



CSIS California School Information Services

Fresno County Superintendent of Schools

AB 139 Extraordinary Audit of the Raisin City Elementary School District

June 28, 2017

Joel D. Montero
Chief Executive Officer





June 28, 2017

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

Dear Superintendent Yovino:

In October 2016, 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 Raisin City Elementary School District. Specifically, the agreement states that FCMAT will perform the following:

1. Evaluate the district's purchasing and accounts payable 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. This will include but not be limited to: revolving fund use, district travel and contracts.
2. Evaluate the reliability and integrity of information used for internal management decisions.
3. Determine if authorization procedures are appropriate and consistently followed. Review administrator and manager approvals and determine whether signatory 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 finance, purchasing and accounts payable.
 - 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.

FCMAT

Joel D. Montero, Chief Executive Officer

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6. Assess reporting processes:

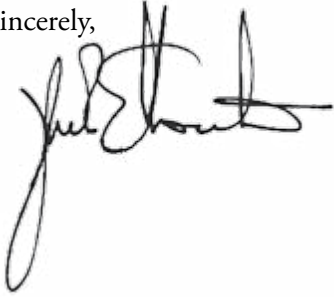
- a. Evaluate monitoring procedures and verify that controls are operating properly.
- b. Evaluate controls that prevent management from overriding internal controls to prevent misappropriation of funds.

Specific audit objectives are outlined in the study agreement in appendix A of this report.

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

FCMAT appreciates the opportunity to serve you and extends thanks to all the staff of the Fresno County Office of Education and Raisin City Elementary School District for their cooperation and assistance during fieldwork.

Sincerely,

A handwritten signature in black ink, appearing to read "Joel D. Montero". The signature is fluid and cursive, with a large initial "J" and "M".

Joel D. Montero
Chief Executive Officer

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About FCMAT

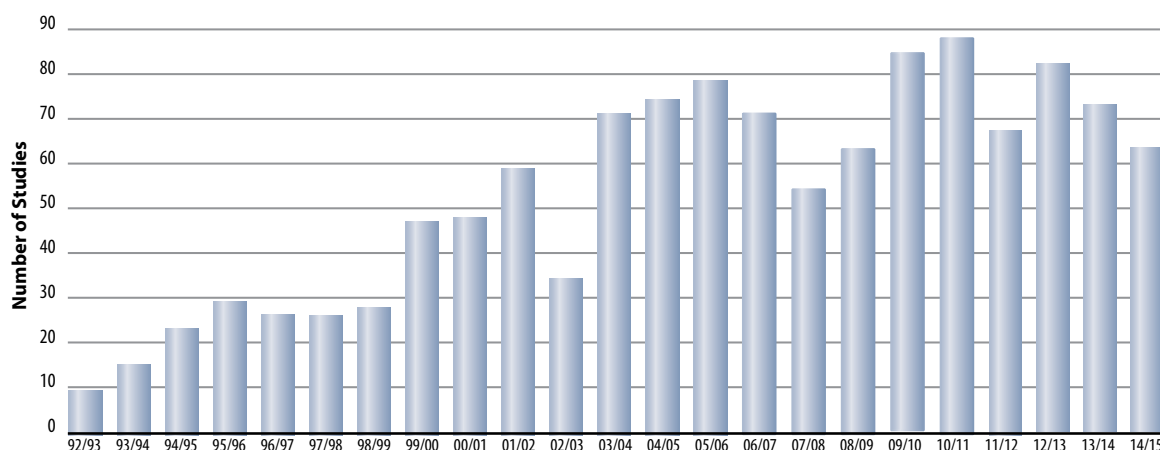
FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related 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). CSIS also hosts and maintains the Ed-Data website (www.ed-data.org) and provides technical expertise to the Ed-Data partnership: the California Department of Education, EdSource and FCMAT.

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 state-wide data management work. AB 1115 in 1999 codified CSIS' mission.

AB 1200 is also a statewide plan for county offices of education and school districts to work together locally to improve fiscal procedures and accountability standards. AB 2756 (2004) provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans.

In January 2006, Senate Bill 430 (charter schools) and AB 1366 (community colleges) became law and expanded FCMAT's services to those types of LEAs.

Since 1992, FCMAT has been engaged to perform more than 1,000 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by Joel D. Montero, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

Introduction

The Raisin City Elementary School District is located in the southwestern rural portion of Fresno County serving approximately 300 students in grades K-8.

In September 2016, former and current school staff members indicated to the Fresno County Superintendent of Schools (FCSS) that the district had potentially violated the Education Code, Government Code, Penal Code and district board policy. The FCSS observed district activities that heightened concerns and appeared inconsistent with industry standards, including expenditure transactions, hiring procedures and board activity. Current and former district staff also described a pervasive hostile culture and climate in the district under the current and former administration and members of governance.

In October 2016, the FCSS requested that FCMAT conduct an AB 139 extraordinary audit to determine if fraud, misappropriation of funds or other illegal activities may have occurred.

Study Guidelines

Education Code Section 1241.5(b) permits a county superintendent of schools to review or audit the expenditures and internal controls of any school district in the county if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. On completion of the investigation, if evidence exists that fraud or misappropriation of funds may have occurred, Education Code Section 42638 (b) states that the “county superintendent shall notify the governing board of the school district, the State Controller, the Superintendent of Public Instruction, and the local district attorney.” The basis of this review is to determine if sufficient documentation exists to further investigate the findings, or if there is evidence of criminal activity that should be reported to the local district attorney’s office for further investigation by law enforcement.

Based on the allegations and information provided, the FCSS requested that FCMAT assign professionals to conduct an AB 139 extraordinary audit under the provisions of Education Code Section 1241.5(b). A contract was entered into on October 25, 2016. As part of the audit, FCMAT interviewed the individuals who submitted the allegations, interviewed past and present district management, staff and board members, and reviewed documents to determine if instances of fraud, misappropriation of funds or other illegal practices may have taken place that would warrant further investigation by the local district attorney’s office.

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

Study Team

The study team was composed of the following members:

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Background

The Raisin City Elementary School District has experienced a great deal of instability in leadership at all levels including governing board, superintendent, and administrative positions. There is a considerable amount of dissension between and among past and present district staff, board representation and community members.

In April 2016, the community initiated a recall of four board members. Three of the four positions were recalled, and replacement board members were seated. A regular election held in November 2016 resulted in the re-election of one previously recalled board member, one member seated subsequent to the recall and one new board member.

Five different superintendents have led the district since 2014, three serving interim terms. At the time of FCMAT's fieldwork, the district was under the leadership of a returning interim superintendent who was serving under a substitute teacher/interim superintendent agreement at a rate of \$125 per day. This individual was hired in December 2016 after leaving a position with the Parlier Unified School District.

The district's business manager admittedly came to the district when she was inexperienced for the position and has served there since August 2014. Before her, the district engaged a school business retiree for business-related services; this individual is also an immediate family member of the current business manager and continues to provide fiscal services to the district.

Audit Scope, Procedures and Fieldwork

Fraud investigations consist of gathering available information and documentation pertaining to specific allegations, establishing an audit plan and performing various audit procedures to determine whether fraud may have occurred; evaluating the loss associated with the fraud; and determining who was involved and how it may have occurred.

Although there are many different types of fraud, occupational fraud including asset misappropriation and corruption, may occur when employees are in positions of trust and have access to assets. Embezzlement occurs when someone who is lawfully entrusted with property takes it for his or her personal use. Common elements in all fraud include the following:

- Intent, or knowingly committing a wrongful act
- Misrepresentation to accomplish the act
- Reliance on weaknesses in the internal control structure
- Concealment to hide the act

Scope and Procedures

The primary focus of this review is to determine and report to the FCSS and the district the existence of adequate management controls for the district's reporting and monitoring of financial transactions, and whether fraud, misappropriation of funds or other illegal activities may have occurred during the period under review.

FCMAT visited the FCSS's office and Raisin City Elementary School District on December 12-15, 2016 to conduct interviews, collect data and review documents. FCMAT interviewed district board members, current and former administrative personnel, business office staff, and parents to obtain information related to general business practices and events that transpired during the period under review, including any alleged financial mismanagement, abuse or fraud. During interviews FCMAT asked questions about the allegations; policies and procedures; transactions and activities; authorization levels; job duties; the internal control structure including control activities and lines of authority and oversight of district business activities. Open-ended questions were designed to elicit information about other possible irregularities regarding the scope of the engagement.

To investigate the allegations, the team evaluated policies, procedures and other internal control activities and tested transactions recorded by the district to verify the compliance and effectiveness of those controls.

Transaction Sampling

FCMAT developed and conducted a number of audit test procedures to analyze and evaluate the allegations and potential outcomes. Audit objectives, transaction sampling and substantive testing were based on the audit team's experience and professional judgment and did not include the testing of all available transactions and records. Sample testing and examination results are intended to provide reasonable but not absolute assurance on the accuracy of the transactions

and financial activity and/or identify if fraud, misappropriation of funds or other illegal acts may have taken place during the period under review.

FCMAT reviewed, analyzed and tested business records including cash disbursements, bank reconciliations, general ledger activity, vendor payment history, financial reports, board policy and administrative regulations, board meeting minutes, and other relevant internal documents. The district's detailed general ledger, warrant register and other reports containing detailed transaction data for the 2013-14, 2014-15, 2015-16 and 2016-17 (through November 10, 2016) fiscal years were exported from the Everest financial system, and obtained directly from the FCSS's office. Specific and randomly selected disbursement checks from the accounting reports were identified, and supporting documentation was requested and examined. FCMAT conducted a limited review of payments processed through payroll for specific employees.

Reports detailing current employee information and a vendor master list were also obtained directly from the district's Everest financial system and exported by the FCSS's staff, current as of November 10, 2016.

Transactions selected were analyzed and compared with board policy, administrative regulations, operational procedures and industry standard or best practice procedures based on the team's judgment and technical expertise in school district accounting. Testing procedures and noted exceptions are detailed in the substantive testing section of this report. FCMAT's findings are the result of the above audit procedures, and interviews with former and current district staff, board members and parents.

Fraud, Internal Control and Gift of Public Funds

Fraud

Fraud can include an array of irregularities and illegal acts characterized by intentional deception and misrepresentations of material facts. A material weakness is a deficiency in the internal control process whereby errors or fraud may occur, or can be a violation of specific law or regulation. Because of the weakness, employees in the normal course of business may not detect errors in time to correct them.

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

Occupational Fraud

Occupational fraud occurs when an organization's owners, executives, managers or employees use their 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 misappropriations include the theft or misuse of district assets and may take place in the form of cash skimming, falsifying expense claims and/or taking or using equipment for personal benefit. Corruption involves an employee(s) using his or her influence in the execution of business transactions to obtain a personal benefit that violates the employee's duty to the employer or the organization and may include entering into contracts with vendors and receiving something in exchange, for example money, meals, or vacations. Economic extortion occurs when an employee or board member demands payment for decisions made favoring a vendor or employee. 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; the most common method of detection comes from tips, which help prevent occupational fraud three times as often as any other detection method. According to the 2016 Report to the Nations conducted and published by the Association of Certified Fraud Examiners, asset misappropriation causes the smallest median loss (\$125,000), but is the most common form of occupational fraud, occurring in more than 83% of 2410 reported cases. Corruption schemes accounted for 35.4% of the 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. Proper monitoring and effective oversight are also highly effective at preventing fraud.

Internal Control

The accounting industry defines the term “internal control” as it applies to organizations, including school agencies. Internal control is “a process, effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance. [The Committee of Sponsoring Organizations of the Treadway Commission - May 2013] The reference to achievement of objectives fundamentally refers to an organization’s work of planning, organizing, directing, and performing routine tasks relative to operations, and monitoring performance.

An organization establishes control over its operations by setting goals, objectives, budgets and performance expectations. Several factors influence the effectiveness of internal control, 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 is 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 provides reasonable assurance that operations are effective and efficient, the financial information produced is reliable, and the organization complies with all applicable laws and regulations.

Internal control provides the framework for an effective fraud prevention program. An effective internal control structure includes the board policy and administrative regulations established by the governing board and operational procedures used by staff, adequate accounting and information systems, the work environment, and the professionalism of employees. The five integrated components of internal control and their summarized characteristics are included in the table below.

Internal Control Component	Characteristics
Control Environment	The set of standards, processes and structures providing the basis for carrying out internal control across an organization. Comprises the integrity and ethical values of the organization. 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.
Risk Assessment	Identification and assessment of potential events that adversely affect the achievement of the organization’s objectives and the development of strategies to react in a timely manner.
Control Activities	Actions established by policies and procedures to enforce the governing board’s directives. These include actions by management to prevent and identify misuse of the district’s assets, including preventing employees from over-riding controls in the system.
Information and Communication	Ensures that employees receive information regarding policies and procedures and understand their responsibility for internal control. Provides opportunity to discuss ethical dilemmas. Establishes clear means of communication within an organization to report suspected violations.
Monitoring Activities	Ongoing monitoring to ascertain that all components of internal control are present and functioning, ensures deficiencies are evaluated and corrective actions are implemented.

The five components of internal control are supported by 17 underlying principles that help ensure an entity achieves effective internal control. Each of the five components listed above and their relative principles must be present and functioning in an integrated manner to be effective. An effective system of internal control can provide reasonable but not absolute assurance that the organization will achieve its objectives.

Control Environment

The internal control environment 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/or comprehension of internal control.

Control Activities

Control activities are a fundamental element of internal control and are a direct result of policies and procedures designed to prevent and detect misuse of a district's assets, including preventing any employee from overriding system controls. Transaction control activities are implemented to reduce the risk in specific business processes. Examples of control and transaction 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. Supervisory controls, which assess whether the transaction control activities performed are accurate and in accordance with established policies and procedures.
5. 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.

Independent auditors' reports on internal control over financial reporting are based on an audit of financial statements performed in accordance with government auditing standards. In planning and performing independent financial audits, auditors consider internal control over financial reporting to determine audit procedures that are appropriate in the circumstances. Therefore, they may express their opinion on the financial statements, but not on the effectiveness of an

organization's internal control. The auditors' consideration of internal control is not designed to identify all deficiencies in internal control that might be a material weakness or significant deficiency, which means that material weaknesses or significant deficiencies may exist that were not discovered during the audit.

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.
- Failure to detect 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 control consists of policies and procedures designed to provide the governing board and management with reasonable assurance that the organization is achieving 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 control, typically referred to as soft controls, include management tone, performance evaluations, training programs, and maintaining established policies, procedures and standards of conduct.

Fraud and the misuse of physical or cash assets occur when three factors converge: pressure, opportunity, and rationalization. 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, the potential for fraud to occur is high.

Employees should be regularly trained in what constitutes fraud and how it damages the organization. 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.

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, preprinted, standardized 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 and tracked. Access to supplies, including but not limited to stores, food, tools, and gasoline, should be restricted to designated employees.
- Timely reconciliations – An employee independent of the individual who is assigned to the original transaction and recording should reconcile bank statements and account balances monthly. 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: technology equipment, warehouse supplies, food service commodities, and maintenance and transportation parts.

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 (e.g., 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. Therefore, 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 funds violations occur under many circumstances. FCMAT's experience regarding gift of public funds is that misuse often occurs under two circumstances.

1. 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 a student or family member of a governing board member.
2. 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 and governmental policies and procedures unknowingly participate in giving gifts of public funds because of a moral or justifiable obligation. For example, a coach may be grateful to a number of individuals who have helped with the sports program, or to individuals who are considered high-value stakeholders, well-known contributors, longtime friends of the program, contributed countless hours of assistance to the sport, or may not be able to afford attending an event. The coach may offer them free event tickets or distribute unsold tickets or other items.

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

Findings

Internal Control Deficiencies

The weakness or absence of fundamental internal control elements has created an environment with considerable risk for fraud, misappropriation of funds and misuse of district assets at the district. FCMAT identified material weaknesses in multiple areas of internal control resulting from lack of experienced staff and leadership and an overall lack of understanding of this concept.

During FCMAT's review, the team identified several circumstances that included all three factors of the fraud triangle. The opportunity for fraud varies throughout the district depending on the duties assigned to an employee, but include administrative and executive staff as well as members of governance. The district's culture has been to use district assets for purposes that appear to have a personal benefit and/or for the benefit of friends, family, political and community relations.

FCMAT interviews and a review of transaction documentation identified the following:

- A lack of or improper application and enforcement of governing board policy
- A lack of and/or application and enforcement of operational procedures, including management override
- Weak segregation of duties
- Weak management and/or oversight of business activities

Employees widely question the ethical conduct displayed by the district administration and some governing board members, placing the moral tone of the organization in question.

While the district lacks formally established operational procedures for most disciplines, staff responsible for procurement and accounts payable activities indicated they attempt to follow practices consistent with industry standard. However, FCMAT's review of documentation supporting recorded expenditure transactions demonstrated a lack of consistency in applying the procedures described by staff. Details of FCMAT's findings are outlined in the substantive testing section of this report.

Reports obtained during interviews and observations made through the review of transaction documentation support assertions that the administration and some governing board members may have used their occupation and influence in making business transactions in ways that appear to deliberately misuse or misapply district resources or assets for personal benefit.

FCMAT found that superintendents and some governing board members commonly circumvent procedures related to purchasing, transaction processing and internal control as well as board policy. This was evidenced by the fact that vendor payments were processed without approved purchase orders or other advanced authorization documentation, including governing board approval. Numerous purchases, including travel reimbursements for superintendents, were processed using the district's revolving fund and lacked proper supporting documentation. Equipment purchases also made by superintendents were not properly received, recorded and accounted for in district inventories; district staff reported several items remain unaccounted for.

FCMAT's interviews with staff identified allegations of intimidation and/or coercion by district administration and some governing board members, including threats directed toward the security of employment, requests for payments both in cash and other consideration after employment, and offerings of kind gesture including artistic glassware.

Interviews also indicated the existence of a climate of fear, frustration and discontent within and between district staff, leadership and governance. FCMAT observed multiple factions between departmental staff, district administration and governing board members; as well as the presence of power struggles, manipulation, harassment and intimidation among the parties.

The district lacks strong leadership, experienced staff and proper segregation of duties across each discipline and in all functional areas including purchasing, accounts payable, accounts receivable/cash collections, human resource, payroll and asset management. In most cases observed by FCMAT, processes and procedures are inconsistent with industry standard and best practices. The combination of these weaknesses combined with the personal interests and undue influence from governing board members and administrators have all contributed to a climate vulnerable to fraud.

A weaknesses in or lack of internal control elements has resulted in a high risk for fraud and misuse of district assets. Weaknesses in each component of internal control were evident including lack of or adherence to the following:

- Moral tone
- Board policy and administrative regulation
- Operational procedures related to the management and oversight of business processes
- Segregation of duties
- Oversight or review of internal controls. Those in positions of authority responsible for the oversight of controls, including the governing board, frequently direct staff to bypass those controls.

District personnel demonstrate a lack of the expertise required to manage and train staff and ensure internal control procedures are in place. Fiscal management appears disorganized and lacking. A strong business manager should feel confident in explaining the fiscal rules/procedures and reasons for them, to the superintendent, governing board and external parties. FCMAT's observations and experience with the business manager did not support these concepts.

Interviews with staff suggest that governing board members insert themselves into the district's day-to-day operations and decisions, often providing poor direction and/or contradicting the direction of the administrator responsible for these duties. Several management and board members seem unaware of the importance of effective and appropriate policies and procedures and/or unwilling to follow them.

The control environment and moral tone of the organization are extremely weak. The overall perception of staff and some board members is that some board members, upper management and staff are immoral. The lack of experience and confidence in financial management exacerbates this condition.

Board Policy and Administrative Regulation

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

Historically established board policy and administrative regulations are unaccounted for by the district administration. Numerous changes in district leadership, the inexperience of district office staff, and the continuous movement of employee work locations have resulted in a lack of accountability for these documents.

As a part of this study, FCMAT requested copies of the district's board policies and administrative regulations on specific business and operational areas under review. FCMAT requested but did not receive many of them including those on the following areas:

- Management of district records
- Consultants
- Board meetings and notices
- Board agendas, meeting materials and minutes
- Actions of the board
- Board remuneration and other benefits
- Professional organization memberships
- Awards (staff and student)

As noted throughout this report, the governing board and superintendent fail to follow their own board bylaws, policies and administrative regulations. Examples noted by FCMAT include the following:

- Board Policy 3300 Expenditures/Expending Authority states the following:
...The superintendent or designee may authorize an expenditure that exceeds the budget classification allowance against which the expenditure is the proper charge *only if* an amount sufficient to cover the purchase is available in the budget for transfer by the Governing Board.

However, because the purchase order process is routinely bypassed by processing vendor payments through the revolving fund the ability to determine budget availability before making the expenditure is negated. The coding of expenditures and determination of board approved budget availability frequently takes place after purchases are made.

The policy goes on to state that, "The Board shall not recognize obligations incurred contrary to Board policy and administrative regulations." The reimbursement to employees for expenditures made without advanced authorization likely violates policy.

The superintendent(s) seated during the periods under review did not exercise fiduciary responsibility for the prudent expenditure of funds or develop and maintain effective purchasing procedures consistent with sound control, and may not have complied with Public Contract Code 20111.

- Board Policy 3310 Purchasing Procedures states, “The superintendent/principal or designee shall maintain effective purchasing procedures.” The district does not have formally developed operational procedures. FCMAT was provided with copies of procedures developed as part of FCSS’s business guides, which are commonly provided as example of best practice and generally require modification specific to the district as well as formal implementation to ensure all employees are familiar with them and properly trained.
- The policy goes on to state, “All purchases shall be made by formal contract or purchase orders, or shall be accompanied by a receipt.” Because policy is only intended to provide a generalized rule, the absence of formalized detailed procedures infers that purchases can be made by submitting a receipt. However, these types of references in board policy usually refer to reimbursements that are commonly approved with advanced authorization such as travel request forms or purchase requisitions. FCMAT noted numerous reimbursements that lacked any form of authorization, advanced or otherwise.

Interviews with business office staff found that administrators routinely directed them to make payments without adequate backup documentation, including detailed invoices and/or receipts, contracts, agreements or other common supporting documentation on purchases. At times, backup was only obtained to support a vendor payment or employee reimbursement when the FCSS’s staff required it to release payment. In some cases where reimbursements were made using the district’s revolving fund, nothing was obtained and/or provided even after the FCSS’s staff requested supporting documentation.

- Board Policy 3311(a) Bids states, “The district shall purchase equipment, supplies and services using competitive bidding when required by law and in accordance with statutory requirements for bidding and bidding procedures.” Interviews with district staff and governing board members reveal concerns about potential noncompliance with bid requirements. FCMAT’s review of transactions noted several instances where a formal bid process may have been required but was not followed. Additionally, the governing board sometimes approved emergency resolutions for construction projects that may have required procurement through the traditional bid process.
- Board Policy 3312(a) Contracts states, “To be valid or to constitute an enforceable obligation against the district, all contracts must be approved and/or ratified by the Board.” The supporting documentation for several transactions reviewed by FCMAT did not include contracts and evidence of governing board approval. The district does not routinely follow the provisions of this policy. Interviews with district staff and some board members found that the governing board did not always approve or ratify contracts before they were engaged or executed.

The board policies and administrative regulations reviewed do not include adoption and/or revision dates. The policies and regulations are extremely general and provide insufficient detail on processes and procedures to ensure efficiency and compliance. The purpose of board policy is to establish *what* is to be done, and operational procedures are established to describe *how* board policy and administrative regulations are to be accomplished.

During fieldwork, FCMAT observed that the board meeting agenda for December 14, 2016 listed for governing board consideration a contract with California School Boards Association for services that will help the district update board policy and administrative regulations. The district should review and update all board policy and administrative regulations, with an emphasis on those concerning business and governance.

Operational Procedures

Management is responsible for designing and implementing operational procedures, including the development of a system of internal control. This system should provide reasonable assurance that fraud, misappropriation of funds or other illegal acts are prevented or detected through normal operating procedures and corrected in a timely manner. When developing operating procedures, the district should carefully consider actions that protect its assets from misuse or fraud.

Purchasing

The district has no written operational procedures for an effective purchasing process. The administrators and governing board members interviewed by FCMAT have little knowledge and understanding of best practices. Errors in payment amounts, exceptions to contractual payment limits, and lack of well-structured fiscal practices on purchasing and accounts payable could be partly the result of inexperience among business office staff, management and governance.

District business office personnel described the purchasing practices followed by the business office, which FCMAT used as the basis for testing transactions. Staff initiate purchases by completing a hard-copy requisition, including the chosen vendor, desired items and prices. The requisition is to be forwarded to the business manager who assigns the appropriate budget code, creates a new vendor if necessary, creates the purchase order in the Everest financial system and prints the purchase order. No formal policy or operational procedures are established identifying signatory authority and/or delegations to authorized employees for authorizing purchases. The business manager or superintendent sign purchase orders indicating authorization, and the business manager distributes them to the vendor to initiate the purchase. A copy of the purchase order is provided to the staff placing the order, and the business manager retains a copy for processing accounts payable.

Open purchase orders are created for utilities, and some routine vendors including Ace Hardware and Office Max/Office Depot. Open purchase orders identify the staff member(s) authorized to make purchases. When a purchase transaction is made against an open purchase order, the receipt is to be forwarded to the business manager.

While board policy requires all purchases to be made by formal contract or purchase orders or to be accompanied by a receipt, FCMAT's review of expenditure transactions found that numerous purchases were made bypassing this process. These included purchases of technology and other equipment that should have been added to the district's inventory. Unauthorized purchases were made at every level of the organization, and routinely lacked sufficient documentation to support the disbursement.

Management initiated services with vendors and individuals without following a process that ensures the district receives the most qualified services at the lowest price. In several instances, emails with invoices attached were the first notification provided to staff that management had made purchases.

No formal process is established to document the receipt of orders, signing for deliveries and forwarding packaging slips to the business manager. Items are received in the main office, by whoever is available at the time of delivery, then forwarded to the staff member who placed the order. Packaging slips are not matched and verified to vendor invoices prior to or as a condition of payment.

The district lacks written procedures to authorize district travel, conference attendance and/or other employee reimbursements. The documentation provided by the district's business office for payments for employee and board member travel included the following forms:

- Conference Attendance Request
- Travel/Conference Form
- Request for Mileage Refund
- Reimbursement Request

However, these forms are used inconsistently. As a matter of routine, employees have been advanced funds for travel based on estimates for mileage and meals; many advances are processed through the revolving fund. In most transactions reviewed by FCMAT, the advanced authorization form was not complete, conference and/or meeting documentation was not provided, approval was absent and/or dates of authorization were not included.

Each individual attending an event is advanced funds for mileage and meals, but no documentation was evident to verify that individuals did not travel together. Advances for meals were made for breakfast, lunch and dinner regardless of the duration of the event and distance of travel. In some cases, employees were advanced funds for breakfast, lunch and dinner for days before and after the date of an event. No verification of departure or return time and actual certification of attendance is obtained and/or documented.

The transactions reviewed by FCMAT showed that at least one superintendent submitted several questionable claims for mileage reimbursement using the revolving fund. These reimbursements contained flat mileage on multiple dates. A brief description of travel purpose and/or destination was included in the claims; in many cases, travel appeared to begin from and end at the employee's personal residence. FCMAT also noted payments for mileage to one employee/consultant with similar characteristics.

Mileage from a personal residence to work location (temporary or permanent) is not an allowable business expense, and the IRS would treat it as taxable income. The district's Request for Mileage Refund form clearly states, ... "I further certify that the mileage claimed is from the first point of duty to the last point of duty in accordance with provisions of board policy"; this language is usually intended to indicate that the travel is nonpersonal and is from the work location to a secondary location for work-related purposes. Additionally, processing the reimbursement through the revolving fund bypasses expenditure(s) review and authorization and hinders transparency because it is combined in a reimbursement warrant made out to the revolving fund, which contains multiple expenditures and may not be reviewed by the governing board.

BP 3350 Travel Expenses states "Authorized employees may use district credit cards while attending to district business." The district business office staff reported that it does not have or use credit cards. A purchase order is issued to secure any necessary accommodations. If the hotel does not accept purchase orders, staff and board members must use a personal credit card to hold the room(s) until a check can be issued or staff make the payment and submit for reimbursement. The personal credit cards of district office staff have been used to secure travel arrangements for other staff and/or board members; however, some staff reported that they felt pressured to do so and that this has created a burden on them personally. FCMAT reviewed a reimbursement for \$7,140.32 to one superintendent that was identified as travel costs for him and three board members to the National Association of Latino Elected and Appointed Officials

political convention held in San Antonio, Texas June 23-25, 2011. The payment was supported by the following three separate reimbursement request forms:

- One for airfare for \$2103.20, listing four specified passengers.
- One for flight change, flight cancellation and baggage fees for \$1,600.00.
- One for four hotel room stays, listing four specified guests for \$3,437.12.

Each of these reimbursement requests was dated August 23, 2011 and approved by one attending board member; however, the actual payment was dated December 17, 2013, almost two and one-half years later.

FCMAT was also provided with multiple reimbursement request forms for what appear to be the same expenditures. These include the following:

- One for airfare for \$2,103.20 listing the superintendent and three unnamed board members as passengers without a request date or authorization.
- One for flight change, flight cancellation and baggage fees for \$1,600.00 without a request date and authorized by a district-attending employee.
- One for four hotel room stays for \$3437.12 without a request date and authorized by a district attending employee.

The reimbursement request forms were clearly different, but the documentation accompanying the requests was the same. Statements for a Chase Bank account ending in 4710 were provided as supporting documentation for the reimbursement request for airfare, flight change and baggage fees. Detailed receipts supporting the actual purchase and ticketed passenger(s) were not provided. A traveler and cost summary itinerary dated June 17, 2011 was attached listing specific ticket-holders. It would appear that the original ticket purchased for one individual was canceled, but there was no evidence that the ticket was nonrefundable. A second itinerary dated June 16, 2011 was included in documentation listing different passengers than those noted above. The documentation also included a different payment source and cardholder name.

Room folios were provided and tied to charges represented in the Chase account statement; two rooms were charged to the account at \$859.28, one room had a split payment of \$240 paid in cash and 619.28 charged and one room was paid fully in cash \$859.28. However, additional documentation included two separate room reservation confirmations; FCMAT could not determine if these reservations were connected to the folio's supporting the reimbursement claim because there was no coordinating data between the reservations and the four folios provided.

Because of the lack of documentation, FCMAT was unable to verify the following:

- The out-of-state travel was board-approved.
- Expenditures for all airline tickets and room reservations were for current district employees and board members during the date of travel.
- Duplicate payment did not take place either before the December 17, 2013 payment and/or to other attending employees and/or board members through additional claim submissions.

Accounts Payable

The district has no written procedures for an effective accounts payable process. District business office personnel described the accounts payable practices followed by the business office, which FCMAT used as the basis for testing transactions. The district business manager enters the accounts payable data into the Everest financial system. A prelist is printed; invoices are attached, and sent to the superintendent for review and signature of approval. No formal policy or operational procedures are established identifying signatory authority and/or delegations to authorized employees for authorizing final payment when an expenditure is not supported by advance authorization such as a purchase order or advance authorization for travel.

The FCSS's staff prints the checks for accounts payable batches processed by the district and returns them to the business manager for distribution. The FCSS's staff conducts an audit from each accounts payable prelist and requests supporting documentation before releasing the warrant. If an item pulled for audit is somehow deficient in documentation, the FCSS's staff removes the check from the run and holds it until the district corrects the deficiency or satisfies the questions.

Inventory

The district lacks written operational procedures for maintaining its asset inventory. The business office staff indicated that the school operations officer maintains the district inventory. A review of the job description for this position indicates that it serves as the custodian of school office records; however, there is no specific language pertaining to maintaining district inventories. FCMAT was not provided with a current full inventory accounting, but reviewed some minimal documentation labeled as inventory in support of specific transactions. These documents would not be adequate as a formally established district inventory.

Segregation of Duties

Segregation of duties is clearly lacking for business activities in purchasing and accounts payable. The business manager should not have authority to independently prepare and approve purchase orders, process vendor payments, sign/or distribute checks and prepare reconciliations.

Small school districts generally cannot afford to staff administrative offices sufficiently to achieve ideal segregation. In such cases, the district should implement alternative control activities that require a second party to complete any given process. The goal is to ensure that no single person has the ability to establish a vendor, create a purchase order, process a vendor invoice, sign a check (or approve the accounts payable for payment processing) and distribute payment. The district's business manager has the ability and responsibility to do all of the above.

Substantive Testing

Revolving Fund

Per BP 3314.2(a) the governing board has established by resolution a revolving cash fund to pay for goods, services and other charges, including supplemental payments required to correct any payroll errors. The established imprest amount for the revolving fund is \$1,000.

Revolving fund accounts provide resources to pay for goods and services if an urgent need arises that cannot reasonably wait to move through the traditional purchasing procedures. Revolving funds should not be utilized for convenience or to bypass the traditional purchasing or advanced approval process.

The district frequently processes routine expenditures that are commonly processed through traditional purchase order and travel request systems through this revolving fund. FCMAT's review of the account found that advancing funds to employees for mileage and meals has become common practice. FCMAT also observed a deposit transaction for donations of \$2,000 immediately followed by the issuance of two checks of \$1,000 each to a board member for a community event. No detailed receipts or other supporting documentation was attached to substantiate the payment to the board member.

Additionally, the revolving fund is used by the district as a clearing account to process deposits including proceeds collected for cafeteria sales, donations, and yard sales. Checks drawn from the revolving fund are issued to the Fresno County Treasurers Office to deposit proceeds from cafeteria sales into the cafeteria fund while other miscellaneous collections are deposited to general fund. Using the revolving fund as a clearing account causes the account to exceed the approved imprest amount of \$1,000 and violates the board-approved purpose of the account.

Business office staff manually prepare the monthly reconciliations, which do not include a reconciliation to the imprest amount of \$1,000. Instead, the reconciliations are forced to the bank statement balance. FCMAT's review found that checks drawn from the account on May 27, 2016 created a negative balance that was not replenished until June 17, 2016. As a result, checks drawn on the account were returned for insufficient funds, resulting in two fees of \$30 charged to the account by the banking institution.

Associated Student Body

FCMAT reviewed documentation for the Associated Student Body (ASB) checking account for fiscal years 2014-15, 2015-16 and transactions from July 1, 2016 through October 31, 2016. During this time, the checking account balance ranged from \$12,000 to just over \$15,000. The purpose of an ASB account is to account for proceeds and expenditures for student activities that fall outside of those provided by the district.

FCMAT's review found the following:

- ASB funds were used in 2014-15 for the purchase of an iPod for the after-school program. FCMAT requested the board policy pertaining to student awards, but staff could not provide one. This expense would not be appropriate without a board policy. Further, awards are generally not authorized as an ASB expenditure.
- Fundraising activities included the sales of food-type items sold during the school day that may jeopardize the eligibility standards for the child nutrition program.

- In 2014-15, a reimbursement was issued to a staff member for a Girl Scout party. Girl Scouts are an organization outside of the district and the student body. Fundraising activities and expenditures of external organizations should not be processed through ASB or any other district accounts.
- Reimbursement was made to a teacher for the purchase of three \$50 Walmart gift cards, which were reportedly given to students for perfect attendance. This expenditure could be construed as a gift of public funds without a student award policy, and an expenditure of this kind would not be an appropriate use of ASB funds.
- The district staff reported that no external parent or booster clubs are established and that previous district fundraising was conducted and processed through the ASB account. This practice was discontinued following an auditor's recommendation.

District staff indicated that the ASB fund balance has no designated purpose established. The \$15,135.82 balance as of October 31, 2016 is excessive. An expenditure plan that benefits district students, beyond what is required of the district, should be developed to expend these balances.

No fundraising activity should be conducted without a specific fundraising purpose and expenditure plan. The district should consult FCMAT's free Associated Student Body Accounting Manual, Fraud Prevention Guide and Desk Reference for further guidance regarding the appropriate activity and accounting for ASB. This document is available at: <http://fcmat.org/2015-asb-accounting-manual-fraud-prevention-guide-and-desk-reference/>

Tests of Transactions

FCMAT selected transactions for testing to evaluate the district's internal control structure including established operational procedures and to verify the validity and appropriateness of expenditures. FCMAT requested and obtained from the FCSS's staff financial system reports for the 2013-14, 2014-15, 2015-16 and 2016-17 fiscal years. FCMAT selected transactions from the warrant payment export files for each year. Transactions clearly recognizable and recorded in the categories of utilities, other governmental agencies, and/or known common vendors were excluded from selection consideration. Attention was given to payments to individuals, unknown vendors, object code/resource code combinations and comparatively large dollar amounts. Some unknown vendors were researched on the internet to determine the nature of their business and that information was used in the judgment to select a payment. Patterns including dates, frequency of occurrence and account code classification were also considered in the selection process.

FCMAT requested from the district all supporting documentation for each transaction selected and reviewed documentation to determine the following:

1. Authorization was obtained and documented in advance of the expenditure.
2. Expenditure was appropriate, in accordance with district policy and allowable by law.
3. Documentation included evidence that goods or services were received, and an obligation was incurred.
4. Transactions were processed timely, accurately and properly recorded.

The table below summarizes the number of district disbursement checks processed by the district from July 1, 2013 through November 10, 2016 and reviewed by the team as compared to the total number of disbursement checks recorded in each given fiscal year.

Disbursement Transaction Warrants (nonpayroll)	2013-14	2014-15	2015-16	2016-17 through 11/10/16	Total
# Warrants Sampled	32	29	37	25	123
Total # Warrants *	641	754	820	358	2,573
% Warrants Sampled	5.0%	3.8%	4.5%	7.0%	4.8%
# Transactions Tested	53	50	50	35	188
Value of transactions tested	\$72,584	\$402,019	\$764,705	\$122,108	\$1,361,415
Total value of all warrants *	\$1,781,907	\$2,198,725	\$2,369,581	\$935,127	\$7,285,341
% Total Warrant Value	4%	18%	32%	13%	19%

* Excludes canceled warrants

Immaterial rounding differences are the result of formula calculations.

FCMAT selected and reviewed supporting documentation for transactions attributable to 123 of 2,573 disbursement checks drawn by the district from July 1, 2013 through November 10, 2016, many of which contained multiple transactions. The total of all warrants issued during this time was \$7,285,341. The value of all transactions reviewed was \$1,361,415 (or 19% of the total value of all warrants). The table below summarizes the exceptions noted during review of documentation provided for transactions selected for testing.

Exceptions noted		# Occurrences					% of Total Transactions Tested
		2013-14	2014-15	2015-16	2016-17	Total	
1	No purchase order	51	29	22	23	125	66.5%
2	PO and/or authorization dated after receipt of goods or services	8	2	15	2	27	14.4%
3	No advanced authorization for travel or reimbursement claims	5	6	4	6	21	11.2%
4	No receiving document or payment authorization noted	6	21	19	3	49	26.1%
5	No detailed receipt or invoice attached	11	17	3	8	39	20.7%
6	No Contract, Bid docs or board approval provided	1	7	4	6	18	9.6%
7	Incorrect account coding for expenditure type	6	0	3	2	11	5.9%
8	Invoice not paid timely	3	0	0	0	3	1.6%
9	Other: See comments	5	7	10	19	41	21.8%
10	No Exceptions Noted	1	5	6	6	18	9.6%

FCMAT found exceptions in more than 90% of the transactions reviewed; most transactions lacked advance authorization and/or should have been processed through the purchase order system to ensure board-approved resources were available in the budget for expenditure.

Payments made to vendors, consultants and individual employees were frequently processed without adequate supporting documentation. Deficiencies noted by FCMAT during the review of transactions include the following:

- 146 of the 188 transactions reviewed lacked a purchase order or other documented authorization including travel requests.
- Authorization for 27 transactions was dated after the expenditure incurred.
- 106 disbursements lacked detailed receipt(s), vendor invoices and/or other appropriate supporting documentation.
- 11 disbursements were not correctly coded based on the Standardized Account Code Structure.

In a review of documentation, FCMAT also noted transactions that included the following:

- Handwritten receipts were used to support reimbursement for gas and did not show the volume purchased or price per gallon.
- Reimbursement to employees for purchases of technology devices and gift cards.
- Purchases identified as student and parent incentives; the district does not have a board policy regarding awards.
- One instance where overpayment of \$205.62 in sales tax was made to a vendor, but no credit for correction was noted.
- Reimbursements paid to an employee when a different employee's credit card was used to make the purchase.
- Payments in excess of agreement.
- Meals and training events lacking attendee lists, sign-in sheets, agendas or summary documents.
- Full reimbursement to employee for purchase(s) made using gift card(s) or loyalty card(s); cash back was given to employee by the merchant.
- Toll bridge violation penalty paid through the revolving fund.
- Reimbursement for travel claims from 2011 processed and paid to an administrator in December 2013; FCMAT was unable to determine if the payment was for a duplicate submission.
- Numerous travel, mileage and miscellaneous reimbursement claims processed through the revolving fund, bypassing authorization.
- Travel advances to employees without adequate documentation, and/or verification that ensures travel expenses were actually incurred. Most travel claims also lacked adequate documentation of travel purpose including meeting agendas, conference registration, etc.

Other

The district entered into an agreement with a consultant for financial services effective July 1, 2014, and the governing board authorized the contract on October 7, 2014. The individual providing the services is an active California Public Employees' Retirement System (CalPERS) retiree who was previously employed in a position consistent with the services currently rendered to the district. The contract, executed October 10, 2014, states that it is a one-time agreement and does not reflect the period for services to be rendered. The consultant continues to provide services to the district and informed FCMAT during interviews that the governing board did not enter into or authorize any contract renewals or annual contracts.

A review of the district payroll records and vendor payments found the consultant is paid as both an independent contractor (Pacific Rim Financial Business Solutions, owned and operated by Brenda Weil) and an employee. Payments to this individual were made through payroll beginning in August 2013, before board authorization of the agreement. The individual was compensated through district payroll the entire 2013-14 fiscal year and payment was split between salary and mileage. No deduction or payments for PERS retirement was noted. Compensation for services was divided between payroll and accounts payable for fiscal years 2014-15 forward.

With limited exceptions, an individual cannot be compensated as both an independent contractor and an employee. IRS publication 1779 defines the criteria used to determine the treatment of compensation based on relevant facts under the following three categories:

- Behavioral control
- Financial control
- Relationship of the parties

Behavioral control is based on whether the business has the right to direct or control how, when and where the work is performed; the tools or equipment used; and whether the business provides training. Financial control is based on whether the business has the right to direct or control the work performed by the individual, and relationship of the parties is based on how the parties perceive the relationship. Determination depends on criteria such as whether the worker receives benefits from the business or a written contract states the intention of the relationship between the worker and the business.

While a written consulting agreement that was executed refers to the individual as a contractor, it does not specifically state how compensation will be provided. The document includes only the rate of pay and indicates the hours are to be reported on "a monthly timesheet at the end of each month as required by appropriate business practices defined by the district." The agreement also provides for travel expenses at the IRS standard mileage rate and any other out-of-pocket expenses with delivery of approved receipts. The agreement indicates that the individual is required to receive no other benefits or payments.

The district has paid the individual as both an employee and a vendor in each of the last three years for the same work while the facts all indicate employment status. The split between payroll and vendor payments may be intentional to avoid the appearance of exceeding limitations relative to PERS retirement compensation.

Limitations and responsibilities are established for all individuals who retire from service as a PERS retiree. Compliance with these responsibilities extends to the employer once the individual is hired. If A CalPERS employer hires an individual as an independent contractor, consultant, contract employee, or a third-party employer, including one's own business entity, the relation-

ship still constitutes a common law employer-employee relationship. When the work is similar to what was performed before retirement, restrictions apply, including limitations on the number of annual compensated work hours.

Noncompliance with retirement law and regulation is considered unlawful employment. It can result in mandatory reinstatement from retirement retroactive to the date the unlawful employment began. Additionally, the “retiree” may be required to reimburse CalPERS the amount of retirement allowance received during the period of unlawful employment, member contributions plus interest retroactive to the reinstatement date. CalPERS employers may also be required to pay the employer contribution plus interest retroactive to the date of reinstatement. More information can be found in the CalPERS Employment After Retirement Guide at <https://www.calpers.ca.gov/docs/forms-publications/employment-after-retirement.pdf>

The span of control over all business processes, access without limitation to all accounting systems and the lack of proper segregation of duties and oversight present a significant internal control weakness and fraud risk. This risk is increased by the fact that this individual and her daughter both serve with this capacity in the district business office.

Governance

Roles and Responsibilities

Boards of education in California's TK-12 school districts receive their governing authority from state law. California law specifies what boards must do, may do, and may not do. These are contained in a variety of education and government codes. In a 2013 Governance Brief, the California School Boards Association (CSBA) provides the following:

School boards ensure success for all students by making decisions that fulfill legal mandates and align district systems and resources to ensure the long-term fiscal stability of the district. Boards must act collectively and openly, be guided by community interests, and informed by recommendations of the superintendent and professional staff.

In a 2014 Governance Brief, CSBA notes that effective school boards clarify values, norms and protocols as follows:

Values, norms and protocols help boards clarify their collective beliefs, how they will work together, and the procedures they will follow to manage board operations. Values are the principles and ideals that serve as the foundation of board culture. The board and superintendent must specifically articulate the values that will guide their working relationship. Norms are the behavioral expectations that board members have for one another. Protocols are the board's operational procedures that clarify how the board does its work.

Effective school boards set direction. School boards establish a vision for organization direction and, with their superintendent, help ensure a strategic approach to carry out the district's mission and vision. This starts with making student learning a high priority. Associated to this singular focus, school boards are obligated to set clear expectations and to establish priorities that expresses the district's core beliefs. Once established, the board must ensure systemic alignment of resources and policies that drive district operations and performance. School boards must ensure accountability through systems designed to measure the performance of the board, superintendent and district. Ultimately the board's roles and responsibilities are detailed in board bylaws adopted by the governing board.

There is no evidence that the district's governing board is effective. To the contrary, the governance culture established by the board demonstrates a lack of values, norms and protocols and direction. This is discussed further below.

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.

Of specific interest to this review, the internal control environment is critical because it establishes the organization's moral tone. This is commonly referred to as "the tone at the top" and consists of the perception of 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, deterring and detecting fraud or illegal acts. This 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.

FCMAT's observation, document review and interviews of past and current governing board members, executive management and other staff found the district's internal control environment is significantly deficient. The culture established at the highest levels of the organization for the four-year period under review is toxic, conflicted and insular. Rule by intimidation is common. The district's governing board and executive management lack leadership that fosters strategic, systematic and structured continuous improvement. The district's culture lacks accountability, fairness and transparency. Such a culture establishes an environment vulnerable to manipulation and fosters a lack of commitment to the purpose of a district and elementary school. The culture has also contributed to a lack of consistent executive leadership and has demoralized and disempowered staff.

FCMAT found little evidence that the governing board exercised adequate oversight of itself and its sole employee, the superintendent/principal. Members of the governing board and executive management team actively eroded the internal control structure through their management style of control, fear, intimidation, manipulation and undue influence. Board members govern and exercise authority over the district acting as individual parties instead of collectively through legislative action to set direction, policy and accountability.

FCMAT found evidence of a former superintendent who was often absent and reportedly led through intimidating behavior that included monitoring staff on the campus with a video and voice surveillance system. FCMAT reviewed documentation that confirmed that this monitoring continued remotely even after the governing board placed this superintendent on leave. Further, the April 2016 recall of three governing board members was reportedly a power play by a fourth governing board member who for appearances sake also appeared on the recall ballot. During interviews conducted by FCMAT, comments were made that the recall election was essentially an "overthrow" by the then board president, and that promises of district jobs were traded for votes and assistance.

The governing board engaged in active private investigations of staff. FCMAT was provided with one investigative report alleging employee misconduct and potential fraud, misappropriation of funds and/or other illegal acts. During interviews, FCMAT also received numerous reports that select members of the governing board micromanage the superintendent/principal and other district staff and district activities.

The board president at the time of FCMAT's fieldwork reportedly governed by requesting favors such as money or the purchase of items in exchange for hiring certain candidates or protecting personnel. Employees indicated that the board president at the time of fieldwork has taken district employees' personnel files and retained them in her home.

The combined results of the April 2016 recall election and the November 2016 regular governing board election has potentially established a voting bloc of relatives. Three governing board members are close relatives: an aunt/niece, sister-in-law/brother-in-law and uncle/niece. The board president at the time of FCMAT's fieldwork is included among this group of close relatives.

The district governing board and executive management function outside of state laws and regulations without experiencing any consequences for their poor actions and omissions. Interviews also indicate a perception that the governing board president holds the power to unilaterally make decisions or direct the work of the superintendent and staff. Shortly after FCMAT's fieldwork, the governing board was reorganized, and the previous board president was assigned as clerk.

Brown Act

Based on a review of agendas and minutes of governing board meetings, FCMAT concludes that neither the governing board nor staff are sufficiently familiar with the state's open meeting laws for local legislative bodies called the Ralph M. Brown Act (Government Code section 54950 et seq.) This is evidenced most recently (during a portion of the period June 28, 2016 through December 2016) by the following:

- A November 1, 2016 agenda posting for a special meeting created by a nonpresiding officer and apparently nonmajority of the board included important agenda topics for a meeting that no other board member attended and for which the district did not open the regular board meeting facility. FCMAT made inquiries and found that the meeting was never held and the agenda was created and posted by one board member.
- During FCMAT's fieldwork, a December 12, 2016 regular organizational meeting that was set on June 29, 2016 was canceled at the last minute because no meeting agenda was created or posted. A special meeting was held on December 14, 2016 in place of the December 12, 2016 meeting scheduled to circumvent the requirement to post the agenda 72 hours in advance. FCMAT was in the district at the time and saw no evidence of proper agenda preparation or posting for the delayed December 14 meeting, at least one governing board member indicated that proper notice was not provided for that meeting as well. Agenda items were organizational and routine for the special meeting held December 14, 2016. (Regular meetings are meetings occurring at the dates, times and location set by resolution, ordinance or other formal action by the governing board and are subject to 72-hour posting requirements. Special meetings are generally meetings called by the presiding officer or majority of board members to discuss only discrete agenda items and are subject to 24-hour posting requirements.)
- Agenda items were moved from open session to closed session without proper posting or disclosure. (October 10, 2016) Closed session items must be briefly described on the posted agenda, and the description must state the specific statutory exemption. An item that appears on the agenda's open meeting portion may not be taken to closed session until it has been properly agendized as a closed session or unless it is properly added as a closed session item by a two-thirds vote of the board after it makes the appropriate urgency findings.
- Closed session agenda items were not properly posted. (Ref October 17, 2016) See information above.
- Improper topics were considered during closed session. (Ref June 28, 2016, August 8, 2016, October 10, 2016, October 17, 2016) Without specific authority for a closed session in the Brown Act, a matter must be discussed in public.
- During interviews with FCMAT, some board members referenced board discussions and agreements that occurred in closed session, but were not included on the closed session agenda and did not qualify as topics allowable in closed session discussions. See information above.
- Minutes of board meetings were not maintained or accessible to FCMAT. (Ref March 4, 2014, April 15, 2014, July 8, 2014, August 5, 2014, August 29, 2014, October 7, 2014, November 13, 2014, December 16, 2014, May 14, 2015, August 13, 2015, November 12, 2015, February 11, 2016, March 10, 2016, April 14, 2016, April 28, 2016, October

17, 2016, October 25, 2016, November 1, 2016, November 14, 2016, and December 14, 2016)

- Questionable accuracy in recording of board meeting minutes of motions and votes cast. (Ref August 8, 2016)
- The backup material provided to the board for agenda items was not provided to FCMAT or appears to be inaccessible to the public when it is provided to the board of education. (Ref all meetings)
- The minutes are poorly written, lack clarity, and cited erroneous information that was not corrected. While minutes of board meetings are not specifically a Brown Act requirement, they are required by Education Code and represent the official record of the governing board action and should be high in quality. (Ref all meetings)
- Agenda items generally lack the required short description. (Ref all meetings) The district participates in the state's Mandated Cost Block Grant for schools, and as a condition of receipt of funding, the district certifies that it complies with various mandates. One of the mandates funded through the block grant is the preparation of the required short descriptions on Brown Act-governed agendas.

One of the legislative intents of the Brown Act (which dates back to 1953) is to ensure that public boards such as the board of education exist to aid in the conduct of the people's business. The express purpose of the Brown Act is to ensure that local government agencies conduct the public's business openly and publicly. The Brown Act was intended as a minimum standard for the conduct of public officials. Transparency, the public's right to participate meaningfully in meetings and orderly meetings are minimum requirements of the law, going beyond those basic elements, and adopting strong local open meeting policies help instill public confidence and avoid problems.

Transparency and Open Governance

The purpose of open governing board meetings is to conduct the public's business in public. While the district was unable to provide board policy on board meetings and minutes, most require minutes to be approved at the next regular board meeting. FCMAT requested all agendas and minutes of governing board meetings for 2013-14 forward; numerous agendas and minutes were absent. Staff indicated that meetings are recorded to help prepare minutes. However, FCMAT found that meeting minutes were often verbose, almost a verbatim dictation of recorded public comments and discussions. In other cases, the minutes lacked clarity, or did not include pertinent information such as start and end times for public hearings. For example, FCMAT's review of agendas and minutes for the June 28, 2016 meeting found that the agenda included special meeting public hearings for the Local Control Accountability Plan (LCAP) and budget; however, the minutes (as attached to the July 11, 2016 agenda) do not indicate that the public hearings were held. At least a presentation on the budget may have been made, but there is no record of a public hearing and there is no mention of LCAP. If no public hearing for the LCAP was held, the LCAP and therefore the budget are not approvable. This is one example of unclear minutes that could have significant consequences.

Conflicts of Interest

A conflict of interest exists when an individual has a private financial interest in the outcome of a contract or a public decision and does either of the following:

1. Participates in the decision-making process.
2. Influences, or attempts to influence, others making a contract or decision.

Statutes that govern conflicts of interest include the Political Reform Act, Government Code 1090, Government Code 87100, and Corporations Code Section 5233 for nonprofit organizations. Governing board members and administrators should recuse themselves from all discussions, negotiations and votes related to a contract in which they have a personal financial interest by removing themselves from the meeting and ensuring that their abstention and departure is recorded in the board minutes. Even when abstention and departure occurs, a conflict of interest can still exist with subsequent action on the contract, such as authorizing payment under a contract, negotiating disputes or contract terms. Therefore, the governing board member or administrator should recuse himself or herself from all discussions, negotiations and/or votes related to the contract in which he or she has a personal interest.

The documents reviewed by FCMAT include no evidence of conflicts of interest. However, in interviews conducted by FCMAT of board members and district staff, several contracts and vendor payments are alleged to have been made with parties with close personal ties to at least one board member. These include: Books, Leadership, Parent training, and Writing workshops (BLPW) Consultants initially valued at \$80,000.

Political Reform Act – Disclosure, Conflicts of Interest and Enforcement

The Political Reform Act (PRA), Government Code Sections 81000 - 81016, was enacted by Proposition 9 in June 1974, and has been amended multiple times. 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 Act provisions are enforced by the Fair Political Practices Commission and require every state and local governmental agency to adopt a conflict-of-interest code. The commission is the state agency responsible for interpreting the provisions of the law and administering California Form 700 – Statement of Economic Interests. Because school district governing board members are considered public officials and governing boards are considered legislative bodies, board members and certain designated employees must file Form 700 annually, and/or upon assuming or leaving office/position. Generally, Form 700 must be filed by April 1 for the calendar year, and within 30 days of assuming or leaving office unless an exception applies.

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 if this provision is designated in the organization’s conflict of interest code.

The Act and Government Code Sections 1090 and 87100 do not prohibit the hiring of family members in a school district. Conflicts of interest are primarily related to conflicts that arise from

influencing and being a party to business interests, contracts, loans, and other economic interests. Unless the district governing board adopted its own policy barring nepotism, hiring of family members is not prohibited. A review of the district's governing board policies did not find this kind of policy. Several board members told FCMAT that the district employs their relatives.

The governing board has adopted Board Bylaw (BB) 9720 as its conflicts-of-interest code that adopts the Political Reform Act, California Government Code Section 87100, et seq., and designates those who must report conflicts of interest on Form 700. The conflicts of interest code also states the following:

Governing Board members shall not engage in any employment or activity which is inconsistent with, incompatible with, in conflict with or inimical to the Board member's duties as an officer of the district.

The district's conflict-of-interest code appendix of designated positions, adopted by the board July 2, 2007, states that Form 700 must be filed by the governing board members, superintendent of schools, principals, assistant/associate superintendents, purchasing agent, directors, assistant principals, director of maintenance and operations, program coordinators, project specialist, supervisor and dean of students and consultants identified by the superintendent or designee. The conflict-of-interest code disclosure categories are referenced according to the level of decision-making authority. Positions with broad decision-making authority disclose more interests than those with limited discretion. Category 1 designees, governing board members, superintendent of schools, and principals disclose the following:

- a. Interests in real property located entirely or partly within district boundaries, or within two miles of district boundaries, or of any land owned or used by the district.
- b. Investments or business positions in or income from sources which are engaged in the acquisition or disposal of real property within the district, are contractors or subcontractors which are or have been within the past two years engaged in work or services of the type used by the district, or manufacture or sell supplies, books, machinery, or equipment of the type used by the district.

Category 2 designees, encompassing all other designated positions, disclose the following:

- a. Investments or business positions in or income from sources which are contractors or subcontractors engaged in work or services of the type used by the department which the designated person manages or directs.
- b. Investments or business positions in or income from sources which manufacture or sell supplies, books, machinery, or equipment of the type used by the department which the designated person manages or directs. For the purposes of this category, a principal's department is his/her entire school.

Both categories are specific to reporting interests in real property, investments, business positions, or manufacture/sale incomes, but do not prohibit the hiring of family members in the district.

The chief business official, business manager and/or other senior business office staff are not included on the designated employee list. Such positions are generally included as designated employees for Category 1. For FCMAT's purposes of analyzing the district's compliance with the Form 700 filing provisions within the PRA, purchasing agent and supervisor roles were considered applicable to the district's business manager position since the incumbent fulfills those roles in addition to other traditional business office roles. This is also true of the business services

consultant who regularly works to fulfill these roles and serves in the questionable dual role of employee and consultant, and of the school operations officer.

According 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 the district. FCMAT requested all filed Form 700s for the district for 2013 through 2016. Additionally, FCMAT requested all Form 700s filed by the district with the clerk of the Fresno County Board of Supervisors. Form 700 includes 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, nongovernmental 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.

FCMAT's review of the district's Statements of Economic Interests filings demonstrates a lack of attention to this important area of public policy and a disregard of existing state law and transparency to the public. The review of 31 filed forms revealed numerous Form 700s for governing board members and superintendent/principals that were not filed as required by state law and the district's own board bylaws. Some of the 31 forms reviewed had multiple deficiencies, and only two had none. A summary of the deficiencies indicate the following:

- Sixteen forms were filed late, including one filed nine months late.
- Twelve forms were obtained from the reviewing body and either not provided by the district or the final form filed was not provided by the district.
- Eleven forms were incomplete, and six of the 11 were updated after the filer was contacted by the reviewing body and asked to correct deficiencies.
- Two forms for 2016 recently filed were filed on the wrong form, Form 700-A for auditors and other financial consultants, and one of the two was filed by an experienced filer serving as interim superintendent.

Furthermore, several additional Form 700s should have been available for review but could not be obtained from the district or reviewing body. Based on FCMAT's review, additional district Form 700 filings that should have been required and were not available for review included the following:

- Filings including assuming office and annual for all applicable years of the business manager, school operations officer, and the business services consultant
- Filings including assuming office, annual and/or leaving office for some years for superintendent/principal, interim or acting superintendent/principal and governing board members

FCMAT inquired about several of these inaccessible forms and was informed that despite the requirements of state law or the board bylaws, these forms were not filed.

The district conflict-of-interest code, BB 9270, along with Government Code Section 87306.5, states the following:

Upon direction by the code reviewing body, the Board shall review the district's conflict of interest code in even-numbered years. If no change in the code is required, the district shall submit by October 1 a written statement to that effect to the code reviewing body. If a change in the code is necessitated by changed circumstances, the district shall submit an amended code to the code reviewing body.

According to the Clerk of the Fresno County Board of Supervisors, the district filed a 2016 biennial notice dated October 2, 2016 as required. However, despite the certification that the conflict-of-interest code was reviewed, and that the district acknowledges amendments are required to include new positions on the designated employee list, changes to align the designated employee list to be reflective of the current organization were still not made. Furthermore, the Clerk of the Fresno County Board of Supervisors has on file a conflict-of-interest code for the district dated October 7, 2013, which differs in format and content from the conflict-of-interest code dated 2007 that the district provided to FCMAT for review.

The district Conflict of Interest code, BB 9270, states the following:

Board members and designated employees shall not be financially interested in any contract made by the Board or in any contract they make in their capacity as Board members or designated employees.

FCMAT's review of district transactions, contracts, and other available documents did not indicate that the board members had a material economic interest in real property, investments, business positions, or manufacture/sale incomes sufficient to represent a conflict of interest. Additionally, review of payment warrants July 1, 2013 through 2016 found no evidence to indicate that any district administrator or governing board members were paid as independent contractors/consultants.

California Code of Regulations, Title 2, Division 6, Chapter 7, Article 2, Section 18730, Provisions of Conflict of Interest Codes, indicate the following:

(9) Section 9. Disqualification.

No designated employee shall make, participate in making, or in any way attempt to use his or her official position to influence the making of any governmental decision which he or she knows or has reason to know will have a reasonably foreseeable material financial effect, distinguishable from its effect on the public generally, on the official or a member of his or her immediate family... (*Emphasis added*)

Information provided to FCMAT during interviews of current and former governing board members and employees repeatedly referenced the hiring of employees and the retention of contractors/vendors from parties with close personal connections to at least one current board member, former superintendents and/or staff.

Relationships identified by FCMAT include the following

- Books, Leadership, Parent training, and Writing workshops (BLPW) Consultants initially valued at \$80,000 (instructor, reportedly brother-in-law married to board member's sister and god father to board member's grandchildren)
- Pacific Rim Business Solutions (mother of business manager)
- Hi-Tech Carpet & Tile (son of fiscal consultant/brother of business manager)
- Maguel Navaretta –Landscape contract (close personal friend of board member)
- South County Support Services Agency (questionable personal connection between service representative and former superintendent)

Elections

Along with payment transactions, FCMAT also reviewed campaign finance reports and statements of economic interest filed by candidates for the district's board of education. The information reviewed was obtained from the online CampaignDocs eRetrieval system supported by the Fresno County Clerk and Registrar of Voters <https://campaigndocs.co.fresno.ca.us/CampaignDocsWebRetrieval/>.

Information was searched using the candidate's name and jurisdiction. Additionally, a review was made of committees formed to support or oppose one or more candidates. This initial review was completed to determine if any candidates or committees reported campaign donations from parties included in the warrant payment export files. Only short-form officeholder and candidate campaign statements (FPPC Form 470) were discovered, none of which reported any campaign finance activity.

During interviews of current board members, FCMAT asked how campaigns were operated and what activities, including fund raising activities, were conducted as part of a candidate's campaign. Answers were consistent with the candidate campaign statements filed, which indicated that the campaigns were grass-root efforts with no formal committee structure and no financial activity.

During FCMAT's interviews, more than one party indicated that they believed voter fraud existed during the April 2016 recall election and November 2016 regular election for district board seats. Voter fraud is outside of FCMAT's expertise and scope of review. FCMAT notified the Fresno County District Attorney's Office of the allegations and passed along information provided to FCMAT.

AB 139 Extraordinary Audit Report Summary: Potential Fraud

Reports obtained during FCMAT interviews and a review of documentation provide reasonable indication that occupational fraud including asset misappropriation and corruption may have occurred during the period under FCMAT's review.

Examples identified that raise questions include the following:

- Missing assets purchased by one or more employees of the district that cannot be accounted for including camera equipment, gym equipment, computers and other technology equipment. These examples may also be classified as a purchasing scheme and may also include collusion with a technology support vendor.
- Development of new position and the appearance of favored employment.
- Consultant agreements with contractors or vendors who have close personal ties to board members and/or administration.
- Significant contracts for projects and/or services defined by board resolution as *emergency* that may otherwise have required bids.

Fraudulent reimbursement and expense schemes include mischaracterized expense schemes, which occur when an employee requests reimbursement or payment for personal expenses claiming them to be business related, and overstated or fictitious expenses. Examples identified that raise questions include the following:

- Expenditure of funds for pest control services for personal residence of former superintendent.
- Expenditure of funds for nonbusiness related meals and community events.
- Unsubstantiated travel advances.
- Unsubstantiated travel and expense reimbursements, many processed through the revolving fund.
- Potential duplicate reimbursement claims for travel expenses incurred in 2011 processed in 2013, same invoice/receipt documentation found with reimbursement request forms dated in 2011.

Based on the findings in this report, sufficient evidence exists to demonstrate that fraud, misappropriation of funds and/or assets or other illegal activities may have occurred in the specific areas reviewed. Deficiencies and exceptions noted during FCMAT's review of the financial records and the district's internal control environment increase the probability of fraud, mismanagement and/or misappropriation. These findings should be of great concern to the Raisin City Elementary School District and the Fresno County Superintendent of Schools. These conditions and related findings require immediate intervention to limit the risk of fraud, mismanagement and/or misappropriation of assets or other illegal activities in the future.

The existence of fraud is solely the purview of the courts and juries, and FCMAT will not make statements that could be construed as a conclusion that fraud has occurred. In accordance with Education Code Section 42638(b):

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 district governing board at a regularly scheduled board meeting within 45 days of completing the review, audit or examination". The district governing board shall notify the county superintendent within 15 days after receipt of the report of its proposed actions regarding the county superintendent's recommendations.

Recommendations

The county superintendent should:

1. Notify the governing board of the Raisin City Elementary School District, 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 FCSS has concluded its review.
2. Monitor the district's compliance with the recommendations to the district stated below.

The district should:

3. Account for; update, routinely review and enforce all established board policy and administrative regulations. Establish policies and administrative regulations where lacking. Ensure adoption and revision dates are incorporated to each policy and administrative regulation. If a subscription based service is used to manage policies, ensure each policy is properly modified to incorporate detail specific to the district.
4. Establish and consistently apply in practice formal written operational procedures to initiate, approve, carry out, record and reconcile transactions. Procedures should identify the positions responsible for each step and the time period for completion. For each process, ensure roles and responsibilities are properly segregated to ensure an adequate system of checks and balance is established. Procedures should clearly define the requirements of each process, detail documentation and establish the sequence of each requirement. Immediate areas of focus should concentrate on the following:
 - a. Procurement/Purchasing
 - b. Contracts
 - c. Disbursements/Accounts Payable
 - d. Cash Receipts

- e. Bank Reconciliations
 - f. Asset Management/Inventory
 - g. Fundraising and Associate Student Body
 - h. Credit Card Use
 - i. Revolving Fund
 - j. Travel and Conference
5. Develop and consistently apply in practice detailed standard operational procedures for each process that demonstrates how each task is completed. Maintain operational procedures in desk reference manuals, or electronic library. Routinely review and update operational procedures and include revision dates on each.
 6. Make certain that procurement procedures accomplish the following:
 - Ensure the district obtains the most qualified services at the lowest price.
 - Incorporate details on bid limitation requirements to ensure the district complies with California Public Contract Code (PCC)
 - Incorporate language that ensures verification that contractors are properly licensed and insured prior to executing agreements and as part of the bid processes
 - Identify authorization authority and delegations of authority, if any.
 - Require detailed vendor invoices and receipts for all authorized expenditures and reimbursements.
 7. Ensure procurement and disbursement/accounts payable procedures document steps for merchandise receiving.
 8. Ensure inventories are routinely updated to account for new purchases and obsolete or discarded items. Employee(s) assigned responsibility for these duties should be adequately trained.
 9. Require advanced authorization for all travel and conference through the completion of standardized travel request/authorization forms. Employees should be required to certify and demonstrate actual attendance and related/claimed expenditures. If authorized by the governing board, travel advances should be used only when absolutely necessary and should be substantiated with supporting documentation subsequent to travel.
 10. Adopt and consistently implement comprehensive travel/conference policies that contain provision for inclusion of conference brochures/schedules, per diem rates consistent with IRS guidelines, timelines 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. Routinely review and update established rates.

11. Ensure all employee reimbursements are documented on a standardized form that provides description of business purpose and includes mileage detail that identifies point of departure, point of return and total mileage claimed. Procedures for reimbursements should describe the hierarchy for payment authorization authority.
12. Ensure that disbursements for meal per diem and/or mileage comply with state and federal law.
13. Discontinue the use of revolving fund as a clearing account. If necessary, establish a formal clearing account for cash collections and distribution to official fund accounts managed at the county treasurer's office.
14. Ensure the revolving fund is not used to bypass established procurement procedures.
15. Discontinue using the revolving fund for travel and conference advances and employee reimbursements.
16. Reconcile the revolving fund to the established imprest amount monthly.
17. Develop an expenditure plan for the ASB account balance that benefits the district students and is beyond what is required of the district.
18. Ensure adequate procedures are developed that ensure accountability for all student fundraising activities; a specific fundraising purpose and expenditure plan approved in advance for each student fundraising activity should be required.
19. Ensure all payments to independent contractors and employees are processed in compliance with state and federal law and any relative retirement law or regulation.
20. Work with legal counsel and an independent auditor to determine if the amounts paid to the fiscal consultant and Pacific Rim Financial Business Solutions in 2012 through present have been and continue to be accounted for and reported in compliance with all laws and regulations including the IRS, Employment Development Department (EDD), and CALPERS.
21. Provide training to all board members to better establish the understanding of their collective role and responsibilities for district governance and the requirements of the Ralph M. Brown Act.
22. Ensure board agendas are properly prepared and posted in compliance with the Ralph M. Brown Act.
23. Ensure board minutes are properly prepared, summarizing the actions of the governing board with an appropriate level of clarity and detail, and approved at each subsequent board meeting.
24. Require its executive management staff and filing officer to undergo appropriate training regarding the requirements of the Political Reform Act.

25. Require its governing board to update the appendix of designated positions to Board Bylaw 9720 Conflict of Interest that includes the chief business official, business manager and/or other senior business office staff.
26. Ensure all governing board members and designated employees are trained and comply with the provisions of Fair Political Practices Commission Form 700 – Statement of Economic Interests – consistent with the revised Board Bylaws 9270 – Conflict of Interest.
27. Ensure employees are properly qualified for assigned positions and receive routine training to ensure skill levels are maintained.
28. Develop, implement and monitor a fraud risk assessments and prevention program.
29. Report to the county superintendent regarding compliance with items 1-30 above.

Appendix

A. Study Agreement

Appendix A: Study Agreement



CSIS California School Information Services

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM AB139 STUDY AGREEMENT October 21, 2016

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

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

2. SCOPE OF THE WORK

- A. The Fresno County Superintendent of Schools has requested that the team 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 Raisin City Elementary School District (hereinafter referred to as District) regarding expenditures and internal controls that merit examination.

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.

The team will review and test transactions from July 1, 2013 through September 30, 2016. Sample 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 purchasing and accounts payable 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. This will include but not be limited to: revolving fund use, district travel and contracts.
2. Evaluate the reliability and integrity of information used for internal management decisions.
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 finance, purchasing and accounts payable.
 - 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.

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 office school site 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. Exit Meeting – The team will hold an exit meeting at the conclusion of the on-site review to inform the County Superintendent of any significant findings to that point.
5. Draft Report – 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.
6. 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.
7. 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 Michael H. Fine, Chief Administrative Officer, Fiscal Crisis and Management Assistance Team, Kern County Superintendent of Schools Office. The study team may also include:

- | | | |
|----|------------------------|-------------------------------|
| A. | Julie Auvil, CPA, CGMA | FCMAT Intervention Specialist |
| B. | To Be Determined | FCMAT Consultant |
| C. | To Be Determined | FCMAT Consultant |

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

4. PROJECT COSTS

The cost for studies requested pursuant to EC 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 for all work performed.

- 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 \$38,000.

- 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 AND/OR DISTRICT

- A. The County Superintendent and/or District will provide office and conference room space during on-site reviews.
- B. The County Superintendent and/or District 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 and/or completion date of the project. Upon approval of the signed study agreement, access will be provided to FCMAT's online SharePoint document repository where the district shall upload all requested documents.
- C. The 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 and/or district shall take appropriate steps to comply with EC 45125.1(c).

6. PROJECT SCHEDULE

The following schedule outlines the planned completion dates for different phases of the study and will be established upon the receipt of a signed study agreement:

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

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

FCMAT will begin work as soon as it has assembled an available and appropriate study team consisting of FCMAT staff and independent consultants, taking into consideration other jobs FCMAT has previously undertaken and assignments from the state. The team will work expeditiously to complete its work and deliver its report, subject to the cooperation of the district and any other parties from which, in the team's judgment, it must obtain information. Once the team has completed its fieldwork, it will proceed to prepare a preliminary draft report and a final report. 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 of 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 Fresno County Superintendent of Schools named as additional insured, indicating applicable insurance coverages upon request.

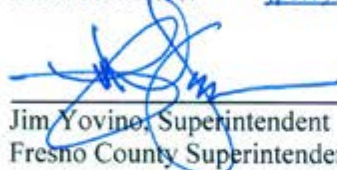
10. **HOLD HARMLESS**

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



Jim Yovino, Superintendent
Fresno County Superintendent of Schools

10/25/16

Date



Michael H. Fine
Chief Administrative Officer
Fiscal Crisis & Management Assistance Team

October 21, 2016

Date