing and remediation in other classrooms at Martinez Elementary School during the same general period of time generated by AmeriCADD Drafting and Design and 2K Painting.

- PO #151461 for \$40,000 was issued on November 10, 2014 to relocate the Cesar Chavez monument from Martinez Elementary School to Cesar Chavez

Elementary School, and the invoice was paid two days later on November 12, 2014. The invoice included \$7,250 for mold remediation in rooms 15 and 16 at Martinez Elementary School, which had not been identified on the purchase order. From the documentation in the accounts payable files, FCMAT was unable to determine if this \$7,250 was a duplicate charge and payment for work authorized under other purchase orders.

- PO #151515 for \$14,218.55 was issued on November 18, 2014 to install a new furnace at Martinez Elementary School. The invoice for the work was dated January 12, 2015 and was paid two days later on January 14, 2015.

The nature of the work was a public work. PCC Section 20111(b) requires a school district governing board to let any contract for a public project involving an expenditure of \$15,000 or more to the lowest responsible bidder that meets the criteria established. District administration was unable to provide FCMAT with bid documentation for the work awarded to Active Builders Service Group, Inc.

With the possible exception of the furnace installation that may legitimately be a separate order, the public work related to mold testing and remediation as well as the moving of the monument exceeded the applicable bid limit and was awarded to Active Builders Service Group, Inc. without the prerequisite bid process. The work was authorized without a written contract normally associated with public works. Interviewees reported that the contractor or their key personnel were known to be associated with the superintendent and then-governing board president, including assisting with the campaign of three recently elected school board members. The division of identical work at the same school site during the same time period between Active Builders Service Group, Inc., 2K Painting, and AmeriCADD Drafting and Design raises questions about intentional bid splitting in violation of PCC Sections 20116 and 22033.

During interviews of district staff, several indicated that the work performed by Active Builders Service Group, Inc. was of significantly low quality, creating safety concerns for students and necessitating rework and correction. One staff member indicated that the contractor returned to make necessary repairs. Several senior staff members described the difficult process to get the superintendent to acknowledge that the quality of work was subpar and to agree not to use the contractor for additional planned work.

b) 2K Painting

PO #151975 was issued on January 15, 2015 to 2K Painting of Reedley for mold testing and remediation in classroom U at John Martinez Elementary School for \$16,375. The invoice was dated 12/23/14, 24 days before the PO was issued, and paid one day later on January 16, 2015.

The nature of the work was a public work. PCC Section 20111(b) requires a school district governing board to let any contract for a public project involving an expenditure of \$15,000 or more to the lowest responsible bidder that meets the criteria established. District administration was unable to provide FCMAT with bid documentation for the work awarded to 2K Painting.

The public work of mold testing and remediation exceeded the applicable bid limit and was awarded to 2K Painting without the prerequisite bid process. The work was authorized without a written contract normally associated with public works.

As is discussed in the samples related to Active Builders Service Group, Inc. above and AmeriCADD Drafting and Design below, the scope of work detailed on the invoice is similar to, and the format of the invoice identical to, invoices for mold testing and remediation in other classrooms at Martinez Elementary School during the same general period of time by Active Builders Service Group, Inc. and AmeriCADD Drafting and Design. Based on interviews of staff and governing board members, 2K Painting or their key personnel were known to be associated with the superintendent and then-governing board president, including assisting with the campaign of three recently elected school board members.

FCMAT also observed notations made by the accounts payable technician on the file copy of the payment warrant indicating that Joe Gutierrez picked up the warrant. A person by this name was also associated with Active Builders Service Group, Inc. and AmeriCADD Drafting and Design, and is discussed in subsequent sections of this report.

The division of identical work at the same school site during the same time period between 2K Painting, Active Builders Service Group, Inc., and AmeriCADD Drafting and Design, along with the same individual connected to all three entities, raises questions about intentional bid splitting in violation of PCC Sections 20116 and 22033.

c) AmeriCADD Drafting and Design

Four purchase orders were issued to AmeriCADD Drafting and Design of Clovis for mold testing and remediation in classrooms V, 17 and 18, Room 1 Portable and Room 4 Portable at Martinez Elementary School in the aggregate amount of \$68,649. All four followed the pattern of issuing a PO and then paying the PO one day later:

- PO #151895 for \$23,625 was issued on January 16, 2015. The invoice was paid on January 17, 2015.
- PO #152048 for \$36,024 was issued on January 27, 2015. The invoice was paid on January 28, 2015.
- PO #152220 for \$4,625 was issued on February 10, 2015. The invoice was paid on February 11, 2015.
- PO #152221 for \$4,375 was issued on February 10, 2015. The invoice was paid on February 11, 2015.

The nature of the work was a public work. PCC Section 20111(b) requires a school district governing board to let any contract for a public project involving an expenditure of \$15,000 or more to the lowest responsible bidder that meets the criteria established. District administration was unable to provide FCMAT with bid documentation for the work awarded to AmeriCADD Drafting and Design.

While two of the purchase orders were for amounts less than the limits set forth in Section 20111(b), the work in question was done at approximately the same time as all other work in nearby classrooms. Consequently, it would most likely be viewed as one project that would have exceeded the applicable bid limit, and the public work was awarded without the prerequisite bid process.

As is discussed in the samples related to Active Builders Service Group, Inc. and 2K Painting above, the scope of work detailed on the invoice is similar to, and the format of the invoice identical to, invoices for mold testing and remediation in other classrooms at Martinez Elementary School during the same general period of time performed by Active Builders Service Group, Inc. and 2K Painting. Based on interviews of staff and governing board members, AmeriCADD Drafting and Design or their key personnel were known to be associated with the superintendent and then-governing board president, including assisting with the campaign of three recently elected school board members.

Similar to the notations made by the accounts payable technician regarding the warrant paying the work performed by 2K Painting, FCMAT observed notes on the file copy of the payment warrant indicate that Joe Gutierrez picked up the warrant. This name was also associated with Active Builders Service Group, Inc. and 2K Painting and is discussed in subsequent sections of this report. Additionally, in a January 30, 2015 e-mail exchange between the district’s accounts payable technician and staff at the county office, the payment warrant was authorized to be picked up by Joe Gutierrez, who was also identified as being associated with Active Builders Service Group, Inc.

The division of identical work at the same school site during the same time period between 2K Painting, Active Builders Service Group, Inc., and AmeriCADD Drafting and Design along with the same individual connected to all three entities raises questions about intentional bid splitting in violation of PCC Sections 20116 and 22033.

AmeriCADD Drafting and Design is further discussed below in reference to the lack of a valid license issued by the California Contractors State License Board.

d) San Joaquin Mechanical Inc.

Over the three-year period under review, the district spent \$659,265.44 with three vendors on heating, ventilation and air conditioning (HVAC) and refrigeration services for repairs. Of this amount, \$578,615.59 was spent with San Joaquin Mechanical Inc. and is summarized as follows:

	2012-13	2013-14	2014-15
Total Expenditures	\$153,942.59	\$183,324.00	\$241,349.00
Bid limits under PCC 20111(a)	\$81,000-83,400	\$83,400-84,100	\$84,100-86,000
Number of POs issued to vendor	14	13	12
Number of POs from which transactions were sampled	12	3	3
POs subject to PCC 20111(b)	1	0	1
PO number subject to PCC 20111(b)	PO No. 132686		PO No. 15211
PO amount subject to PCC 20111(b)	\$16,945		\$23,800

PCC Section 20111(a) sets forth annual dollar limitations for repairs, including maintenance. The range of bid limits for the time periods in question was \$81,000 (2012) to \$86,000 (2015), and the expenditures to San Joaquin Mechanical Inc. exceed the bid limits in each of these years reviewed. Additionally, the district issued at least one individual purchase order in each of 2012-13 and 2014-15 for work subject to the limits of PCC Section 20111(b), which requires a school district governing board to let any contract for a public project involving an expenditure of \$15,000 or more to the lowest responsible bidder that meets the criteria established. District administration was unable to provide FCMAT with bid documentation for the work awarded to San Joaquin Mechanical Inc. for either the repair work performed or the public works projects.

	2013-14
Total Expenditures	\$108,559.30
Bid limits under PCC 20111(a)	\$83,400-84,100
Number of POs issued to vendor	12
Number of POs from which transactions were sampled	4
POs subject to PCC 20111(b)	2
PO numbers subject to PCC 20111(b)	PO Nos. 143226 & 143281
PO amount subject to PCC 20111(b)	\$45,000 / \$25,671

e) Valley Air Conditioning

The discussion above regarding San Joaquin Mechanical Inc. also pertains to 2013-14 expenditures for Valley Air Conditioning as follows:

PCC Section 20111(a) sets forth annual dollar limitations for repairs, including maintenance. As is shown in the chart above, the expenditures to Valley Air Conditioning exceed the bid limit. Additionally, the district issued at least two individual purchase orders for work subject to the limits of PCC Section 20111(b), which requires a school district governing board to let any contract for a public project involving an expenditure of \$15,000 or more to the lowest responsible bidder that meets the criteria established. The two POs were as follows:

- PO #143226 for \$45,000 was issued for the purchase of “4 – 5 ton dual packs at PHS.” This exceeds the statutory bid limit, and a notation on the PO states the award was made under the provisions of the UCCAP. However, as had been discussed previously, UCCAP was not properly implemented in Parlier and, therefore, was not available as an exception to the bid limit.
- PO #143281 for \$25,671 was missing from the file, but its amount indicates that it may be a violation of PCC 20111(b). However, if this PO as well as #143226 were subtracted from the total \$108,559.30 expended in 2013-14, the remaining \$37,888 for maintenance would be less than the bid limits established under PCC 20111(a).

f) A-Plus Signs Inc.

One purchase order was issued to A-Plus Signs Inc. in 2014-15 for a marquee and the installation thereof at Benavidez Elementary School for \$28,746.72.

The nature of the work was a public work. PCC Section 20111(b) requires a school district governing board to let any contract for a public project involving an expenditure of \$15,000 or more to the lowest responsible bidder that meets the criteria established. District administration was unable to provide FCMAT with bid documentation for the work awarded to A-Plus Signs Inc.

g) West Coast Rubber Recycling

A total of four purchase orders were issued to West Coast Rubber Recycling in fiscal year 2012-13 for landscaping in the aggregate amount of \$137,102.76. Of those four purchase orders, three were selected for testing as follows:

- PO #130221 for \$35,242.45 was issued on July 23, 2012 for landscaping at Martinez Elementary School and Parlier Junior High School. The invoice for this work was paid on October 5, 2012.
- PO #131636 for \$30,549.24 was issued on February 6, 2013 for landscaping at Benavidez Elementary School, and the invoice was paid on March 20, 2013.
- PO #132453 for \$20,133.92 was issued on April 13, 2013 for landscaping at Benavidez Elementary School. The invoice for this work was paid on May 10, 2013.

The nature of the work was a public work. Public Contract Code Section 20111(b) requires a school district governing board to let any contract for a public project involving an expenditure of \$15,000 or more to the lowest responsible bidder that meets the criteria established. District administration was unable to provide FCMAT with bid documentation for the work awarded to West Coast Rubber Recycling.

The fourth PO, #131247 for \$51,177.15, was missing from the file. All of the POs, including the one that was missing, were charged to a capital improvement account (object code 6170) acknowledging the public work nature of the purchases.

During fiscal year 2013-14, the district expended an additional \$39,981.79 with West Coast Rubber Recycling through four POs. Two of four that had been selected in the transaction sampling were missing from the district's 2013-14 file. While the aggregate 2013-14 POs exceeded the bid limits of PCC Section 20111(b), the individual purchase orders did not exceed the limits. Without the ability to review the purchase orders it could not be determined that the aggregate purchases were in violation of PCC Sections 20116 and 22033 regarding bid splitting. However, each of the POs issued regarding West Coast Rubber Recycling were charged to a capital account (object code 6170) at the same school location (location 005) and were paid within approximately six months, raising questions about intentional bid splitting in violation of PCC Sections 20116 and 22033.

h) D&G Fence Company

Seven purchase orders were issued to D&G Fence Company in fiscal year 2013-14 for fence removal, new fencing and fence curbs in the aggregate amount of \$112,830.

The nature of the work was a public work. Public Contract Code Section 20111(b) requires a school district governing board to let any contract for a public project involving an expenditure of \$15,000 or more to the lowest responsible bidder that meets the criteria established. District administration was unable to provide FCMAT with bid documentation for the work awarded to D&G Fence Company.

Of the seven purchase orders, three were selected for testing as follows:

- PO #140380 for \$14,800 was issued on August 1, 2013 for fence and curb work at Parlier High School. The invoice for this work was paid on September 6, 2013. This PO is just under the \$15,000 statutory bid limit. Price quotes for public works jobs just below the statutory bid limit raise suspicions about whether the work actually exceeds the \$15,000 threshold. Additionally, the work in question was done in the same fiscal year, using the same budget line and at the same school site as other fencing work performed by the same contractor, raising questions about intentional bid splitting in violation of Public Contract Code Sections 20116 and 22033. This work would have been subject to prevailing wage provisions, and notations in the file have inconsistent comments about the application of prevailing wage to the work.
- PO #141121 for \$24,700 was issued on November 18, 2013 for fence removal and installation at Parlier High School and the invoice was paid on December 13, 2013. This PO exceeds the applicable bid limit.
- PO #142470 for \$53,300 was issued on March 21, 2014 for fencing around the Parlier High School gym. The payments for this work were split between \$26,650 paid on April 25, 2014 and the remaining \$26,650 recorded as a liability at June 30, 2014. This PO exceeds the statutory bid limit. FCMAT found a notation on the PO that read, "Cost Accounting Board Approved Nov. 2013," which implies the award was made under the provisions of the UCCAP. However, as has been discussed above, UCCAP was not properly implemented in Parlier and, therefore, was not available as an exception to the bid limit. Furthermore, the documentation associated with the April 25, 2014 payment stated it was a "50% prepayment." There is no documentation showing that the district used any criteria to assess the measurement of progress when issuing the April 25, 2014 prepayment.

i) Carpet Corner

Over the three-year review period, the district spent \$185,465.13 with two vendors on carpet and carpet installation. Of this amount, \$156,794.80, or 85%, was spent with Carpet Corner as follows:

	2012-13	2013-14	2014-15
Total Expenditures	\$37,139.22	\$20,658.45	\$98,997.13
Number of POs issued to vendor	4	6	17
Number of POs from which transactions were sampled	1	4	8

Public Contract Code Section 22002 defines a public project as construction, reconstruction, erection, alteration, renovation, improvement, demolition, and repair work involving any publicly owned, leased, or operated facility. The same code section defines maintenance work as routine, recurring, and usual work for the preservation or protection of any publicly owned or publicly operated facility for its intended purposes. Based on these definitions, FCMAT considers the installation of new floor covering to be a public works project subject to the limits of Public Contract Code Section 20111(b), which requires a school district governing board to let any contract for a public project involving an expenditure of \$15,000 or more to the lowest responsible bidder that meets the criteria established.

However, the question to be considered is whether installing new floor covering in a variety of classrooms, offices and other spaces over the course of the year is one or more public projects to be viewed individually based on location, time and accounts used, or as one public project in the aggregate over the course of the year. Best practice is that a district has the appropriate contracting mechanisms in place, including a periodically awarded competitive contract for carpet installation (materials, installation, removal of old, trim edging, etc.) on a square foot basis, for typical spaces such as a standard classroom, etc. Another approach is to utilize the provisions of the UCCAP. Parlier did not have either of these mechanisms in place and, instead, treated each order for new floor covering as a separate and distinct project. This may be a violation of Public Contract Code Sections 20111(a), 20111(b), 20116 and 22033 depending on the interpretation of whether the four POs issued in fiscal year 2012-13, the six POs issued in fiscal year 2013-14, and the 16 (17 less PO #151799 referenced below) issued in fiscal year 2014-15 constitute one public project or several in each of the fiscal years. FCMAT's review of the POs showed that several of the POs were issued on the same day or within close proximity to each other, implying a planned larger activity and indicating that the floor covering work was one public project.

Sixteen of the 17 POs issued in fiscal year 2014-15 and each was less than \$14,999. The 17th PO issued in fiscal year 2014-15 was PO #151799 for \$16,927.86, which exceeds the statutory bid limit and was issued for work subject to the limits of Public Contract Code Section 20111(b), which requires a school district governing board to let any contract for a public project involving an expenditure of \$15,000 or more to the lowest responsible bidder that meets the criteria established. District administration was unable to provide FCMAT with bid documentation for the work awarded to Carpet Corner.

The account coding attached to the POs was either erroneously applied or designed to evade its true purpose. The district used a variety of accounts for its Carpet Corner purchases, including supplies (object code 4300), consultants (object code 5800) and capital equipment (object code 6400). Carpet in the amount purchased is not a supply item, and neither is it capital equipment. Carpet installation by itself without the carpet material could be a consultant type charge, but generally not. The district's purchases, with few exceptions, appear to be purchases of material that is then installed by the same company, and often includes the removal of the previous floor covering and installation of

trim edging. These should most likely be coded to the buildings and improvement of buildings account (object 6200).

j) Ann M. Luecke

This is the second of the two vendors the district used for carpet and carpet installation services. Expenditures with Ms. Luecke for the 2014-15 fiscal year were as follows:

	2014-15
Total Expenditures	\$28,670.33
Number of POs issued to vendor	6
Number of POs from which transactions were sampled	6

The planned activity of replacing floor covering is a public work, subject to the limits of PCC Section 20111(b), which requires a school district governing board to let any contract for a public project involving an expenditure of \$15,000 or more to the lowest responsible bidder that meets the criteria established. As with Carpet Corner above, the question to be considered is whether or not the five POs (six less PO #150318 referenced below) constitute one public project or several. Multiple POs were issued on the same day or within a couple of days of each other, implying a planned larger activity and giving credence to FCMAT's opinion that the floor covering work was one public project.

The sixth PO was #150318 for \$16,998, which exceeds the statutory bid limit and was issued for work subject to the limits of Public Contract Code Section 20111(b), which requires a school district governing board to let any contract for a public project involving an expenditure of \$15,000 or more to the lowest responsible bidder that meets the criteria established. FCMAT noted that the total payment issued against this PO was \$14,178. Additionally, POs #151797 and #151810 in the testing sample contained competing quotes for the same work at a lower price than the work awarded to Ann M. Luecke. One quote was approximately 18% lower and the other was approximately 9% lower.

- Five vendors/contractors whose California Contractors State License Board (CSLB) licenses could not be located.

Section 7028 of the Business and Professions Code provides, "Unless exempted from this chapter, it is a misdemeanor for a person to engage in the business of, or act in the capacity of, a contractor within this state under either of the following conditions: (1) The person is not licensed in accordance with this chapter." Section 7028(h) provides, "For any conviction under this section, a person who utilized the services of the unlicensed person is a victim of crime and is eligible, pursuant to subdivision (f) of Section 1202.4 of the Penal Code, for restitution for economic losses, regardless of whether that person had knowledge that the contractor was unlicensed."

Furthermore, Section 7028.15(e) of the Business and Professions Code provides, in part, that "... the registrar may issue a citation to any public officer or employee of a public entity who knowingly awards a contract or

issues a purchase order to a contractor who is not licensed pursuant to this chapter.” ... “Any contract awarded to, or any purchase order issued to, a contractor who is not licensed pursuant to this chapter is void.”

FCMAT reviewed 25 vendors/contractors whose work involved the construction or alteration of school buildings or grounds that fall under the provisions outlined above requiring licensure by the CSLB. Based on the sampling, interviews and document review conducted by FCMAT, the district issued approximately \$155,000 of construction and/or maintenance contracts to three vendors who did not possess the required contractor’s license issued by the CSLB and had connections with the district and its governing board. Those three are discussed in more detail below. The other two vendors came under scrutiny based on the nature of the work they provided to the district. They are Ken C. Stake and/or Sierra Food Service and The Seville Group (dba SGI Construction) and may have provided services that do not require a license; however, it is difficult to ascertain with certainty whether that is the case based on FCMAT’s limited knowledge of their activities and their businesses. It should be noted that The Seville Group has been involved in charges of violations of conflict of interest laws related to its work with the Sweetwater Union High School District in San Diego.

The three vendors for which FCMAT was unable to locate current CSLB licenses are:

a) AmeriCADD Drafting and Design

In reviewing the personnel list attached to the contractor’s license for Active Builders Service Group, Inc., there is an officer of the company listed as Isidro Medellin Gutierrez. This person has also been identified to FCMAT as Isidro Joe Gutierrez and Joe Gutierrez. These names, as well as their connection to 2K Painting and AmeriCADD Drafting and Design, have been previously discussed in this report.

b) Pena Image

Pena Image was paid \$12,606.63 for work performed in 2014-15. Five POs were issued for that work and PO #151305 was selected for testing. This PO was issued on October 28, 2014 for “football field pressure wash/paint bleachers, light posts as per quote #92114.” The invoice for the work was paid the next day, October 29, 2014.

FCMAT was unable to find a business license for this vendor. However, Pena Imaging is also tied to other vendors discussed in this report. FCMAT found a note in an accounts payable package for Pena Image stating to contact Francisco Pena with any questions, and Francisco Pena also picked up the Pena Imaging payment warrant. According to the September 30, 2015 issue of The Parlier Post, Francisco Pena is also the director of Youth Centers of America. Mr. Pena would also have an employer/employee relationship with the district’s current board president

by virtue of the fact that the board president is the executive director of Youth Centers of America.

c) Jodan WiFi LLC

This vendor received \$70,542.50 in fiscal year 2012-13 and \$7,350 in fiscal year 2013-14 as follows:

- PO #131121 for \$17,517.50 was issued on November 9, 2012. Payments against this PO were made on November 16 and 28, 2012; December 19, 2012 and January 30, 2013.
- PO #1318880 for \$53,025 was issued on March 15, 2013 and paid on March 20, 2013.
- PO #140979 for \$7,350 was issued on October 15, 2013 and paid one day later on October 16, 2013.

The last PO was selected for review; however, the accounts payable file with the PO and invoices paid was not available for review by FCMAT. However, FCMAT's review of board meeting agendas and minutes revealed a special board meeting held jointly with the city council of the city of Parlier on January 22, 2013, wherein Mr. De Los Santos from Jodan WiFi LLC made a presentation to the joint convening of governing bodies.

FCMAT's further review of board meeting agendas and minutes revealed a proposal for \$53,025 dated March 1, 2013 for the purchase of 21 cameras, four vandal resist cameras, 24 outdoor cameras, encoders and cabling and connectors was submitted for approval from Jodan WiFi LLC to the governing board at its March 5, 2013 special meeting. Because the March 1, 2013 proposal did not include installation and no other labor was involved, the award of the purchase did not seem to be a violation of the Public Contract Code and no contractor's license would have been required.

However, at the March 12, 2013 regular board meeting, an additional proposal for \$7,350 dated February 20, 2013 from Jodan WiFi LLC for installation of the 49 units noted above was submitted and approved by the governing board. The second board action equated to the approval of a public works contract with Jodan WiFi LLC, without the prerequisite bidding required by Public Contract Code Section 20111(b), and included work subject to the requirements of the Contractor's State License Board. The proposal contained in the board meeting agenda packet cites Jodan's company profile and makes note of its community service in support of the district, but the profile does not include any reference to a valid contractor's license.

When the March 5 and 12 actions are viewed together, which is the proper interpretation, the nature of the work was a public work. Public Contract Code Section 20111(b) requires a school district governing

board to let any contract for a public project involving an expenditure of \$15,000 or more to the lowest responsible bidder that meets the criteria established. There was no bid for the work awarded to Jodan WiFi LLC for the security camera installation, which ultimately was one project valued at \$60,375. Public Contract Code Sections 20116 and 22033 make it unlawful to split or separate into smaller work orders or projects any work, project, service, or purchase for the purpose of evading the provisions requiring contracting after competitive bidding or contracting after an award under UCCAP. An inspection of the proposals from Jodan WiFi LLC show that the proposal for installation services was dated February 20, 2013, which is eight days prior to the March 1, 2013 proposal to purchase the equipment. Both proposals were also signed by Jodan's CEO, Joseph De Los Santos, on February 28, 2013. The POs for these transactions are dated seven months apart and in two different fiscal years. Placing the equipment on one board agenda and PO and the installation on another board agenda and PO suggests a violation of law and an effort to hide the inappropriate contract award.

FCMAT's research found that Jodan WiFi LLC was associated with the late Joseph De Los Santos, whose CSLB license expired in 2003 under the company name D L S. FCMAT's research also found a May 9, 2013 newspaper article in The Reedley Exponent that spoke about Mr. De Los Santos' relationship with and support of the district.

3. Miscellaneous contracting issues such as:

a) Youth Centers of America Family Resource and Wellness Education Center (YCA)

YCA has contracted to provide Parlier with a variety of direct services to students and parents during after-school, weekend and summer programs. The services include parent university, counseling and mental health services, recreation services, Internet hot spots, and outdoor youth leadership training. Over the three-year review period, the district has paid YCA \$858,271.72 and has additional contractual obligations for services through June 2016. The total value of contracts approved by the Parlier governing board during the three-year review period is \$1,095,520.60.

YCA's senior management and governing board members have close ties to the district, the city of Parlier and businesses and financial institutions that do business with Parlier. The district's current governing board president is the director of the YCA. In the six-month period of June 2014 through November 2014, and also during the current board president's election campaign, the district awarded nine contracts with a value over \$730,000 to the YCA. On November 26, 2014, just two weeks after the current board president was elected to Parlier's governing board and approximately two weeks before taking his seat on the governing board, the district awarded an additional six contracts totaling \$449,832 to the YCA that included obligations for services for both fiscal year 2014-15 and 2015-16, almost seven months ahead of the starting date of the term for the next fiscal year. The current board president did not vote on these contracts; however, on January 27,

2015, he did vote to approve the minutes of the November 26, 2014 meeting, even though he was not a participant in the meeting and contracts directly impacting his employment were part of those meeting minutes.

FCMAT considers the contract and invoice terms reviewed to be vague, which may have resulted in payments for services never rendered, or rendered unsatisfactorily. Interviews with district staff and governing board members revealed multiple concerns about the nature of the contracts, questions about whether services were actually rendered, services focusing on adults and not children, district-paid community recreational activities normally the responsibility of city government or a park and recreation district, conflicts of interest among the leadership of YCA and the district, and billing for YCA staff when the services may have been provided by parent volunteers. Four YCA contracts or references in governing board minutes approving the contracts include a partnership with California State University Fresno (Fresno State), but the contract documents do not include Fresno State as a signatory. At least two YCA contracts include terms that overlap prior contracts, raising the question of a potential double payment for services.

Additionally, even though the services performed involve direct contact with the district's students, these contracts do not contain language protecting students, such as a requirement for background checks of YCA employees, procedures for mandated reporting, or indemnification of Parlier. Furthermore, the contract to provide Internet hot spots makes no mention of systems or procedures required by the federal Children's Internet Protection Act, Children's Online Privacy Protection and other federal and state safeguards intended to protect children while using the Internet.

- b) Acquisition Partners of America, LLC; Sonia Hall's The Solutions Company; and Granted Solutions by Sonia Hall

These three vendors have two names in common: Sonia Hall and John Walkup. Ms. Hall's resume, which was included in the accounts payable packet for The Solutions Company, shows her as the partner/director of strategies for Acquisition Partners of America, LLC, as well as a registered lobbyist. John Walkup's resume from the same accounts payable packet lists him as the director of education services for Acquisition Partners of America, LLC. Granted Solutions by Sonia Hall's website lists Ms. Hall as its founder and John Walkup as a K-12 specialist. Photographs of both are shown on the Granted Solutions website and those same people appear in the photos on the LinkedIn page for Sonia Hall's The Solutions Company page. Ms. Hall's resume also lists many of her clients, and among them is the city of Parlier. An article published in The Reedley Exponent on March 27, 2014, described her as being "the grant writer for Parlier for about the last 10 years." Over the three-year review period, the district paid these vendors as follows:

	2012-13	2013-14	2014-15
Acquisition Partners of America	\$12,717.60	0	0
Solutions Company (The)	\$60,506.64	0	0
Granted Solutions	\$95,200.00	\$21,514.99	\$26,000.00
Total	\$168,424.24	\$21,514.99	\$26,000.00

Acquisition Partners of America, LLC provides grant development services for municipalities, school districts and businesses in California. PO #131304 for \$12,717.60 was issued on December 17, 2012 for six invoices from Acquisition Partners of America, LLC dated July 1, August 1, September 1, October 1, November 1, and December 1, 2012. Payment was issued on all six invoices two days later on December 19, 2012. FCMAT could not locate a contract for services in the district's files and none was noted on board agendas seeking governing board approval. FCMAT could not determine from its review of the PO and invoices what services, if any, had been provided.

Sonia Hall's The Solutions Company's LinkedIn page states that the company provides "a comprehensive grant-seeking solution for schools, city agencies, and non-profit organizations. Services ... include needs assessing, grant funding research, grant proposal authoring, community outreach [sic], lobbying, and post-award grant management." The governing board approved a contract for services at \$10,000 per month for the period December 1, 2012 through April 30, 2013 at its special meeting on November 28, 2012. The governing board approved a two-month extension to the original contract for May and June 2013 at its meeting on April 23, 2013. PO #131303 for \$50,000 was issued on December 17, 2012. Invoice INV-0001 for \$5,000, dated December 14, 2012, was paid against this PO on December 19, 2012.

Both Acquisition Partners of America, LLC and Sonia Hall's The Solutions Company issued invoices for services for the month of December 2012. The PO dates and the payment dates were also identical, which raises questions regarding duplicate payments for the same services and, if there were duplicate payments, whether the billings from companies owned and operated by the same persons was intentional.

According to the cover sheet for the November 28, 2012 board agenda item for The Solutions Company contract, the services would be provided "in lieu of hiring curriculum and district personnel" and would be equivalent to 1.5 full-time equivalent service. The board material describes The Solution Company's services as: "public relations/outreach/writing of community; Ongoing grant writing and grant applications; provide all assistance with student assessment and data review, create staff development opportunities calendar for certificated and classified personnel; monitor grant budgets and conduct grant budget audits; assist with ordering of all 2013/2014 curriculum materials; and other assignments relating to the overall operations of the district."

FCMAT also found that on February 20, 2013, the deputy superintendent/then-principal of Parlier High School and the former board president traveled to Sacramento related to QEIA funding. Their accommodations (two rooms, snacks from the in-room bar, parking and taxes) at the Hyatt Regency Sacramento were paid by Sonia Hall and later invoiced to the district over and above the \$50,000 originally authorized on the purchase order.

When asked about these company names as well as those of Sonia Hall and John Walkup, the deputy superintendent replied that he used to see them walking around and they were grant writers, but he didn't see much production coming out of them. He indicated that they are not still around but every once

in a while they sent an email asking, “Do you guys need help?” He would reply, “No, thank you.” The deputy superintendent expressed that he didn’t know what they were getting paid and would like to see a product.

While no POs were issued to Granted Solutions by Sonia Hall in 2012-13, \$95,200 was paid through a liability posted to district accounts as of June 30, 2013. For the fiscal year 2013-14, the district issued five POs to Granted Solutions totaling \$21,514.99. In fiscal year 2014-15, one PO was issued to Granted Solutions for \$26,000. This PO was paid in three installments – two for \$8,000 and one for \$10,000 all on October 17, 2014. FCMAT did not test any of these invoices but gathered this information through the district’s general ledger downloaded by the county office for testing purposes.

Staff and instructional leadership staff were unable to identify the work performed by Sonia Hall, John Walkup or any of the three companies with which they are associated. Interviews with governing board members indicated a lack of knowledge of the vendor or their services. The former governing board president was the only person interviewed that recognized Ms. Hall’s name and could shed light on the scope of work, indicating that Granted Solutions assisted with the district’s successful application to receive funding under the Quality Education Investment Act of 2006 (QEIA). According to FCMAT’s conversations with staff at the CDE, QEIA funding from the state was not competitive and was determined based on the district’s initial application in 2006. CDE had been appropriating approximately \$1 million to Parlier High School and \$500,000 to Parlier Junior High School annually since the program’s inception. The amounts were already well established by the 2013-2015 time period when the district supposedly retained Ms. Hall for this purpose. On January 23, 2015, the CDE issued a letter of noncompliance to Parlier for the 2013-14 school year for failing to meet the program requirements. Parlier’s program and funding was terminated by CDE for noncompliance due to its 2013-14 program. That termination was effective June 30, 2015, a loss of approximately \$1.5 million.

c) Voyager Sopris Learning (formerly Sopris West Educational), Cambium Learning Group

Voyager Sopris Learning and its local salesperson, Lou Gonzales, were identified in interviews as sources of dinners, golf outings, campaign donations, alcoholic drinks and entertainment enjoyed by senior administrators and governing board members as enhancements to entice or reward the district for its purchases of the company’s instructional products and services. None of these items were disclosed by anyone filing a Form 700.

On March 19, 2014, Mr. Gonzales made a \$300 donation to the district’s Measure P school bond campaign (Committee to Continue Progress at Parlier Schools Yes on P) as an individual. As is discussed in the Political Reform Act section of this report, additional, unsubstantiated claims were made of donations to the campaign committee established to elect board candidates.

Over the course of the three-year period under review, the district expended \$988,988.34 with the parent company, Cambium Learning Group or one of its business units such as Voyager Sopris Learning.

Overall, 11 POs were issued to Cambium Learning Group in fiscal year 2014-15 totaling \$674,007.12. Three POs for \$94,000 each (\$282,000 in total) were issued on February 25, 2015 to Voyager Sopris Learning. Vendor warrants were issued on April 10, 2015 to Voyager Sopris Learning, but then canceled on April 28, 2015. This resulted in no expenditures in fiscal year 2014-15 to this vendor.

A further search of the 2014-15 fiscal year general ledger revealed PO #153671 and liability #150314 posted to vendor Cambium Learning Group for the same \$282,000 originally encumbered to Voyager Sopris Learning. Closer examination of the two items showed that the PO was issued on June 16, 2015 and the payment warrant was issued one day later on June 17, 2015. This \$225,600 payment represented 80% of the total value of the PO and may have been made in advance of work performed because the PO described the services as an audit of special education, multi-tier systems of support, and English learners to include a report and leadership training in the “summer of 2015.” These audit services were entered into after the district expended \$697,773.96 with Cambium for products and services in 2013-14 and 2014-15. Best practices suggest that the district utilize an independent third-party not looking to make additional sales to the district, or its own staff, to evaluate the results of the products rather than using the company that is selling the products.

The question of whether services were paid in advance is exacerbated by a governing board member expressing frustration that the promised reports from the three audits costing \$288,000 still have not been shared with the governing board or made public. Senior district administration also spoke about audits being in draft or having been performed “recently.”

Additionally, two interviewees reported large expenditures using funds from a restricted federal grant for materials from Voyager Sopris Learning that, with the exception of one small component, were not used. FCMAT returned to the district in January 2016 to tour the warehouse and found multiple pallets of boxes containing instructional materials with titles such as Language! Live, Step Up to Writing and Letrs. The PO numbers on the shipping labels for those boxes were traced to the district’s general ledger, which shows an expenditure of \$201,135.36 for the materials. The district was unable to provide FCMAT with copies of the actual accounts payable packets, so it is not known how much of the order was still sitting unused in the warehouse.

d) Active Builders Service Group, Inc.

On July 22, 2014, the governing board approved a contract with Active Builders Service Group, Inc. to perform consultation, audit and project support services for clean energy efficiency. PO #150425 was issued on August 7, 2014, for \$130,000. From August 8 through November 5, 2014, the full amount of the PO (\$130,000) was invoiced and paid. PO #151377 was issued on November 6, 2014 for \$60,000 as a “revision to original contract.” On November 7,

2014, one day after the purchase order was issued, an additional invoice for \$33,722.50 was paid, bringing the total amount paid to Active Builders Service Group, Inc. for energy related consulting to \$163,722.50. This represents a 26% overpayment, and FCMAT was unable to locate a board agenda or minutes approving an amendment to the original contract.

District staff and governing board members reported in their interviews that Active Builders Service Group, Inc. did not perform on the energy contract and no report was produced. However, the district paid the vendor \$163,722.50. Additionally, during the August – November time period when energy consulting work was paid for but not received, personnel associated with Active Builders Service Group, Inc. were involved in assisting the superintendent and the former board president with campaign activities for three board candidates.

On October 27, 2015 the governing board awarded a contract to CLEAResult Consulting, Inc. for \$47,596.91 to perform the same services as originally awarded to and paid to Active Builders Service Group, Inc.

Unlike other instances where PCC had not been followed, the consulting agreement concerning the energy work was awarded by the district after a solicitation for proposals and is considered an exception to bidding requirements under PCC 20111. However, the cover sheet for the agenda item prepared by district staff and the district's request for proposal were posted on the district's website on July 9, 2014, and completed proposals were due by noon on July 18, 2014. An allowance of eight and one-half days to prepare a proposal for the scope of services requested is less than competitive and not consistent with industry standards. The report does not indicate how many proposals were received nor the contract prices of the other vendors who submitted proposals, making it impossible for the board to determine if this was, indeed, the best price for the services sought.

e) Wally Gonzales

At its special meeting on June 25, 2014, the governing board approved an agreement for facility inspection services for \$75 per hour with Wally Gonzales. The board meeting minutes indicate that the scope of work was "facilities inspection will include any potential harmful health and safety conditions and a report will be prepared documenting any findings and submitted to the Business Department. Wally Gonzales for Facilities Inspector will be used on an as needed basis." This same agreement was originally taken to the governing board for approval on June 17, 2014 but was tabled due to a lack of backup material. The agenda cover sheet for the June 17 meeting indicated that any findings would be submitted to the transportation/maintenance and operations director.

Mr. Gonzales is the son of the district's director of maintenance and transportation. The 2014-15 district organizational chart, dated February 7, 2015, shows Wally Gonzales listed under facilities along with his father, Rudy Gonzales. In the best circumstances, the reporting relationship of one family member to another should be avoided. These circumstances involve a son who is acting in the critical role of an independent facilities inspector reporting to his father who is the transportation/maintenance and operations director.

Twenty-one purchase orders were issued to Wally Gonzales in 2014-15 totaling \$67,425. Of this total, \$50,550, or 75% of the total paid, was charged to the district's fund 25, which is a restricted fund for expenditures related to capital facilities needs based on student growth. FCMAT's review of POs and invoices indicated that Mr. Gonzales performed inspector and other consulting work, with some work mirroring work normally performed by employees. Based on the information available, most, if not all, of the work performed was not an appropriate charge to fund 25 and violates Government Code Sections 65970-65981.

A contract for Mr. Gonzales' services was again submitted to the governing board on September 22, 2015, after being tabled by the governing board on August 25, 2015. This time the staff report provides the following background: "Consultant is a Facilities Inspector for maintenance and modernization projects and represents and warrants that he has the requisite knowledge, training, skills, and expertise to perform the services described and set forth in this Agreement." Funding is noted as general fund. The timing of this agreement was outside of the scope of this review and is mentioned here only to point out that there continues to be a potential problem with a son working under and reporting to his father.

Prior to Mr. Gonzales, the district was using the services of Vanguard Construction Service, Inc. at the same hourly rate of pay for a Division of State Architect inspector with 15 years of experience.

Recommendations

The district should:

1. Revise its PO processing procedures to address internal control and efficiency issues such as two signatures on each PO, a single PO for each transaction/contract, POs prepared as the transaction is approved, limiting contract signers to those authorized by the board, consolidation of reimbursement amounts and inclusion of proper receipts/invoices to generate payments.
2. Eliminate the use of district funds for meals that do not involve overnight stays and those attached to employee or student incentives.
3. Work with its attorneys to determine if incentives provided to staff and students constitute a gift of public funds.
4. Review its expenditure reports for its QEIA, TUPE, EIA and Title I funding to determine if funds were spent inappropriately and need to be returned.
5. Adopt stringent board policy and administrative regulations regarding district authorized credit cards to prevent their misuse and include criteria under which the credit cards can be revoked.
6. Audit all credit card payments to ensure that there is proper documentation for all credit card charges.

7. Adopt comprehensive travel/conference policies that contain provision for inclusion of conference brochures/schedules, per diem rates consistent with IRS guidelines, times for arrival/departure to qualify for per diem meal payments, guidelines for qualification for hotel room stays and transportation, elimination of advance travel payments for per diem meals and mileage, etc. Update its policies on Gamut as soon as the board has adopted any changes thereto.
8. Work with its auditors and the IRS to review per diem or any other supplemental wage payments made and include amounts exceeding IRS rates in corrected W-2s.
9. Adopt board policy to establish chaperone-to-student ratios on field trips to maximize district resources.
10. Ensure that staff understand the purpose and limitations of bank accounts such as the Sunshine Club fund.
11. Ensure that the accounts payable process includes supervisor/administrator approval on invoices being paid.
12. Ensure that processes regarding field trips include assurance that the driver of the activity bus has appropriate SPAB certification.
13. Ensure that it works with its surrounding districts to comply with the requirements to provide transportation payments for its students to attend non-PI schools.
14. Confirm that all district property in the superintendent's possession has been returned to the district.
15. Determine whether it intends to utilize informal bidding processes under UCCAP and, if so, ensure that the district institutes measures to comply with all of the requirements of that body of law. If it elects to use formal bidding processes, ensure that the resolutions previously adopted are rescinded.
16. Ensure that administrators and staff receive proper training regarding contracts and bidding.
17. Work with its legal counsel to obtain a set of construction contracts and bidding documents, if applicable.
18. Ensure that it has modified its processes and procedures to include verification of CSLB licensure before hiring a contractor.
19. Review its policies and procedures regarding contracts to ensure that contracts are reviewed to guarantee the inclusion of necessary terms to protect the district and its students.
20. Confirm that it has processes in place to evaluate whether goods/services have been delivered and payment made only after confirmation of same.

21. Require documentation from vendors to disclose their relationships with district employees and governing board members to avoid failure to disclose related party transactions.
22. Report to the county superintendent regarding compliance with items 1 through 21 above.

The county superintendent should:

1. Consider revising its processes and procedures to include the district's verification of CSLB licensure prior to issuing payments to contractors.
2. Monitor the district's compliance with the recommendations to the district stated above.

Revolving Fund

Revolving funds are used to facilitate payments for services and supplies where an urgent deadline is involved, reduce the need to issue numerous small warrants or to correct a payroll error to comply with Education Code Section 45167 as discussed in the Payroll section above. Parlier has adopted BP 3314.2 allowing the district to establish a revolving fund. However, in its review of the records for that bank account, FCMAT found:

- Parlier's BP 3314.2 does not allow the payment of payroll corrections through its revolving account. Education Code Section 42800 specifically allows those payments to occur through a revolving account.
- Reconciliations had not been performed monthly and did not include the name and signature of the person performing the work or the name, date and signature of the person reviewing the work.
- Stale dated checks were allowed to flow forward. FCMAT noted a check written on November 12, 2013 was still listed as an outstanding check on the March 2015 reconciliation, which was the last one performed for this account.
- Checks were used out of sequence and checks were unused within numerical sequences of checks, which can be a red flag for fraud.
- Copies of checks in the records provided for fiscal year 2012-13 did not include a second signatory. It is unknown if that is because no second signature was obtained or whether the documents were photocopies taken before the second signature had been applied.

Recommendations

The district should:

1. Revise its board policy to allow payment of payroll corrections from the revolving fund in compliance with Education Code Section 42800.
2. Reconcile the revolving fund monthly and ensure that those who perform the work and review it provide their name, date of the work and their signature.
3. Timely eliminate stale dated checks.
4. Ensure that its procedures for the revolving fund are revised to track and inventory check stock and that all checks include two signatures.
5. Report to the county superintendent regarding compliance with items 1 through 4 above.

The county superintendent should:

1. Monitor the district's compliance with the recommendations to the district stated above.

AB 139 Extraordinary Audit Report Summary

Potential Fraud

Based on the findings in this report, there is sufficient evidence to demonstrate that fraud, misappropriation of funds and assets, or other illegal activities may have occurred. Significant material weaknesses in the district's internal control environment exist and increase the probability of fraud and/or abuse. These findings should be of great concern to the district's governing board and the Fresno County Office of Education and require immediate intervention to limit the risk of fraud and/or misappropriation of assets in the future.

Judgments Regarding Guilt or Innocence

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

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

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

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

Recommendation

The county superintendent should:

1. Notify the governing board of the Parlier Unified School District, Fresno County Office of Education governing board, the State Controller, the Superintendent of Public Instruction and the local district attorney that sufficient evidence exists to indicate that fraud, misappropriation of district funds and/or assets or other illegal activities may have occurred and that the county office has concluded its review.

Subsequent Event

Following the completion of FCMAT's fieldwork, FCMAT has been contacted by two interviewees who report that they have additional information relevant to campaign contributions and the hiring of contractors. This information has not been included in this report but FCMAT informed these interviewees that they may be contacted in the future should their information become necessary to any investigation.

Appendix

Appendix A: Study Agreement



CSIS California School Information Services

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

The Fiscal Crisis and Management Assistance Team (FCMAT), hereinafter referred to as the team, and the Fresno County Superintendent of Schools, hereinafter referred to as the County Superintendent, mutually agree as follows:

1. BASIS OF AGREEMENT

The team provides a variety of services to school districts and county offices of education upon request. Pursuant to the provisions of Education Code Section 1241.5 (b), a county superintendent of schools may review or audit the expenditures and internal controls of any school in his or her county if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. The extraordinary audits conducted by the county superintendent shall be focused on the alleged fraud, misappropriation of funds, or other illegal fiscal practices and shall be conducted in a timely and efficient manner.

2. SCOPE OF THE WORK

A. Scope and Objectives of the Study

The Fresno County Superintendent of Schools has requested that FCMAT assign professionals to conduct an Assembly Bill (AB) 139 Extraordinary Audit pursuant to Education Code Section 1241.5 (b). The County Superintendent has reason to believe that fraud, misappropriation of funds or other illegal practices may have occurred and shall conduct a review of the Parlier Unified School District (hereinafter referred to as District) regarding expenditures and internal controls that merit examination. The extraordinary audit conducted by the county superintendent shall be focused on the alleged fraud, misappropriation of funds, or other illegal fiscal practices and shall be conducted in a timely and efficient manner.

All work shall be performed in accordance with the terms and conditions of this Agreement.

In addition to the authority granted under Education Code Section 1241.5 (b), the county superintendent may conduct an investigation of the school district based on written complaints by parents or other information that justifies the review. On July 21, 2015, the Fresno County Grand Jury released its report “Fresno County Grand Jury 2014-15 Report #3” which raised numerous concerns, some of which related to: the District’s use of credit cards, contracting and hiring procedures, use of the former Sunshine Club Fund, meal expenditures for local meetings, travel and conference expenditures, and governance. These may be areas of high risk in which potential fraud issues such as fictitious employees or vendors, or misappropriation of assets, may be detected during an audit.

The primary purpose of this review is to provide the County Superintendent with reasonable assurances, based on the testing performed, that the District has adequate management and internal controls to report and monitor financial transactions, and that fraud, misappropriation of funds or other illegal activities have not occurred. Internal 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 evaluation of policies, procedures, internal controls and transactions performed by the District.

The team will review and test transactions for fiscal years 2012-13 through 2014-15 to determine if fraud, misappropriation of funds or other illegal activities may have occurred. Testing for this review will be based on transactions and records for this period. Testing and review results are intended to provide reasonable but not absolute assurance regarding the accuracy of the District’s financial transactions and activity to accomplish the following:

- Prevent internal controls from being overridden by management.
- Ensure ongoing state and federal compliance.
- Provide reasonable assurance to management that the internal control system is sound.
- Help identify and correct inefficient processes.
- Ensure that employees are aware of the proper internal control expectations.

The team will:

1. Evaluate the District’s internal control structure, policies and procedures to test transactions and reporting processes to determine if adequate procedures are in place to safeguard assets; and sample agendas and minutes of the District’s governing board to ensure compliance with procedures, policies, laws and regulations.
2. Evaluate the reliability and integrity of information used for internal management decisions and external agency reports.
3. Determine if authorization procedures are appropriate and consistently followed. Review administrator and manager approvals and determine whether signature authority is delegated only to authorized employees.
4. Determine whether proper segregation of duties exists.

5. Evaluate policies and procedures:
 - a. Review compliance with policies and procedures including, but not limited to, those in the areas of human resources, finance, purchasing, granting agencies, and state and federal government.
 - b. Review document and records retention procedures to determine whether the District provides reasonable assurance that asset records are safeguarded, and transactions are correctly recorded.
6. Assess reporting processes:
 - a. Evaluate monitoring procedures and verify that controls are operating properly.
 - b. Evaluate controls that prevent management from overriding internal controls to prevent misappropriation of funds.
7. Determine if the organizational chart demonstrates the proper lines of authority. Evaluate whether clear established lines of authority and responsibility exist within and between the District's departments for proper review and reporting purposes.

B. Services and Products to be Provided

1. Orientation Meeting - The team will conduct an orientation session at the County Superintendent's office and the District to brief management and supervisory personnel on the team's procedures and the purpose and schedule of the study.
2. On-site Review - The team will conduct an on-site review at the County Superintendent's office and the District's central office which may include school sites if necessary; and will continue to review pertinent documents off-site.
3. Progress Reports - The team will inform the County Superintendent of material issues as the review is performed.
4. Draft Reports – When appropriate, electronic copies of a preliminary draft report will be delivered to the County Superintendent's administration for review and comment on a schedule determined by the team.
5. Final Report - Electronic copies of the final report will be delivered to the County Superintendent following completion of the review. Printed copies are available from the FCMAT office upon request.
6. Follow-Up Support – If requested, the team will meet with the County Superintendent to discuss the findings and recommendations of the report.

3. PROJECT PERSONNEL

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

- | | |
|----------------------------------|---|
| <i>A. Julie Auvil, CPA, CGMA</i> | <i>FCMAT Fiscal Intervention Specialist</i> |
| <i>B. To Be Determined</i> | <i>FCMAT</i> |

Other equally qualified staff or consultants will be substituted in the event one of the above individuals is unable to participate in the study.

4. PROJECT COSTS

The cost for studies requested pursuant to E.C. 42127.8 (d) (1) shall be:

- A. \$800 per day for each staff team member while on site, conducting fieldwork at other locations, presenting reports, or participating in meetings. The cost of independent FCMAT consultants will be billed at their actual daily rate.
- B. All out-of-pocket expenses, including travel, meals and lodging.

Based on the elements noted in Section 2A, the total estimated cost of the study will be \$17,000.

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

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

5. RESPONSIBILITIES OF THE COUNTY SUPERINTENDENT

- A. The County Superintendent will provide office and conference room space during on-site reviews.
- B. The County Superintendent will provide the following if requested:
 - 1. Policies, regulations and prior reports addressing the study request
 - 2. Current or proposed organizational charts
 - 3. Current and two (2) 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 Superintendent and/or District and sent to FCMAT in an 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 Superintendent and/or District shall upload all requested documents.
- C. The County Superintendent will review a preliminary draft copy of the study. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the team prior to completion of the final report.

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

6. **PROJECT SCHEDULE**

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

<i>Orientation:</i>	<i>September 9 or 10, 2015</i>
<i>Staff Interviews:</i>	<i>To be determined</i>
<i>Exit Interviews:</i>	<i>To be determined</i>
<i>Preliminary Report Submitted</i>	<i>To be determined</i>
<i>Final Report Submitted</i>	<i>October 21, 2015</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 County Superintendent and any other parties from whom, in the team's judgment, it must obtain information. Once the team has completed its fieldwork, it will proceed to prepare a preliminary draft report and a final report. Prior to completion of fieldwork, the County Superintendent 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 Superintendent 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 Superintendent will be responsible for the full costs. The County Superintendent 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 Superintendent 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 Superintendent. 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 Superintendent in any manner without prior express written authorization from an officer of the County Superintendent.

9. INSURANCE:

During the term of this agreement, FCMAT shall maintain liability insurance in an amount not less than \$1 million unless otherwise agreed upon in writing by the County Superintendent, 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 HARMLES:

To the fullest extent permitted by law and only in proportion to each party's respective liability, each party (Indemnitor) shall, defend, indemnify, and hold harmless the other party (Indemnitee) and the Indemnitee's governing body, officers, employees and agents from and against any claims, lawsuits, actions, and/or liability relating to this Agreement and arising out of any act or omission of or caused by Indemnitor and/or the Indemnitor's governing body, officers, employees, or agents. The parties intend by the provisions in this Section and hereby agree that where the parties are jointly liable, each party's obligation under this Section to the other party shall only be in proportion to its liability. Each party is solely liable for any claims, lawsuits, actions, and/or liability arising out of the sole act or omission of, or caused solely by, that party and/or its governing body, officers, employees, or agents.

11. CONTACT PERSON

Contact: Jamie D. Perry, Senior Director, District Financial Services
 Telephone: (559) 497-3771
 E-mail Address: jperry@fcoe.org



 Jim A. Yovino, Superintendent
 Fresno County Office of Education
 Date 9/1/15



 Anthony L. Bridges, CFE, CICA
 Deputy Executive Officer
 Fiscal Crisis & Management Assistance Team
 Date September 1, 2015