

November 20, 2018

Michele Huntoon, Superintendent
Aromas-San Juan Unified School District
2300 San Juan Highway
San Juan Bautista, CA 95045

Dear Superintendent Huntoon:

The purpose of this letter is to provide the findings and recommendations identified by the Fiscal Crisis and Management Assistance Team (FCMAT) following completion of fieldwork for the district's Associated Student Body (ASB) and booster clubs.

On July 12, 2018, FCMAT and the district entered into an agreement for training and on-site technical assistance regarding ASB and booster club policies and procedures. The study agreement specifies that FCMAT will complete the following scope of work:

1. One-day training of all district site leaders, activity directors, athletic directors, ASB clerks/bookkeepers, and district staff who deal directly with ASB and/or booster club procedures, and overall rules and regulations.
2. Two days of on-site technical assistance regarding ASB and booster club policies and procedures.

The FCMAT team visited the district on August 22-23, 2018 to present an ASB workshop, review district board policies and procedures, conduct interviews, collect data and review documents. Following fieldwork, district personnel continued to provide additional documents as requested by the team.

Introduction

Aromas-San Juan Unified School District has two K-8 schools and one high school with approximately 1,100 students. The district office is located in the historic town of San Juan Bautista in San Benito County, approximately 60 miles south of Silicon Valley. The district serves students from San Benito county and portions of northern Monterey and eastern Santa Cruz counties.

Following a letter from the district's independent auditors regarding several notable ASB findings at Anzar High School, the district requested that FCMAT present a districtwide ASB workshop, review board policies and provide general assistance to school site personnel.

The ASB workshop was conducted on August 22, 2018. Staff from each K-8 school and the high school were invited to attend. While several district employees from the two K-8 school sites attended, the high school principal, athletic director and ASB certificated adviser did not attend this training. In attendance

FCMAT

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was the new school secretary, who will be trained to process ASB transactions sent from the high school to the district office.

The next day, FCMAT visited the high school and interviewed both the principal and athletic director to obtain a better understanding of current ASB processes and procedures. Because the school year had just started, FCMAT was unable to observe cash handling for gate collections, deposit detail or current year student council minutes. Instead, FCMAT reviewed a sample deposit with supporting documents; check requests by boosters' club for transportation expenditures; correspondence from the high school principal; master fundraising activity list; student council approval of recent blanket purchase order to the athletic director; and the purchase reimbursement requests from the athletic director over the last several months.

Discussions revealed that the core bookkeeping function was moved to the district office several years ago. The current process is as follows:

1. Each of the three school sites has access to Blue Bear software to record student fees and print receipts.
2. All cash and checks are remitted to the district office for deposit.
3. The district office personnel have full access to the Blue Bear software at each school site.
4. The district's Business Office processes requests for vendor or reimbursement checks, and records expenditure transactions, using the Blue Bear software.
5. Vendor checks are sent directly to vendors, and a confirming report is sent to the school site.
6. A system report showing all transactions is sent to the school site.
7. An Excel spreadsheet is used to record financial transactions at the district office, providing a secondary record of activity.

This letter will describe several notable departures from best practices that were confirmed during interviews with the high school administration and subsequent documents provided by the district.

The primary focus of this review is to provide recommendations regarding operational procedures that should be implemented and monitored to ensure that district schools that operate ASBs are efficient and effective, and that an established system of internal controls exists to adequately prevent, discourage and detect fraud and safeguard district assets.

While booster club activities are nonstudent organizations established to support district students, they are separate legal entities. Booster clubs can raise funds and donate funds to purchase items but do not operate under the control of the school site administrator, superintendent or the governing board. Once funds are donated to the ASB, the student council decides how to use the funds following district policy and applicable laws and regulations.

Guidelines defined in board policy and administrative regulations should be developed and approved by the governing board for any group operating a booster club to follow certain statutory requirements defined in Education Code Sections 51520-51521. This will be discussed more fully later in this letter.

Guidance and recommendations for ASB accounting and management can be found in FCMAT's comprehensive ASB manual titled, *Associated Student Body Accounting Manual, Fraud Prevention Guide and Desk Reference*, which can be downloaded here:

<http://fcmat.org/2015-asb-accounting-manual-fraud-prevention-guide-and-desk-reference/>

Best practice for student body activity fund accounting is to ensure that transactions have proper authorization by the student council and are recorded timely and accurately to allow for the preparation of meaningful financial reporting; that orders for materials, supplies and contracts are processed timely and efficiently; and that vendors are paid timely. The accounting system should have appropriate levels of internal controls to prevent and detect errors, including controls for cash handling, receipting and depositing revenue collections.

Local education agencies (LEAs) are bound by purchasing laws found in sections of the Education Code, Public Contract Code, Government Code and California Code of Regulations. Board policies, administrative regulations, purchasing manuals and handbooks complement these statutes and regulations by providing guidance to staff and further defining the purchasing process.

The district has provided guidance and resources to the high school principal, yet the high school does not meet the following standards and best practices for student body fund accounting, internal controls, oversight or management, and it should implement the recommendations provided in this letter.

Professional and Legal Standards for Financial Management

FCMAT has developed an extensive list of financial management standards for LEAs. These downloadable standards encompass each facet of business operations, including ASB accounting, and provide professional and legal standards for best practices and the implementation of strong internal controls throughout all facets of the business services division.

District management can view a complete list of the standards (beginning on page 20 for financial management standards) at:

<http://fcmat.org/wp-content/uploads/sites/4/2014/02/FCMATStandards2009.pdf>

Professional and legal standards that relate to the district's study objectives include the following:

1.1 – PROFESSIONAL STANDARD – INTERNAL CONTROL ENVIRONMENT

All governing board members and management personnel set the tone and establish the environment, exhibiting high integrity and ethical values in carrying out their responsibilities and directing the work of others. Appropriate measures are implemented to discourage and detect fraud. (State Audit Standard (SAS) 55, SAS 78, SAS 82: Treadway Commission)

1.2 – PROFESSIONAL STANDARD – INTERNAL CONTROL ENVIRONMENT

The LEA has an internal audit committee to: (1) prevent internal controls from being overridden by management; (2) ensure ongoing state and federal compliance; (3) provide assurance to management that the internal control system is sound; and (4) identify and correct inefficient processes. In addition, the LEA has formal policies and procedures that provide a mechanism for individuals to report illegal acts and provide a formal investigative process. (SAS-55, SAS-78)

1.3 – PROFESSIONAL STANDARD – INTERNAL CONTROL ENVIRONMENT

The organizational structure clearly identifies key areas of authority and responsibility. Reporting lines in each area are clearly identified and logical. (SAS-55, SAS-78)

11.1 – LEGAL STANDARD – STUDENT BODY FUNDS

The Governing board adopts board policies, regulations and procedures to establish parameters on how student body organizations will be established, and how they will be operated, audited and managed. These policies and regulations are clearly developed and written to ensure compliance regarding how student body organizations deposit, invest, spend, and raise funds. (EC 48930- 48938)

11.3 – LEGAL STANDARD – STUDENT BODY FUNDS

The LEA provides annual training and ongoing guidance to site and LEA personnel on the policies and procedures governing Associated Student Body accounts. Internal controls are part of the training and guidance, ensuring that any findings in the internal audits or independent annual audits are discussed and addressed so they do not recur.

Associated Student Body

Student organizations are established for the primary purpose of raising funds and spending these funds on current students of the school. Activities associated with fundraising and expenditures teach students principles of leadership and business development while improving the educational experience for all students involved.

ASB organizations at high schools raise significant amounts of money; therefore, it is important for district and site administrators to ensure that generally accepted accounting principles and internal controls are in place.

Successful ASB organizations exhibit best practice attributes including:

- Comprehensive board policies and administrative regulations
- Procedures, processes and handbooks available for those directly involved with ASB activities
- Annual training
- Dedicated software
- Periodic internal audits
- Business office support and oversight
- Good communication between the school sites involved with ASB and business office personnel
- Adequate levels of internal controls including segregation of duties

As previously mentioned, the ASB accounting function is conducted at the district's Business Office. Once accounting transactions are processed at the district office, a financial report is sent to the school from the Blue Bear software program each month. This process creates long timelines for ASB club advisers and students to receive information about the financial status of club accounts and duplicates the accounting work.

According to interviews with the athletic director and high school principal, 13 sports are included in the athletic account, which is managed solely by the principal whereas all other ASB club accounts are managed by a certificated adviser. This is a violation of proper internal controls and best practices according to Education Code 48933, which requires ASB funds be spent with the approval of an employee or official of the school district designated by the governing board, the certificated ASB adviser, and a student representative of the ASB organization.

The principal uses manual tally sheets with prenumbered tickets for sporting events. The beginning and ending ticket stubs are stapled to the cash reconciliation sheet. According to the principal, cash collections are placed in the safe overnight and sent to the business office the next business day for posting to the general ledger and deposit into the ASB bank account. However, deposit documents presented by the district office show deposits several days after the receipt of checks and/or the initial event. FCMAT did not receive sufficient information to verify whether separation of duties exists for cash collections and reconciliations of deposited monies.

The athletic director is a part-time noncertificated employee who is also active in the boosters' club. According to his interview, he does not attend student council meetings. Instead, the principal is the certificated adviser over the athletic accounts. Education Code section 48933 (b) states that the expenditure of funds shall adhere to the following and comprise the approval of three employees of the district (Italics added for clarification):

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

The ASB adviser must be a certificated employee of the school district and other than the board designee. Because the principal is acting as the adviser, he/she cannot also serve as the board designee; therefore, approval of those ASB purchases is not properly authorized per Education Code 48933.

The process to get a check is cumbersome and generally takes several days and sometimes weeks. To avoid this process, the athletic director uses his personal credit card to purchase athletic items, spending between \$5,000 and \$8,000 annually, which is fully reimbursed by the business office once receipts are received.

A new process initiated in 2016-17 requires a budget for each sport. The athletic director did prepare a revenue and expenditure budget for each sport yet continues to use his personal credit card instead of adequate advance planning to ensure the timely receipt of equipment and supplies. Students approve a blanket purchase order for the athletic director to make purchases throughout the year. Following each purchase, receipt(s) are turned in to the business office for reimbursement. Having students approve a blanket purchase order for one individual does not ensure that each purchase is preapproved by the ASB. Best practice would be to ensure ASB approval for each purchase and issue a purchase order for that specific purpose, not to exceed a certain amount. It is also common and best practice for districts to have a board policy that limits the amount of personal reimbursements.

Role of the Principal and Club Adviser

The site principal is ultimately responsible for all activities at the school including ASB. While ASB management functions can be delegated, the principal must ensure staff follow all laws and regulations, students are involved appropriately with decision-making, student council minutes are kept, ASB fundraising activities follow district board policy, laws and regulations, review the bank statement and reconciliation, ensure proper cash handling procedures are in place and more. A complete list of major duties can be found in chapter 2 of FCMAT's ASB manual. The principal should follow best practices outlined in FCMAT's ASB manual to ensure all laws and regulations are followed.

The ASB club adviser is responsible for the general student council and must be a certificated employee. The adviser should be familiar with all laws, regulations and district board policies that affect and govern the operation of the ASB. The adviser should communicate regularly with the site principal on matters related to ASB.

For any sports revenues and expenditures to be accounted for and part of the ASB account, the sport must meet the same ASB club requirements. Each sport may be a separate club with its own constitution, certificated adviser, budget and other required elements, or multiple sports can be organized as one athletics club, with each sport represented in the club. The athletics club must be led by enrolled students. Each sport in the athletics club should elect at least one delegate or commissioner to be a member of the club's student leadership, thus ensuring that each sport is represented. Each sport represented in the athletics club may then be accounted for in the ASB accounting record as a sub-account of the athletics club.

If the athletic director of the school is a certificated employee of the district, the athletic director may serve as club adviser. All athletic accounts that are included in ASB should operate in accordance with laws and regulations that govern ASB management and financial activities, including student governance and oversight by a certificated adviser.

All three schools use Blue Bear software at their respective school sites; however, the school sites can only access the Tracks menu to record student receipts. The district office personnel have access to the SchoolBooks section of software, which allows input for expenditures. The process for receipts and expenditures is as follows:

Receipting:

1. ASB bookkeepers at the school sites accept student payments, which are recorded in the Blue Bear software. This allows the bookkeeper to print a receipt for the student.
2. Each day, the bookkeeper prepares a close-out report and locks the cash and checks in a safe at the school site.
3. Each Friday, cash and checks are sent to the district office for depositing. The district office personnel input the information in SchoolBooks.
4. Following a reconciliation process and deposit, the district office provides an encumbrance report to each school site. This report shows income and expenditure activity by club account.
5. The district office also records all transactions in a separate Excel ledger.

Expenditures:

1. Clubs must approve a check request form modeled after the FCMAT form included in the ASB Manual.
2. Following student approval, the form is sent to the district office for the business manager's approval and signature.
3. The district office personnel prepare a check for the superintendent's signature, and the check is then sent directly to the vendor. Confirmation of this transaction is sent to the school site along with an updated SchoolBooks report.

Based on FCMAT's limited review and interviews with staff, the high school ASB lacks a defined structure and does not adhere to best practices. Examples include:

- The principal managing and segregating ASB athletic accounts from the other ASB clubs.
- No segregation of duties exists when the principal is collecting cash at sporting events and preparing the cash reconciliation for transfer to the district office.
- Use of personal credit cards by the athletic director to circumvent the purchasing process for athletic purchases.
- Until recently, the athletic director did not obtain an approved blanket purchase order from the student council in advance of the school year for athletic purchases for the entire year. Blanket purchase orders should be in keeping with a district's board policy.
- Duplication of work by inputting accounting entries prepared by the Business Office into an Excel workbook.
- Noncertificated staff member is serving as the athletic director; therefore, the athletic director cannot be the club adviser.
- Students are not preapproving expenditures. Instead students, with principal authorization, are approving one annual open blanket purchase order to the athletic director instead of individual named vendors.

The district should provide a defined structure and oversight for ASB operations at the high school including but not limited to enhanced board policies, administrative regulations and handbooks that detail the responsibilities for the superintendent, business office, site principal, club adviser(s) and ASB bookkeeper/secretary. When doing so, the district should follow the comprehensive guidelines detailed in the most recent FCMAT ASB manual.

Booster Club Organizations

A booster club is an auxiliary organization that operates outside of the district's control. Generally, a booster club is composed of a group of parents and other citizens whose purpose is to raise additional funds to augment student fundraisers and district support. Booster clubs are popular with high school athletic programs and serve an important purpose in connecting the community with the school and raising money for equipment and transportation.

While booster clubs are considered "school connected," there must be clear separation between the operations of an ASB and the booster club in all aspects including financial activity and supervision. Auxiliary organizations such as booster clubs must meet certain statutory regulations codified in the Education Code, Penal Code and Internal Revenue Code and put forth by the Franchise Tax Board (if formed as a nonprofit organization).

The district may accept donations from booster clubs based on board policy. These funds are then under the control of the district and students to direct how they shall be spent. The district should never accept a donation on behalf of a booster club or cause these funds to be funneled through the ASB bank accounts. The district should ensure that donations received by ASB are not passed through to the booster accounts.

The boosters' club seeks donations for the cost of transporting students to sporting events, and the club contracts directly with the transportation company to provide the transportation itinerary. The boosters'

club sends an invoice to the high school ASB to request payment but does not provide an invoice from the transportation company. The district provided documents that show the ASB's payments to the boosters' club for outside transportation services are not supported by invoices from the transportation company. All payments from the ASB requires supporting documentation. All student services should be contracted through the district. Donations received by the boosters' club should be sent to the ASB for proper recording, and the invoice for services rendered should be paid through the ASB directly to the transportation company.

Education Code Section 51521 requires any organization that conducts fundraising for the benefit of students to have prior approval of the governing board or board designee. At a minimum, the governing board should provide policies and regulations that require booster organizations to file an application to form a booster club by submitting that application to the governing board for consideration.

In accordance with Education Code Section 51521, the governing board, or board designee, must give prior written approval to any person "to contribute to any fund or to purchase any item of personal property, upon the representation that the money received is to be used wholly or in part for the benefit of any public school or the student body of any public school."

The application should include a plan of fundraising activities, a budget for each activity and annual financial statements. A comprehensive list of FCMAT recommendations can be found in Chapter 21 of the ASB manual.

Internal Controls and Annual Audits

Internal controls provide the foundation for sound financial management and help organizations obtain timely and reliable financial reports and ensure compliance with applicable laws and regulations. Internal controls include policies, procedures, checks and balances to ensure that financial information is reliable.

Employees with administrative responsibility have a fiduciary duty to the organization in the course of their employment to ensure that activities are conducted in compliance with all applicable board policies, laws, regulations, and standards of conduct.

Internal controls are important to protect the organization from fraud or misappropriation of funds. Management personnel are entrusted to safeguard assets and ensure that internal controls function as intended. Therefore, internal controls should:

- Provide assurance to management and the governing board that the internal controls are operating as intended
- Ensure ongoing compliance with state and federal laws and regulations
- Prevent management and other key employees from overriding existing internal controls
- Provide timely notification to management of a material weakness, errors and/or fraud
- Ensure that employees of the organization are aware of internal controls and how to report abuse or possible misappropriation of assets

The governing board is ultimately responsible for all district operations including ASB. The financial transactions of the ASB are included in the annual independent audit. Audit findings must be presented to the governing board with a district response for resolution by established timelines in Education Code.

In a letter from the district's independent auditor, testing revealed several weaknesses in ASB internal controls at the high school. Notable are multiple findings during auditor testing for cash disbursements

and cash receipts, the results of which will be evaluated by the auditor for materiality at the conclusion of the audit work.

The findings for Anzar high school include:

- Five of ten cash disbursements that lack proper approval
- Five of ten deposits that lack sufficient supporting documentation to verify that all of the cash was deposited
- Student council minutes that were inadequate

These findings should be of great concern to the superintendent and governing board and require immediate intervention to prevent opportunities for fraud or misappropriation of funds.

Board Policies

Board policies and administrative regulations provide guidance to staff. It is the responsibility of district management to ensure that district policies and regulations are updated frequently and reviewed by management regularly. The California School Boards Association provides an online subscription service, GAMUT, for policy updates five times each year. The district has a current subscription and receives GAMUT releases of board policies and administrative regulations regularly; however, not all updates to the district's policies include the latest changes in law.

For example, Board Policy 3452 – Student Activity Funds was last updated in 2007 according to board policies posted on the district's website. A best practice is to review, and if needed, update, board policies at least annually to ensure that any changes in legislation are properly reflected.

Below are excerpts of district Board Policy 3452 related to student body activity and internal control.

BP 3452 – Student Activity Funds – Adopted: October 3, 2007

- Each principal or designee shall submit to the Superintendent or designee a list of the fundraising events that each student organization proposes to hold that year.
- The Superintendent or designee shall review the proposed events and determine whether the events contribute to the educational experience and are not in conflict with or detract from the school's educational program.
- Student body funds shall be managed in accordance with law and sound business procedures designed to encourage the largest possible educational return to students without sacrificing the security of funds.
- The Superintendent or designee shall develop internal control procedures to safeguard the organization's assets, promote the success of fundraising ventures, provide reliable financial information, and reduce the risk of fraud and abuse. These procedures shall detail the oversight of activities and funds including, but not limited to, the appropriate role and provision of training for staff and students, parameters for events on campus, appropriate and prohibited uses of funds, and accounting and record-keeping processes, including procedures for handling questionable expenditures.
- The principal or designee shall be responsible for the proper conduct of all student organization financial activities. The budget adopted by the student body organization should serve as the financial plan for the school year and shall be submitted to the Superintendent or designee at the beginning of each school year. The Superintendent or

designee shall periodically review the organization's use of funds to ensure compliance with the district's internal control procedures.

- Funds derived from the student body shall be disbursed according to procedures established by the student organization. All disbursements must be approved in accordance with Education Code 48933.

This policy sets the tone and provides the foundation for student body activity funds and related internal controls.

A review of district board policies revealed that the district has not implemented several other policies that can strengthen internal controls and provide more financial accountability. It is recommended that the district adopt board policies 3314 – Payment for Goods and Services and 3460 – Financial Reports and Accountability to strengthen internal controls and financial accountability guidelines. The following excerpts are included in these policies:

BP 3314 – Payment for Goods and Services

- The Governing Board recognizes the importance of developing a system of internal control procedures in order to help fulfill its obligation to monitor and safeguard District resources.
- To facilitate warrant processing, the Superintendent or designee shall ensure that purchasing, receiving, and payment functions are kept separate ... shall also ensure that invoices are paid expeditiously so that the District may, to the extent possible, take advantage of available discounts and avoid finance charges.
- The Superintendent or designee ... shall ensure that warrants have appropriate documentary support verifying that all goods and services to be paid for have been delivered or rendered in accordance with the purchase agreement.
- The District shall not be responsible for unauthorized purchases.

BP 3460 – Financial Reports and Accountability

- The Governing Board is committed to ensuring public accountability and the fiscal health of the District.
- The Board shall adopt sound fiscal policies, oversee the District's financial condition, and continually evaluate whether the District's budget and financial operations support the District's goals for student achievement.
- The Superintendent or designee shall ensure that all financial reports are prepared in accordance with law and in conformity with generally accepted accounting principles and financial reporting standards ... shall establish a system of ongoing internal controls to ensure the reliability of financial reporting.
- The Board shall regularly communicate the District's financial position to the public and shall use financial reports to determine what actions and budget amendments, if any, are needed to ensure the District's financial stability.

When board policies and/or administrative regulations are updated, the superintendent or superintendent's designee should ensure proper communication to all staff involved with ASBs. This can also be a component of the annual training event.

Recommendations

The district should:

1. Ensure that all athletic accounts that are included in ASB operate in accordance with laws and regulations that govern ASB management and financial activities, including student governance and oversight by a certificated adviser.
2. Ensure that the principal follows best practices outlined in FCMAT's ASB manual to ensure all laws and regulations are followed.
3. Ensure that any personal reimbursements to individuals for ASB expenses have been preapproved by the ASB for specific purposes and include a not-to-exceed amount. Discontinue the practice of the ASB approving an open purchase order for an individual for an entire school year.
4. Provide a defined structure and oversight for ASB operations at the high school including but not limited to enhanced board policies and administrative regulations that detail the responsibilities for all personnel involved with the ASB function.
5. Update its policies, procedures and other guiding documents in accordance with the guidelines in FCMAT's ASB manual, and ensure they are followed.
6. Ensure that donations received by ASB are not passed through to the booster accounts.
7. Ensure that all student services are contracted through the district and that donations received by the boosters' club are sent to the ASB for proper recording. Ensure that invoices rendered are paid through the ASB directly to the transportation company.
8. Follow guidelines for booster clubs detailed in FCMAT's ASB manual, Chapter 21.
9. Comply with Education Code provisions by ensuring that the governing board approves booster club applications, and ensure that all provisions of Education Code Section 51521 are met.
10. Provide immediate intervention for the audit findings to prevent opportunities for fraud or misappropriation of funds.
11. Implement a calendar that coincides with GAMUT releases to ensure board policies and administrative regulations are updated and reflect the latest regulatory changes in law.
12. Regularly update board policies, and adopt an administrative regulation for Board Policy 3452.
13. Adopt new board policies 3314 and 3460 to strengthen internal control and financial accountability.

FCMAT would like to thank all staff and administrators of the Aromas-San Juan Unified School District for their cooperation during fieldwork. FCMAT appreciates the opportunity to serve the district and hopes this letter is beneficial to all concerned.

Sincerely,

A handwritten signature in black ink, appearing to read "Deborah Deal", written over a horizontal line.

Deborah Deal
Intervention Specialist