



CSIS California School Information Services

Orange County Department of Education

Extraordinary Audit of the Placentia-Yorba Linda Unified School District

May 9, 2019

Michael H. Fine
Chief Executive Officer







CSIS California School Information Services

May 9, 2019

Al Mijares, Ph.D., Superintendent
Orange County Department of Education
200 Kalmus Drive
Costa Mesa, CA 92626

Dear Superintendent Mijares:

In September 2018, the Orange County Department of Education (OCDE) and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for an AB 139 review. The OCDE has received information regarding possible fraud, misappropriation of funds or other illegal fiscal practices at the Placentia-Yorba Linda Unified School District (district). Specifically, the agreement states that FCMAT will perform the following:

1. Test Esperanza High School Associated Student Body recorded transactions for fiscal years 2015-16 through 2017-18 to determine if fraud, misappropriation of funds or other illegal activities may have occurred. Testing for this review will be based on the auditor's judgment and a sample of transactions and records for this period. Testing and review results are intended to provide reasonable, but not absolute certainty about whether the district's financial transactions and activity were sufficiently accurate.
2. The primary focus of this review is to determine, based on the sample testing performed and auditor's judgment, (1) whether any district personnel used Associated Student Body (ASB) funds for non-ASB reasons at Esperanza High School; (2) the extent of any possible fraud, misappropriation of funds or other illegal practice isolated to the testing period, and (3) based on that assessment, whether fraud, misappropriation of funds or other illegal fiscal practices may have occurred.

The attached draft report contains the study team's findings and recommendations.

We appreciate the opportunity to serve you, and we extend thanks to all the staff of the Orange County Department of Education and the Placentia-Yorba Linda Unified School District for their cooperation and assistance during fieldwork.

Sincerely,

Michael H. Fine
Chief Executive Officer

FCMAT

Michael H. Fine, Chief Executive Officer

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About FCMAT

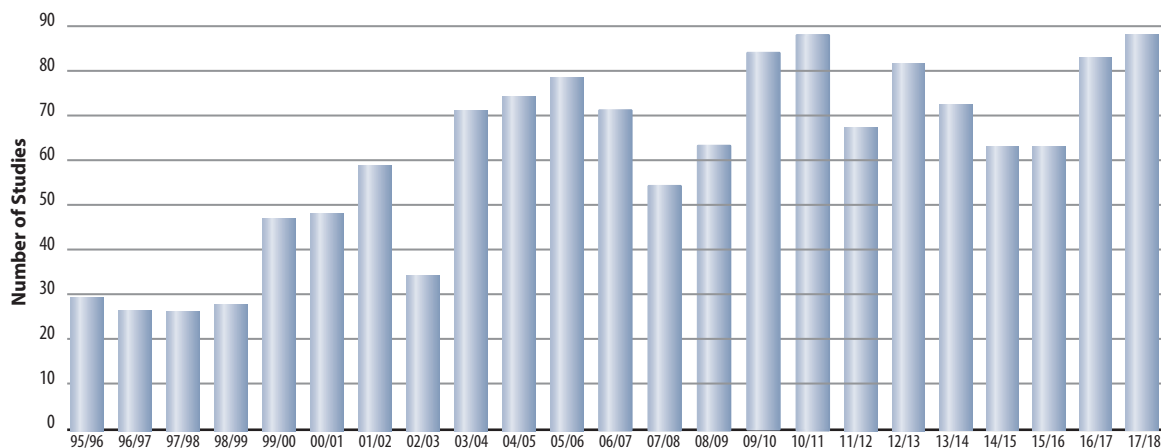
FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related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

On September 17, 2018 AB 1840 was signed into law. This legislation changed the how fiscally insolvent districts are administered once an emergency appropriation has been made, shifting the former state-centric system to be more consistent with the principles of local control, and providing new responsibilities to FCMAT associated with the process.

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 Michael H. Fine, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

Introduction

Background

The Placentia-Yorba Linda Unified School District (district) serves the cities of Placentia and Yorba Linda, as well as portions of Anaheim, Brea and Fullerton, California. District Board Policy 3452 allows for the operation of student organizations and for those student organizations to raise money in the name of the school where the student organization is established. The board designates the school principal or designee to be responsible for the proper conduct of all financial activities of their school's student organizations. Board Policy 5139 governs the activities and financial affairs of student organizations. The district uses the FCMAT *Associated Student Body Accounting Manual, Fraud Prevention Guide and Desk Reference* (ASB Manual) as its primary authority for administering associated student body (ASB) operations.

Chapter 1 of the ASB Manual states,

California law allows students in California's public schools to raise money and make decisions about how they will spend this money. Student organizations established to raise and spend money on behalf of students are called Associated Student Body organizations, or ASBs. ASBs must be made up of current students and be located at the school where the funds are maintained. The funds raised and spent by student organizations are called associated student body funds or ASB funds. In the minds of public school officials, parents and the general public, ASB funds may be thought of as small proceeds from a few bake sales, magazine sales, dances or car washes a year. However, in many cases ASB funds have become big business for student organizations and fund much more than people realize. An ASB at a large high school or a community college may raise millions of dollars a year.

The district has four comprehensive high schools and three alternative education high schools. Comprehensive high school ASBs such as the one at Esperanza High School are considered organized. Chapter 4 of the ASB Manual describes organized ASB organizations as follows:

Organized ASBs normally have individual clubs under the primary student body organization, each with its own focus and organizational requirements. Students in organized ASBs are primarily responsible for their organizations; the student council and student club leaders hold formal meetings, develop budgets, plan fundraisers, decide how the funds will be spent, and approve payments. The students make the decisions and have primary authority over the funds; the school administrators, ASB bookkeeper and club advisor(s) assist, advise and co-approve student decisions.

Clubs are also known as trust accounts because funds are raised by students and are held in trust for the students' use, with advisors co-approving expenditures. Clubs must be composed of students located at that school; must be formed as outlined in the student council ASB constitution and in accordance with the district's governing board's requirements; and students must play a major role in the club.

ASB operations typically have their own separate local bank checking account that is authorized by the business office and that uses the district's federal employer identification number. Every district high school, including Esperanza High School, has its own independent bank checking account. Esperanza High School uses an electronic accounting software system to process checks and deposits, and to account for the transactions of the ASB and all individual clubs.

The individual typically responsible for keeping the books and records of the ASB is the ASB bookkeeper; however, many districts have differing titles for this position. The district's title for the ASB bookkeeper is Student Activities Finance Clerk (finance clerk). This report will use the term finance clerk to mean the bookkeeper. One of the ASB finance clerk's main responsibilities is to uphold laws and district policies and procedures related to ASB funds. The finance clerk processes checks and deposits, reconciles accounts, and is typically among the most knowledgeable about ASB operations, policies and procedures.

The former finance clerk for Esperanza High School started with the district in February 1998 and retired in November 2017. She presented the ASB Finance 101 workshop at the California Association of Directors of Activities (CADA) conference, and according to the district she also attended several of FCMAT's ASB workshops. She was very knowledgeable about and experienced in the laws, rules, regulations, operations, and administration of all aspects of ASB trust fund accounting.

In early June 2018, the Esperanza High School yearbook advisor asked the school's current finance clerk to pay for a \$5,000 ASB yearbook expenditure. The current finance clerk researched yearbook transactions and explained that the yearbook has lost money and the account had a lot of transactions. The yearbook advisor stated that the yearbook does not lose money. The current finance clerk showed the yearbook advisor invoices with his signature; the advisor stated that the signatures displayed were not his. The current finance clerk researched more invoices and found that a former yearbook invoice was the same as one submitted at that time but contained some extra notes. At this point the current finance clerk took this information to the activities director, who is the certificated teacher responsible for ASB.

To further analyze ASB checks, the current finance clerk requested copies of canceled yearbook checks from the bank, because the former finance clerk did not retain any canceled checks. On or about June 13 or 14, 2018, seven copies of yearbook checks and other transactions were received. The current finance clerk noticed that the payee shown on the checks received from the bank did not match the accounting records and discussed this with the activities director. On June 15, 2018, the current finance clerk and the activities director took their findings regarding the canceled checks to the school principal. The same day, the principal contacted the district's human resources department and scheduled a time to meet with the district's business office to determine if they were in agreement about the checks that did not match the accounting records and, if so, to file a police report the following week.

The current finance clerk then set up the ASB bank account for online banking, which enabled her to track and view canceled checks from the last 18 months. The finance clerk also began to compile and compare payees listed on canceled checks to the ASB accounting records, and as a result found more discrepancies. Most of the discrepancies involved checks that cleared the bank and that were written to the former finance clerk, in her name, but recorded in the ASB electronic accounting records as paid to other ASB payees.

Working together, district staff compiled a database of more than 250 potentially irregular checks and took their concerns to the Orange County Department of Education (county office). Based on its review of this evidence, the county office believed there was cause for concern that transactions may have violated various government and education codes related to fraud, misappropriation of funds or other illegal fiscal practices.

In September 2018, under the provisions of Education Code Section 1241.5, FCMAT entered into an agreement with the county office for an Assembly Bill (AB) 139 extraordinary audit to determine if fraud, misappropriation of funds or other illegal fiscal practices may have occurred at the district.

Study and Report Guidelines (AB 139 Audit Authority)

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. This review or audit is known as an AB 139 extraordinary audit, or fraud audit. Education Code Section 42638(b) states that on completion of the fraud audit:

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.

The purpose of a fraud audit is to determine if sufficient evidence exists that fraud, misappropriation of funds, or other illegal fiscal practices may have occurred, and to document the findings for referral to the local district attorney's office and further investigation by law enforcement if needed.

FCMAT focused on the indication that the Esperanza High School ASB accounting system may have been compromised to conceal checks altered by and diverted to the former finance clerk.

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.

Conducting a Fraud Audit

A fraud audit is conducted based on the study team's experience and judgment. Fraud audits have many components including; obtaining and examining available original source documents; corroborating documents and information through third-party sources when possible; interviewing potential witnesses; gaining an understanding of internal controls applicable to the scope of the work; and assessing factors such as intent, capability, opportunity, and possible pressures or motives.

Although there are many different types of fraud, occupational fraud, including asset misappropriation and corruption, is more likely to 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 or intentional false and willful representation(s) of a material fact
- Reliance on weaknesses in the internal control structure, including when an individual relies on the fraudulent information
- Concealment to hide the act or facts
- Damages, loss or injury by the deceived party

Fraud Audit Fieldwork

Fraud audit fieldwork consists of gathering information and documents pertaining to specific allegations; establishing an audit plan, interviewing potential witnesses and assembling evidence from internal and external sources; performing various audit procedures to determine whether fraud may have occurred; evaluating the loss associated with the alleged fraud; and determining who was involved and how it may have occurred. The FCMAT study team's fieldwork took place from September 2018 through February 2019.

The fieldwork focused on determining whether there is sufficient evidence to indicate that fraud, misappropriation of ASB funds, or other illegal fiscal acts may have occurred.

Scope and Procedures

The audit consisted of gathering adequate information specific to the allegations, establishing an audit plan, and performing various audit test procedures to determine whether fraud may have occurred, and if so, evaluating the alleged loss and determining who was involved and how it occurred.

Investigating allegations of fraud requires several steps such as conducting interviews with potential witnesses, management, staff and others, and gathering available evidence from internal and external sources. FCMAT conducted interviews with the district's management and staff, and the former finance clerk. The former finance clerk was represented by her own legal counsel.

FCMAT also reviewed, analyzed and examined available ASB business records; bank statements and canceled checks that cleared the bank; accounting general ledgers; vendor detail reports; board policy and administrative regulations; email correspondence; and other internal documents from the district and independent third-party sources.

Study Team

The FCMAT study team was composed of the following members:

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Bakersfield, CA

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

Fraud, Occupational Fraud and Internal Controls

Fraud can include an array of irregularities and illegal acts characterized by intentional deception and misrepresentations of material facts. Occupational fraud and abuse is defined as “the use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization’s resources or assets.” (Wells, *Corporate Fraud Handbook: Prevention and Detection*, 2nd Ed., 2007.)

Occupational fraud includes asset misappropriation, corruption, and fraudulent financial statements. Asset misappropriation is the largest category of occupational schemes and includes 21 separate fraudulent disbursements schemes.

Occupational Fraud

Individuals may commit occupational fraud using various schemes. Occupational fraud occurs when an organization’s owners, executives, managers or employees use their position within the organization to deliberately misuse or misapply the employer’s resources or assets for personal benefit. The three main types of occupational fraud are asset misappropriation, corruption, and financial statement fraud.

Asset misappropriation fraud includes cash skimming; falsifying expense reports, payroll, accounts payable, or inventory; and/or forging company checks. Corruption schemes involve an employee (or employees) using his or her influence in business transactions to obtain a personal benefit that violates that employee’s duty to the employer or the organization; conflicts of interest fall into this category. Financial statement fraud includes the intentional misstatement or omission of material information in the financial reports.

Occupational fraud is one of the most difficult types of fraud and abuse to detect. However, the most common method of detection is receiving tips from employees, customers and anonymously; this accounts for 40% of all detection. According to the 2018 *Report to the Nations on Occupational Fraud and Abuse*, prepared by the Association of Certified Fraud Examiners, Inc. (ACFE), 31% of local governments are victimized by occupational fraud, with a median loss of \$92,000 (page 20).

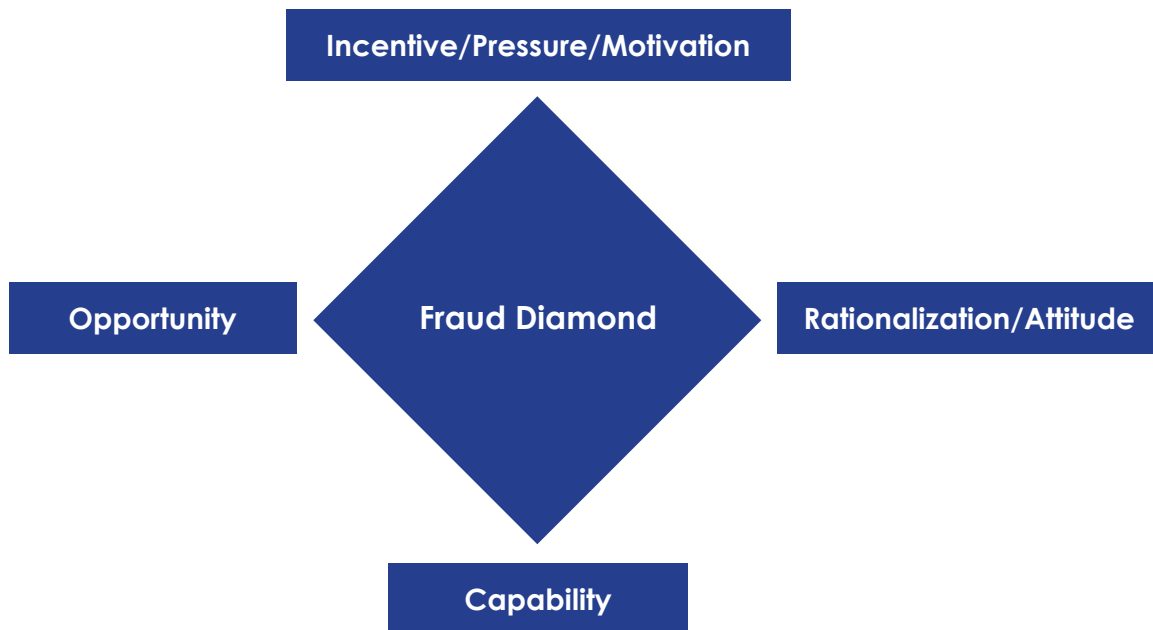
Based on a survey of ACFE members, the 2018 report explains that in 30% of all cases, “a simple lack of controls was the main factor that enabled the fraud to occur, while another 19% of cases occurred because the perpetrator was able to override the controls that had been put in place” (page 31).

According to the ACFE report, the main internal control weaknesses that contribute to occupational fraud, and the percentage of all occupational fraud they account for, are as follows:

- Lack of internal controls, 30%
- Override of existing controls, 19%
- Lack of management review, 18%
- Poor tone at the top, 10%
- Lack of competent personnel in oversight roles, 8%
- Others, 15%

Based on this report, a perpetrator's position and authority in an organization has a direct correlation with the losses incurred. The ACFE report states that 44% of fraudsters were employees, 34% were managers, 19% were owner/executives, and 3% were in other categories (page 33).

Certain factors must be present for a perpetrator's unethical behavior to occur. The fraud triangle (Cressey, 1953) includes three factors: incentive/pressure/motivation, opportunity, and rationalization/attitude. An extension of the fraud triangle is the fraud diamond, which adds capability to the mix (Wolfe and Hermanson, 2004).



A perpetrator of fraud usually has the following:

- Incentive/Pressure/Motivation
 - A need to get something accomplished, is self-promoting, has financial pressures or personal reputation to protect.
- Opportunity
 - In a position of authority or provides an essential function in the organization.
- Rationalization/Attitude
 - Confident that fraudulent behavior will go undetected.
- Capability
 - Able to understand the financial systems and can override internal controls.

This report presents findings demonstrating that the former finance clerk had the opportunity, rationalization/attitude, and capability to divert ASB funds to her personally.

Internal Controls

Internal controls are the principal mechanism for preventing and/or deterring fraud or illegal acts to protect a school district from fraud or misappropriation of funds. Illegal acts, misappropriation of assets or other fraudulent activities can include an assortment of irregularities characterized by intentional deception and misrepresentation of material facts.

An effective system of internal controls provides a foundation for sound financial management and provides reasonable assurance that a district’s operations are effective and efficient, the financial information produced is reliable, and the district operates in compliance with all applicable laws and regulations. Board policies, procedures, checks and balances are specific internal control elements intended to ensure that the financial information provided to senior management and the governing board for decision-making is reliable and complies with laws and regulations.

Management and employees with administrative responsibility have a fiduciary duty to the district, a higher standard for conduct in the course of their employment, and are entrusted to safeguard assets and ensure that internal controls function as intended.

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

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

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

- Failure to adequately enforce and/or segregate duties and responsibilities related to authorization.
- Failure to limit access to assets or sensitive data (e.g., cash, fixed assets, payroll and personnel records).
- Failure to record transactions, resulting in lack of accountability and the possibility of theft.
- Failure to reconcile assets with the correct records.
- Unauthorized transactions, resulting in skimming, embezzlement or larceny.

- Lack of monitoring or implementation of internal controls by the governing board and management, or because personnel are not qualified.
- Collusion among employees where little or no supervision exists.

A system of internal controls consists of policies and procedures designed to provide the governing board and management with reasonable assurance that the organization 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 controls, typically referred to as soft controls, include management tone, performance evaluations, training programs, and maintaining established policies, procedures and standards of conduct.

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

During this audit, FCMAT found that the district's control environment and control activities were circumvented by the former finance clerk. How this happened is described in detail throughout this report.

Control Environment

The internal control environment is critical because it establishes the district's moral tone. 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 controls to be effective in achieving the district's goals and objectives to prevent and/or deter fraud or illegal acts. It sets the tone for the district, 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 the absence of an effective internal control structure and oversight.

The district's control environment was weakened because the former finance clerk had both the access and ability to alter ASB accounting records, and allegedly issue checks to herself, without the knowledge of management or external auditors.

Control Activities

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

1. Performance reviews, which compare actual data with expectations. In accounting and business offices, this most often occurs when budgeted amounts are compared with actual expenditures to identify variances.
2. Information processing, which includes the approvals, authorizations, verifications and reconciliations needed to ensure that transactions are valid, complete and accurate.

3. Physical controls, which are the procedures designed to safeguard and secure assets and records.
4. Segregation of duties, which consists of processes and procedures to ensure that no employee or group is placed in a position that enables them 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.

FCMAT examined board policies and administrative regulations, and internal controls, as needed. The former finance clerk had worked at the district for almost 20 years, was a California Association of Directors of Activities (CADA) ASB Finance 101 workshop presenter, and was highly trusted and viewed as a valuable source of ASB-related knowledge. Based on interviews, the former finance clerk was also viewed as strict, overbearing, and not easily approachable when anyone questioned ASB transactions. Because she was considered such an expert, any explanation she provided was seldom questioned. According to employees interviewed, when she was asked about the fact that many critical ASB accounting and bank records such as cancelled checks were not retained, the former finance clerk's response was that retaining these records was not necessary and the cancelled checks were destroyed. Because of this, cancelled ASB-related checks were not retained for many years at Esperanza High School, and it was accepted as normal.

This meant that even occasional review of the payees on canceled checks and comparison with the accounting records was not performed. External auditors also missed the warning signs. Because the former finance clerk functioned in a relatively self-contained setting, was trusted, and was strict, overbearing and not easily approachable, she had complete control of the accounting, check writing, and system of internal controls oversight. This enabled her to, allegedly, write and sign checks to herself.

Transaction Sampling

FCMAT developed and conducted audit procedures to analyze and evaluate allegations and identify potential outcomes. Fraud audit scope, objectives, and substantive transaction testing was based on the FCMAT team's experience and professional judgment and did not include the testing or evaluation of all available transactions and records. Transactions sampled were those selected randomly and/or those selected specifically based on the team's judgment.

Transactions selected, when applicable, are analyzed and compared to board policy, administrative regulations, operational procedures and industry standards or best practices, and are evaluated for proper authorizations and reasonableness based on the team's judgment and technical expertise in school business operations, internal controls, and accounting best practices.

Sample testing and examination results are intended to provide reasonable but not absolute assurance of the accuracy of the transactions and financial activity and/or to identify whether fraud, misappropriation of funds or other illegal fiscal practices may have taken place during the period under review.

To determine if the irregularities discovered at Esperanza High School were isolated to that school, FCMAT also selected and compared bank-provided canceled check payee information against accounting records for fiscal year 2017-18 from three other district schools: Yorba Linda High School, Valencia High School, and Bernardo Middle School. Table 1 below shows the results of transaction testing.

Table 1: Transaction Testing Results

Description	Esperanza High School	Yorba Linda High School	Valencia High School	Bernardo Middle School
Time Period (School Fiscal Years)	2010-18	2017-18	2017-18	2017-18
Number of Years	8	1	1	1
Number of Checks/Disbursements	6,721	1,188	1,509	99
Amount of Checks/Disbursements	\$4,989,607.01	\$937,716.12	\$982,937.78	\$91,186.42
Number of Check Diversions/Mismatches	270	-	-	-
Amount of Check Diversions/Mismatches	\$859,459.09	\$ -	\$ -	\$ -
Number of Anomalies	81	-	-	-
Amount of Anomalies	\$17,878.96	\$ -	\$ -	\$ -

Testing was designed to compare canceled bank check information, such as payee, date and amount, with the information recorded in the ASB accounting records. Third-party canceled bank check information was compared with each check number recorded in the accounting records to determine if the information matched. If the payee on the check differed from that in the accounting records, it was deemed a mismatch; if the payee on the check was the same as that in the accounting records, it was deemed a match.

Check signers' signatures were also compared to those on the bank signature card, and two individuals who were check signers also reviewed their signatures to determine whether they agreed that the signatures on mismatched checks were theirs. If the check signer's signature on the check was considered not authentic, the check was deemed a mismatch and a forgery.

If the dollar amount of a bank check and the accounting records differed, or if a transaction was in the books but not in the bank statement, it was deemed an anomaly. Transaction testing for Yorba Linda and Valencia high schools and for Bernardo Middle School identified no mismatches and no anomalies; therefore, the time period from which the sample transactions were selected was not increased. Transaction testing for Esperanza High School identified 270 check mismatches and 81 anomalies. Further review of anomalies identified them as either related to a mismatch, insufficient funds charges, return item, small adjustments, a small difference in date, or error. Compared to the magnitude of the mismatched checks, the anomalies (\$17,878.96 over eight years, or an average of \$2,234.87 per year), were immaterial, and no further examination of these was conducted.

FCMAT's testing of transactions at Esperanza High School identified 270 check payee mismatches totaling \$859,459.09. When ASB funds are diverted and possibly fraudulent, it is common and expected to find documentation missing, insufficient, or altered. Nevertheless, a total of 25 mismatch check transactions were sampled. Of the 25 checks, 11 lacked any supporting documentation and 14 had check stubs and/or limited but unauthentic documents. The sole alleged documentation for one of the checks, number 24067, was a blank check stub. The documentation for check number 32771 was found copied onto other check stubs, and the amount was not shown. Examination and comparison of additional source documents, such as

vendor invoices, check stubs, and other approving documents, was discontinued because most documentation specific to the 270 checks was missing, insufficient or altered, and thus considered unreliable.

ASB Finance and Integrity

Students raise money to provide activities, experiences and goods to supplement their activities at school. Raising money through ASB club activities takes a lot of work and planning. ASB fundraising is typically accomplished through dances, yearbook sales, car washes, other events, and many other activities within the community. ASB money is not money from the school site or district budget; it is raised by students and for students, is kept completely separate for students, and is spent on student-approved purchases. When ASB money is missing or diverted to other non-student-approved activities, the students are disadvantaged. Students and the administrators who handle ASB trust funds are at the highest levels of trust. Students are involved in knowing how much money they have and reviewing financial reports, but they are not and should not have to be financial experts; they must be able to trust those who account for their money. School principals and activities directors are also typically not financial experts, and although they have a greater understanding of ASB activities, finances, and what is allowed and not allowed, they also generally rely on and trust the finance clerk to accurately account for student money.

The finance clerk may be one of the most trusted individuals in a school. They interact with almost all students, teachers and school administrators, and with many parents, volunteers and business owners throughout the community. They must have the highest integrity because they are handling students' money. Because they are typically trusted, respected and liked, they are almost always believed when discussing the reporting and disposition of ASB money. They are often the primary enforcer of all ASB-related laws, policies and procedures. When money goes missing in any ASB organization, the students who raised those funds do not get to enjoy the use of those funds.

Findings

Diverted ASB Funds

District and FCMAT analyses of diverted or mismatched bank check funds at Esperanza High School indicated further details about potential diverted checks by the former finance clerk.

The analysis in Table I above indicated 270 potentially diverted or mismatched checks at Esperanza High School, totaling \$859,459.09. The funds were under the custody, care, and accounting of the former finance clerk, who was an experienced finance clerk. Analysis of the checks identified two other individuals to whom checks were written. Mismatched check analysis is designed to identify any bank check payee that differs from the payee in the ASB accounting records, and to verify the check signer’s signature. FCMAT’s analysis of mismatched checks identified four categories of payees, as presented in the table below.

Table 2: Mismatched Check Payees

School Fiscal Years	Former Finance Clerk	Former Finance Clerk’s		No Image	Totals
		Husband	Mother		
2010-11	\$3,300.00	\$-	\$-	\$-	\$3,300.00
2011-12	147,029.88	-	-	-	147,029.88
2012-13	155,393.64	-	-	-	155,393.64
2013-14	156,242.12	-	7,700.00	-	163,942.12
2014-15	125,736.80	-	-	3,500.00	129,236.80
2015-16	104,784.80	1,540.00	-	-	106,324.80
2016-17	117,117.50	11,257.00	-	-	128,374.50
2017-18	17,878.85	7,978.50	-	-	25,857.35
Grand Totals	\$827,483.59	\$20,775.50	\$7,700.00	\$3,500.00	\$859,459.09
Total Diverted/Mismatched Checks	258	9	2	1	270

FCMAT’s analysis included 258 checks provided by the bank that totaled \$827,483.59 clearing the ASB bank account; these were either handwritten or computer-printed on Esperanza High School ASB checks, with the former finance clerk as payee. These checks were endorsed on the reverse side by the former finance clerk using her name. The majority of these checks were deposited into the bank account ending in XXX475, which is thought to be the account of the former finance clerk; others were endorsed with no bank account number.

The 258 checks comprised the following: 253 checks that were recorded in the accounting records as having payees other than the former finance clerk but for which the actual canceled bank check showed the former finance clerk as payee, and five checks totaling \$12,199.40 for which the former finance clerk was listed as the payee on both the check and in the accounting records but on which the check signer’s signature was considered inauthentic and therefore the check was a mismatch or potentially diverted.

The mismatched check analysis revealed two additional check payees that differed from those in the accounting records. Background analysis indicates that the two individuals are likely to be the former finance clerk’s husband and mother.

Table 3 below shows how the bank records and ASB accounting records were compared. It includes nine checks totaling \$20,775.50 in payments to an individual likely to be the former finance clerk's husband. Neither the district nor FCMAT could find any documentation to support any payments to the husband. The payee name printed on the Esperanza High School ASB check is the actual name of the former finance clerk's husband, but for purposes of this report has been altered to read as "former finance clerk's husband." FCMAT did not alter the five different payees indicated in the accounting records or books. The payee shown as TRANSP PYLUSD is the district's transportation department.

Table 3: Bank-Provided Canceled Checks Compared with ASB Accounting Records

Bank-Provided Canceled Checks				Canceled Checks Compared to ASB Accounting Records				
Check Number	PAYEE (Name Altered)	Check Amount	Check Date	PAYEE	Payee Match?	Check Amount	Check Date	Check Amount Variance
31597	former finance clerk's husband	\$1,540.00	05/24/16	ABBEY ABBEY EVENT SVC	Mismatch	\$1,540.00	05/24/16	\$-
31698	former finance clerk's husband	2,000.00	09/13/16	NEFFECT N EFFECT PRODUCTIONS	Mismatch	2,000.00	09/08/16	-
32018	former finance clerk's husband	2,203.00	01/11/17	ANAHEIMCIT ANAHEIM, CITY OF	Mismatch	2,203.00	01/11/17	-
32020	former finance clerk's husband	2,200.00	01/19/17	TRANSP PYLUSD	Mismatch	2,200.00	01/19/17	-
32423	former finance clerk's husband	2,500.00	03/31/17	TRANSP PYLUSD	Mismatch	2,500.00	03/31/17	-
32659	former finance clerk's husband	2,354.00	06/14/17	TRANSP PYLUSD	Mismatch	2,354.00	06/14/17	-
32665	former finance clerk's husband	3,001.50	07/25/17	INNOVAT INNOVATIVE YEARBOOK SOLUTIONS	Mismatch	3,001.50	07/01/17	-
32666	former finance clerk's husband	2,465.00	08/15/17	INNOVAT INNOVATIVE YEARBOOK SOLUTIONS	Mismatch	2,465.00	08/12/17	-
32733	former finance clerk's husband	2,512.00	09/18/17	TRANSP PYLUSD	Mismatch	2,512.00	09/18/17	-
9		\$20,775.50				\$20,775.50		\$0.00

These nine checks were endorsed on the reverse side using the name of the former finance clerk's husband; however, the handwriting is comparable to that of the former finance clerk. FCMAT forensic team members are not handwriting experts, also known as forensic document examiners; however, the hundreds of checks viewed and compared for this analysis included many instances of the former finance clerk's signature. Further, the checks written to the former finance clerk's husband included four endorsements on the reverse side to the same bank account, ending in XXX475, as the majority of checks written to the former finance clerk.

Two checks are written by name to the individual who is likely to be the former finance clerk's mother, but for purposes of this report have been altered to read as "former finance clerk's mother." Table 4 below shows two checks totaling \$7,700 in payments to the former finance clerk's mother. The two checks are both dated in December 2013. FCMAT's research and analysis of the payee indicates that not only is it likely the payee is the mother of the former finance

clerk, but the mother’s date of death was June 26, 2010, approximately 3 1/2 years before the checks were written to the mother.

Table 4: Bank-Provided Cancelled Checks Paid to the Former finance clerk’s Mother, and Canceled Checks Compared to ASB Accounting Records

Bank-Provided Canceled Checks				Canceled Checks Compared to ASB Accounting Records				
Check Number	Payee (Name Altered)	Check Amount	Check Date	Payee	Payee Match?	Check Amount	Check Date	Check Amount Variance
24554	former fi- nance clerk’s mother	\$4,000.00	12/13/13	TRANSP PYLUSD	Mismatch	\$4,000.00	12/13/13	\$-
24577	former fi- nance clerk’s mother	3,700.00	12/18/13	MARSH CURT MARSH & ASSOC	Mismatch	3,700.00	12/15/13	-
2		\$7,700.00				\$7,700.00		\$0.00

These two checks were endorsed on the reverse side using the name of the former finance clerk’s mother in writing closely comparable to that of the former finance clerk. No bank account number was written on the reverse side of the checks. Neither the district nor FCMAT could find any documentation to support any payments to this individual. However, check number 24554 listed under the payee’s name a street address with city, state and zip code. FCMAT’s research indicates that the address is the same as that of the former finance clerk.

The remaining amount from Table 2 above listed under the heading “No Image” is a single check in the amount of \$3,500. The bank was unable to locate check number 30273 and provide a copy; however, according to the district and based on FCMAT’s analysis, there are no accounting records substantiating a payment for \$3,500 to the district with this check number. Table 5 below presents the information about the single check.

Table 5: Check 30273 — Bank-Provided Canceled Check Information, and Canceled Check Compared to ASB Accounting Records

Bank-Provided Canceled Checks				Canceled Check Compared to ASB Accounting Records				
Check Number	Payee (not available)	Check Amount	Check Date	Payee	Payee Match?	Check Amount	Check Date	Check Amount Variance
30273	image not available	\$3,500.00	01/22/15	TRANSP PYLUSD	Mismatch	\$3,500.00	01/22/15	\$0.00
1		\$3,500.00				\$3,500.00		\$0.00

The amount of this check and the payee name in the accounting records are both similar to many other checks written to TRANSP PYLUSD that are mismatched and for which the check itself was written to the former finance clerk. This check also fits a specific pattern of checks, all of which are for \$3,500.

FCMAT identified subgroups of the 258 mismatched checks based on amounts to evaluate the distribution or pattern of checks. Grouping of the checks showed that the amount the former finance clerk used most to write checks to herself was \$3,500. Of the 258 checks written to the former finance clerk, 44 checks, or 17.05%, were written in the amount of \$3,500. Tables 6a and 6b show the grouped check data for all cases in which more than one check was written for the same amount.

Table 6a indicates that the second most commonly used amount was \$3,000, with 19 checks in this amount. Six checks were also written for each of the following amounts: \$2,500, \$3,400, and \$3,612. Table 6b lists the checks by amount, from largest to smallest.

Table 6a: Checks sorted by number of checks for each amount

Check Amount	Number of Checks	Total Dollar Amounts
\$3,500.00	44	\$154,000.00
3,000.00	19	57,000.00
2,500.00	6	15,000.00
3,400.00	6	20,400.00
3,612.00	6	21,672.00
2,000.00	5	10,000.00
3,600.00	5	18,000.00
3,150.00	4	12,600.00
3,750.00	4	15,000.00
1,000.00	3	3,000.00
3,125.00	3	9,375.00
3,746.00	3	11,238.00
3,751.00	3	11,253.00
3,900.00	3	11,700.00
2,100.00	2	4,200.00
2,400.00	2	4,800.00
2,950.00	2	5,900.00
3,105.00	2	6,210.00
3,152.00	2	6,304.00
3,250.00	2	6,500.00
3,425.00	2	6,850.00
3,452.00	2	6,904.00
3,475.00	2	6,950.00
3,489.00	2	6,978.00
3,560.00	2	7,120.00
3,648.00	2	7,296.00
3,649.00	2	7,298.00
3,700.00	2	7,400.00
3,745.00	2	7,490.00
3,850.00	2	7,700.00
3,854.00	2	7,708.00
4,000.00	2	8,000.00
	32	\$491,846.00

Tables 6a and 6b show that there are 32 distinct check amounts that occur twice or more.

Table 6b: Checks sorted from largest amount to smallest

Check Amount	Number of Checks	Total Dollar Amounts
\$ 4,000.00	2	\$8,000.00
3,900.00	3	11,700.00
3,854.00	2	7,708.00
3,850.00	2	7,700.00
3,751.00	3	11,253.00
3,750.00	4	15,000.00
3,746.00	3	11,238.00
3,745.00	2	7,490.00
3,700.00	2	7,400.00
3,649.00	2	7,298.00
3,648.00	2	7,296.00
3,612.00	6	21,672.00
3,600.00	5	18,000.00
3,560.00	2	7,120.00
3,500.00	44	154,000.00
3,489.00	2	6,978.00
3,475.00	2	6,950.00
3,452.00	2	6,904.00
3,425.00	2	6,850.00
3,400.00	6	20,400.00
3,250.00	2	6,500.00
3,152.00	2	6,304.00
3,150.00	4	12,600.00
3,125.00	3	9,375.00
3,105.00	2	6,210.00
3,000.00	19	57,000.00
2,950.00	2	5,900.00
2,500.00	6	15,000.00
2,400.00	2	4,800.00
2,100.00	2	4,200.00
2,000.00	5	10,000.00
1,000.00	3	3,000.00
	32	\$491,846.00

Based on FCMAT’s analysis of check patterns, which shows significant numbers of checks for the same amount of \$3,500, it is likely the missing check image for check 30273 is also a check written to the former finance clerk.

Missing, Insufficient, or Altered Documents

The district and FCMAT searched for ASB documents to evaluate transactions for authorization and authenticity. A typical ASB office the size of that at Esperanza High School will have at least one banker's box of documents for any given year just for purchases documentation, and another banker's box of bank statements, canceled checks, and financial reports. However, the ASB office at Esperanza High School had far fewer documents than expected, and in the case of documents specific to the mismatched checks, had only check stubs, with no supporting documents. Examples of mismatched check documents are discussed below

N Effect Booking Agreement # B01725 for \$7,500

N Effect Productions provided services for a student dance. Booking agreement # B01725 dated August 28, 2017 for \$7,500 was paid with check number 32681. This check was deposited and endorsed on the back by N Effect Productions. Check number 32703 was also recorded in the books to N Effect Productions and similarly tied to booking agreement # B01725; however, it was booked in the amount of \$3,750 and dated September 8, 2017. This payment for \$3,750 used the same booking agreement number as the August 28, 2017 payment and has on it a handwritten note stating, "Equipment issue" and "50% discount," with the new amount as \$3,750. The check stub for check 32703 is written for N Effect Productions and is shown below in Image 1.

Image 1

The former finance clerk went to great lengths to document this transaction as legitimate.

Esperanza High School Anaheim, CA 92807

32703

Vendor:	NEFFECT	Ck#:	32703
Inv#	N EFFECT PRODUCTIONS	Inv Date	Date: 09/08/17
090817125		PO#	Purpose
			50-MORP
		GL Acct:	55055 DANCES/SOCIAL EVENTS
		Check Total:	3,750.00
			Amount
			3,750.00

Safeguard SF4001HG-1SA
LITHO USA SPR62 CK789312H
TO REORDER, CALL YOUR LOCAL SAFEGUARD DISTRIBUTOR AT 846-476-0001
C73NFG0010000 V14SF0093223

The check stub for \$3,750 looks authentic, and the invoice shown below in Image 2 appears authentic.

Image 2



BOOKING AGREEMENT# B01725
 Printed by: Kris Plourde Print date: Aug 28, 2017
 Client Ref: Morp 2017

Client
ESPERANZA HIGH SCHOOL
 MEGHANN LUKACH P: 714-779-5745 M: (714)986-7540
 1830 KELLOGG DRIVE
 ANAHEIM CA 92807

Deliver to
ESPERANZA HIGH SCHOOL
 MEGHANN LUKACH P: 714-779-5745
 1830 KELLOGG DRIVE
 ANAHEIM CA 92807

PERIOD:	3 hours		DELIVERY/PICKUP:	Delivery & Collection	USE DATE:	
START:	Fri 9/8/2017	T: 7:00 PM	DELIVERY DATE:	Fri 9/8/2017	COLLECT DATE:	Fri 9/8/2017
END:	Fri 9/8/2017	T: 10:00 PM	DELIVERY TIME:		COLLECT TIME:	

QTY	DAYS	UNIT	CODE	ITEM DETAILS	PRICE	DISC.	TOTAL
1			H00328	DJ Entertainment (4 HR)	1,000.00		1,000.00
2			H00172	JBL 15" SRX Top Speaker	0.00		
2			H00171	JBL 18" large subs	0.00		
5			H00515	Speaker Cables 50ft	0.00		
1			H00182	Amp Rack	0.00		
1			H00246	Gaff Tape 4" (Black)	0.00		
1			H00514	DJ Coffin/Stand	0.00		
1			H00656	CO2 (2) Pistols (300LBS Tank) System	1,000.00		1,000.00
1			H00474	2" Crescent Wrench	0.00		
1			H00199	CO2 Large 300LBS Tank	0.00		
2			H00204	CO2 Gun	0.00		
12			H00386	LED Quad Up Light (Wireless)	50.00		600.00
4			H00223	Plex 4' Dance Pod	250.00		1,000.00
5			H00242	4X8 Steel Decks (3FT Legs)	125.00		625.00
1			H00441	Custom Truss (Pkg) Approx: 16X16X20	2,500.00		2,500.00
1			H00573	QSC K8 Speaker	50.00		50.00
1			H00501	4 Platinum Beam 5R (Pkg)			

MORP

DEPOSIT DETAILS

Amount: N/A Due: //
 Balance: N/A Due: //

Equipment issue

WAIVER	\$0.00
DELIVERY CHARGES	\$0.00
COLLECTION CHARGES	\$0.00
SECURITY BOND	\$0.00
DISCOUNT	\$1,300.00
SUB TOTAL	\$7,500.00
NT (0%)	\$0.00
TOTAL DUE	\$7,500.00
FEE PAID	\$0.00
PAY METHOD	CHEQUE
BOND PAID	\$0.00
PAY METHOD	NIL
BALANCE DUE	\$7,500.00

Picked up by: Delivered by:

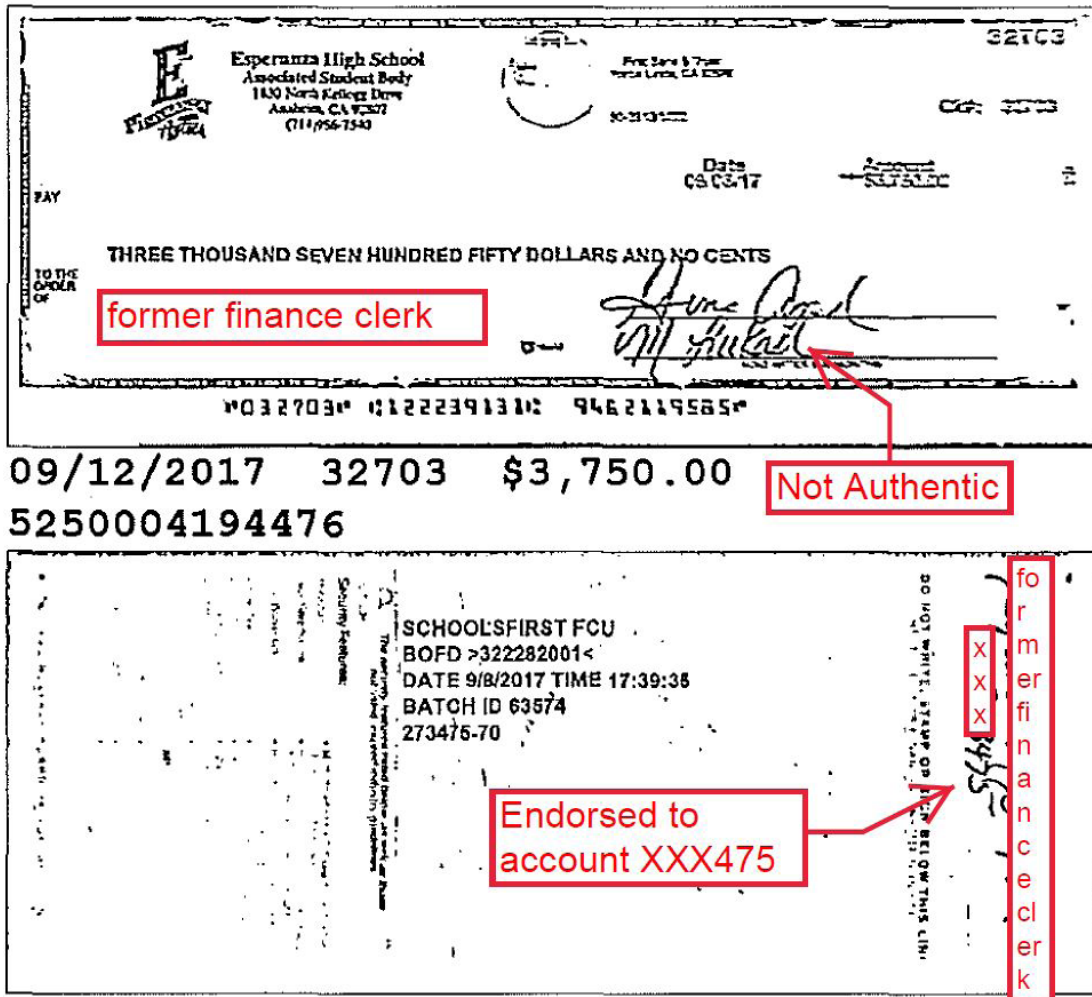
I accept the conditions of hire _____ Bond Refunded \$ _____ By _____ Date 50% discount

See attached terms and conditions.

3750.00

However, check 32703 is written to the former finance clerk, not to N Effect Productions. Image 3 below is a redacted image of this check, on which the payee name and endorsement name are changed by FCMAT to "former finance clerk." The check is not made out to N Effect Productions, nor was it cashed and or cleared by the bank for N Effect Productions. The check is to the former finance clerk.

Image 3



(Typed notes and circled items are added by FCMAT.)

The check endorsement is to account XXX475, the account thought to be that of the former finance clerk. The district's authorized check signer whose signature appears to be on the check indicated that the signature is not hers, denied that she ever saw the check or the N Effect Productions invoice for the \$3,750, and states that she would not have approved such a payment. Because FCMAT disclosed the facts of the audit only to those who were on a need-to-know basis, the mismatched checks were not shown to all potential check signers.

Transportation PYLUSD, Check 32771 for \$3,150

Check number 32771 is recorded in the accounting records as paid to Transportation PYLUSD for \$3,150. The documents available suggest an attempt to conceal the mismatched or diverted check of \$3,150 as a component of other checks. Images 4A and 4B show all documentation available to substantiate this check.

Image 4A

71917	FOOTBALL DEBTS	\$ 3,150.00	Amount Associated with check 32771
71913	CHOIR TRANSP	\$ 355.00	
71918	ORCHAstra TRANSP	\$ 465.00	
71926	BAND TRANSP	\$ 16,760.00	
71999	ATHLETIC TRANSP	\$ 17,000.00	
		\$ 37,730.00	

Esperanza High School Anaheim, CA 92807 32771

Ck#: 32771 Date: 09/29/17

Esperanza High School Anaheim, CA 92807 32772

Esperanza High School Anaheim, CA 92807 32773

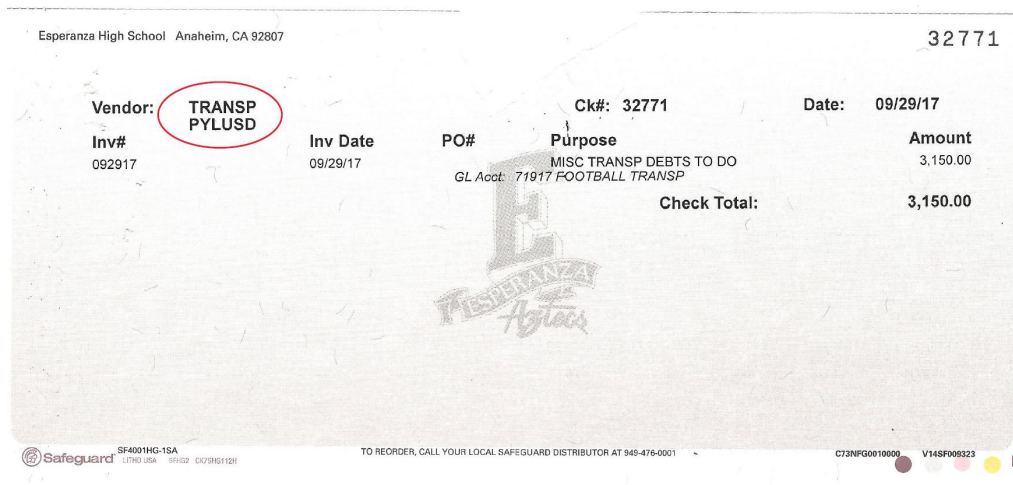
Vendor: PYLUSD PYLUSD	Inv# 093017	Inv Date 09/28/17	PO#	Purpose 09/30/17 ATHL TRANSP GL Acct: 71999 TRANSP TO DISTRICT	Amount 17,000.00
Check Total:					17,000.00

574913

SF4001HG-15A LITHO USA SFH02 CK73HG112H TO REORDER, CALL YOUR LOCAL SAEGUARD DISTRIBUTOR AT 949-476-0001 C73NFG0010000 V14SF009322

(Typed notes and circled items are added by FCMAT.)

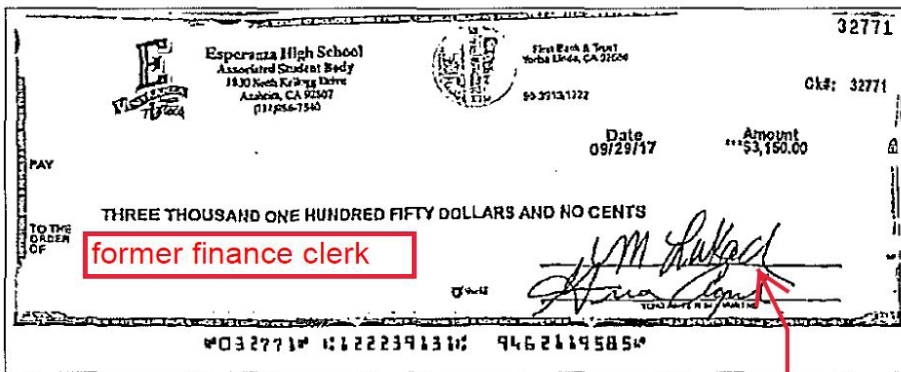
Image 4B



(Typed notes and circled items are added by FCMAT.)

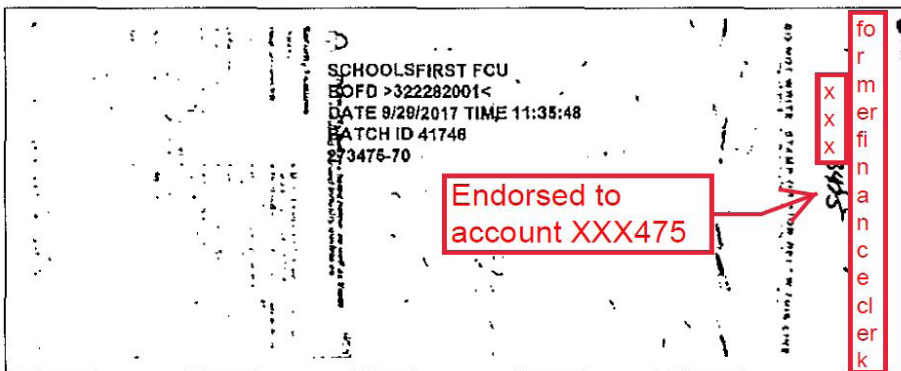
Image 4B above states the purpose of the check as Football Transportation, and the payee on the check stub is TRANSP PYLUSD. However, the check itself cleared the ASB bank account as written to the former finance clerk. Image 5 is a redacted copy of this check.

Image 5



10/02/2017 32771 \$3,150.00
5250004594862

Not Authentic



Endorsed to account XXX475

(Typed notes and circled items are added by FCMAT.)

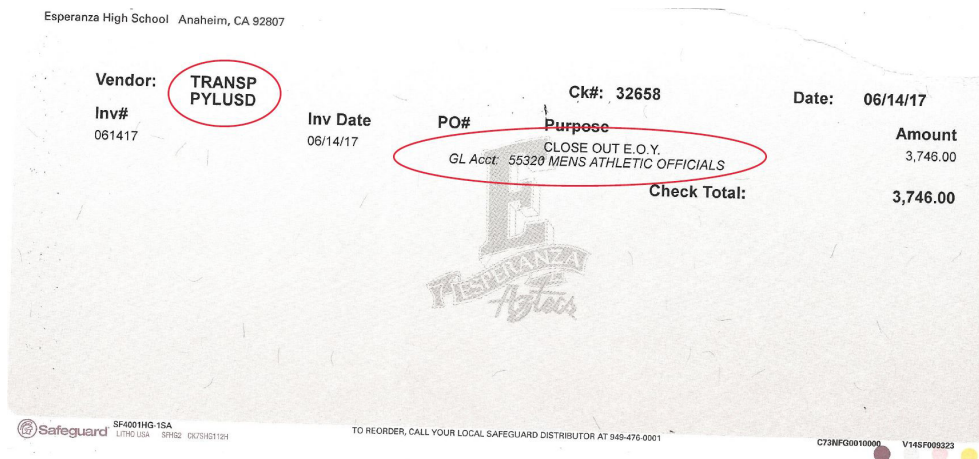
The check endorsement is to account XXX475, the account thought to be that of the former finance clerk. Because FCMAT disclosed the facts of the audit only to those who were on a need-to-know basis, the mismatched checks were not shown to all potential check signers.

The district check signer whose signature appears to be on the check indicated that the signature is not hers, denied that she ever saw the check, and stated that she would not have approved such a payment.

Transportation PYLUSD, Check number 32658 for \$3,746

Check number 32658 is listed in the accounting records as paid to Transportation PYLUSD for \$3,746. The only supporting document available is a check stub with other unrelated written transaction information attached to it. The check stub in Image 6 below states the payment is for closing out the end-of-year athletics officials, but the attached paperwork has nothing to do with year-end payments to officials.

Image 6

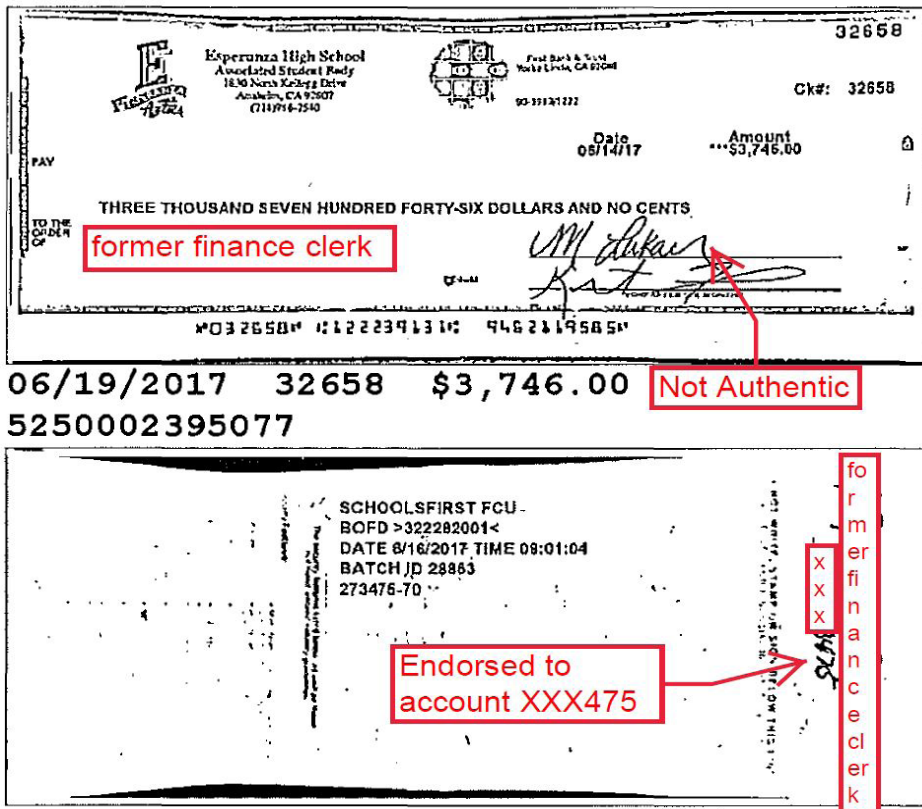


Inv#	Inv Date	PO#	Purpose	Amount
022217	02/22/17		C.O.C.	11.50 55065
022217	02/22/17		FACULTY-LAMPOST	445.75 55015 ASB MISC
022217	02/22/17		TROPHY/TAPE	72.30 22017 CLASS OF 2017
			C.O.C.	
Subtotal for Check # 32242				633.43
32243	02/23/17		MARSHALLVA - MARSHALL, VASILIKI	19.93
022217	02/22/17		CRAFT FOR MEETING	19.93 23036 FRENCH CLUB
Subtotal for Check # 32243				19.93
32244	02/23/17		FEREDAYK - FEREDAY, KIRSTEN	193.70
022217	02/22/17		TENNIS NEEDS	153.56 23212 WMNS TENNIS
022217	02/22/17		TENNIS NEEDS	40.14 23116 MENS TENNIS
Subtotal for Check # 32244				193.70

(Typed notes and circled items are added by FCMAT.)

Check number 32658, however, is written to the former finance clerk, not to the district's transportation department.

Image 7



(Typed notes and circled items are added by FCMAT.)

The check endorsement is to account number XXX475, the account thought to be that of the former finance clerk. The district’s check signer whose name appears on the check indicated that the signature is not hers, denied that she ever saw the check, and states that she would not have approved such a payment. Because FCMAT disclosed the facts of the audit only to those who were on a need-to-know basis, the mismatched checks were not shown to all potential check signers.

Additional \$704,143.81 of Potentially Diverted ASB Funds

FCMAT’s examination of 270 alleged diverted or mismatched ASB checks totaling \$859,459.09 is based on comparing bank-provided canceled checks with ASB accounting records. Those transactions indicated a pattern of irregular amounts and payees allegedly used to conceal the diversion of funds by and to the former finance clerk. Tables 6a and 6b above show the most used check amounts and patterns.

The pattern, analysis of transaction types, and judgment can then be applied to past years for which canceled bank checks are not yet available. FCMAT and the district evaluated transactions before the 2010-11 fiscal year. The pattern of diverted funds was found in the ASB accounting check records examined from the 2004-05 fiscal year. A check dated January 3, 2005 for \$3,200 is recorded in the accounting records as a payment to PYLUSD for transportation and is thought to be the earliest instance of diverted ASB funds.

FCMAT and the district examined an additional seven years of ASB transactions dating from fiscal years 2004-05 to 2010-11. Some ASB checks occur in both the 2010-11 canceled checks shown in Table 2, which end in January 2011, and in Table 7 below, which end in May 2011. If any similar checks were found in the months between January 2011 and May 2011 as part of fiscal year 2010-11, the amounts were not duplicated as potentially diverted. Applying the same pattern of check diversions, evaluating the payees and amounts in the ASB accounting records, and evaluating each transaction as possibly diverted, resulted in an additional 219 potentially irregular checks with a total dollar value of \$704,143.81. To determine with more certainty whether the checks are irregular, bank-provided canceled checks are needed from either the ASB’s bank or the former finance clerk’s bank. These bank-provided records will make it possible to confirm the check payee(s) and make a more precise determination of the extent to which the pattern of diversion may have been present.

The district was able to locate a bank statement with canceled checks for June 2009. Check numbers 19455, 19456, and 19483, dated June 12, 18 and 25, 2009, respectively, were in the amounts of \$3,648, \$3,178.50, and \$3,000, respectively, for a total of \$9,826.50. These checks were recorded in the ASB accounting records as payments to Staples, Abby Events, and Wow Events; however, the payee shown on the checks themselves is the former finance clerk. This information is shown in Table 7 below.

The historical patterns, amounts, and diverted payee information already determined from the transactions referenced in Table 2 above was applied to an analysis of transactions in the accounting records from January 3, 2005 to May 11, 2011. This analysis identified an additional \$694,317.31 in potentially diverted funds. Table 7 includes information on these additional diverted funds and shows that the amounts were smaller in 2004-05 but larger in most years after that.

Table 7: Potentially Diverted Funds, Fiscal Years 2004-05 through 2010-11

School Fiscal Years	Potentially Diverted	Mismatched	Totals
2004-05	\$28,600.00	\$-	\$28,600.00
2005-06	39,460.00	-	39,460.00
2006-07	84,521.80	-	84,521.80
2007-08	169,619.50	-	169,619.50
2008-09	105,846.05	9,826.50	115,672.55
2009-10	136,906.25	-	136,906.25
2010-11	129,363.71	-	129,363.71
Grand Totals	\$694,317.31	\$9,826.50	\$704,143.81
Total Diverted/ Mismatched Checks	216	3	219

FCMAT grouped the 219 checks produced by the former finance clerk and considered diverted and mismatched amounts to evaluate the distribution or pattern of checks written. Grouping, also known as stratification, again indicated that the most commonly used dollar amount for checks the former finance clerk allegedly wrote to herself was \$3,500. Of the 219 checks allegedly written to the former finance clerk, 26 checks, or 11.87%, were written in the amount of \$3,500, the same most common amount as shown in Table 6a.

Tables 8a and 8b present the stratified check data for the cases from the 219 checks in the above-mentioned years in which more than one check was written for the same amount.

Similar to the analysis performed above in Tables 6a and 6b, Table 8a shows that the second-most frequent check amount was \$3,000, of which there were a total of 15 occurrences. Table 8b organizes the check amounts from largest to smallest.

Table 8a: Checks sorted by number of checks for each amount

Check Amount	Number of Checks	Total Dollar Amounts
\$3,500.00	26	\$91,000.00
3,000.00	15	45,000.00
4,000.00	8	32,000.00
2,500.00	7	17,500.00
3,400.00	7	23,800.00
3,750.00	5	18,750.00
3,784.50	4	15,138.00
1,000.00	3	3,000.00
2,000.00	3	6,000.00
2,400.00	3	7,200.00
2,450.00	3	7,350.00
3,150.00	3	9,450.00
3,209.25	3	9,627.75
3,245.00	3	9,735.00
3,250.00	3	9,750.00
1,800.00	2	3,600.00
2,175.00	2	4,350.00
2,875.00	2	5,750.00
3,145.00	2	6,290.00
3,200.00	2	6,400.00
3,300.00	2	6,600.00
3,410.00	2	6,820.00
3,450.00	2	6,900.00
3,525.00	2	7,050.00
3,539.48	2	7,078.96
3,545.00	2	7,090.00
3,645.00	2	7,290.00
3,650.00	2	7,300.00
3,745.00	2	7,490.00
4,100.00	2	8,200.00
4,150.00	2	8,300.00
4,200.00	2	8,400.00
4,350.00	2	8,700.00
	33	\$428,909.71

Tables 8a and 8b show that there are 33 distinct check amounts that occur twice or more.

Table 8b: Checks sorted from largest amount to smallest

Check Amount	Number of Checks	Total Dollar Amounts
\$4,350.00	2	\$8,700.00
4,200.00	2	8,400.00
4,150.00	2	8,300.00
4,100.00	2	8,200.00
4,000.00	8	32,000.00
3,784.50	4	15,138.00
3,750.00	5	18,750.00
3,745.00	2	7,490.00
3,650.00	2	7,300.00
3,645.00	2	7,290.00
3,545.00	2	7,090.00
3,539.48	2	7,078.96
3,525.00	2	7,050.00
3,500.00	26	91,000.00
3,450.00	2	6,900.00
3,410.00	2	6,820.00
3,400.00	7	23,800.00
3,300.00	2	6,600.00
3,250.00	3	9,750.00
3,245.00	3	9,735.00
3,209.25	3	9,627.75
3,200.00	2	6,400.00
3,150.00	3	9,450.00
3,145.00	2	6,290.00
3,000.00	15	45,000.00
2,875.00	2	5,750.00
2,500.00	7	17,500.00
2,450.00	3	7,350.00
2,400.00	3	7,200.00
2,175.00	2	4,350.00
2,000.00	3	6,000.00
1,800.00	2	3,600.00
1,000.00	3	3,000.00
	33	\$428,909.71

Analyzing the data by comparing identical amounts used in two or more transactions reveals many similar transaction amounts and 12 exact amount matches. There are also similar one-time transactions. Table 9 shows the comparative transaction amounts.

Table 9: Transactions and Amounts Comparison

Sorted Largest Check Amount to Smallest			
2004-05 through 2010-11		2010-11 through 2017-18	
Check Amount	Number of Checks	Check Amount	Number of Checks
\$4,350.00	2	\$4,000.00	2
4,200.00	2	3,900.00	3
4,150.00	2	3,854.00	2
4,100.00	2	3,850.00	2
4,000.00	8	3,751.00	3
3,784.50	4	3,750.00	4
3,750.00	5	3,746.00	3
3,745.00	2	3,745.00	2
3,650.00	2	3,700.00	2
3,645.00	2	3,649.00	2
3,545.00	2	3,648.00	2
3,539.48	2	3,612.00	6
3,525.00	2	3,600.00	5
3,500.00	26	3,560.00	2
3,450.00	2	3,500.00	44
3,410.00	2	3,489.00	2
3,400.00	7	3,475.00	2
3,300.00	2	3,452.00	2
3,250.00	3	3,425.00	2
3,245.00	3	3,400.00	6
3,209.25	3	3,250.00	2
3,200.00	2	3,152.00	2
3,150.00	3	3,150.00	4
3,145.00	2	3,125.00	3
3,000.00	15	3,105.00	2
2,875.00	2	3,000.00	19
2,500.00	7	2,950.00	2
2,450.00	3	2,500.00	6
2,400.00	3	2,400.00	2
2,175.00	2	2,100.00	2
2,000.00	3	2,000.00	5
1,800.00	2	1,000.00	3
1,000.00	3		

Table 9 shows the transactions that occurred more than once for the same amount in each of the two time periods analyzed, and reveals twelve instances in which the amounts in both time periods analyzed were identical. The majority of the remaining transactions for fiscal years 2004-05 through 2010-11 are comparable to known mismatches found in the transactions for fiscal years 2010-11 through 2017-18.

The majority of the transactions in both analyses are for whole dollar amounts, which is rare for ASB purchases. The evidence from the comparative analysis supports FCMAT's conclusion that the analysis of transactions from fiscal years 2004-05 through 2010-11 reveals additional ASB funds that may have been diverted to the former finance clerk.

Total of \$1,563,602.90 in Potentially Diverted ASB Funds

When the transactions for all 14 fiscal years reviewed are compared and analyzed, the total amount of potentially diverted and mismatched funds is \$1,563,602.90. A comparative analysis by month and year is shown in Table 10, which also shows when the activity started and how the method and pattern remained relatively consistent year after year.

Table 10: Potentially Diverted Funds by Month and Year

Month / Year	Analysis by Check Amount *												Total	
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016		2017
January	\$3,200	\$7,150	\$20,963	\$13,938	\$11,345	\$9,649	\$10,320	\$8,958	\$7,148	\$ 10,818	\$10,628	\$6,851	\$18,988	\$139,956
February	4,625	1,000	8,490	12,525	7,678	9,700	9,800	13,046	12,301	13,885	10,190	9,221	10,645	123,106
March	13,535	-	13,460	15,800	10,600	5,745	15,049	6,900	13,562	13,772	13,333	12,000	9,721	143,477
April	3,600	-	9,287	21,363	16,035	12,022	10,289	10,000	13,082	13,546	13,248	5,410	7,177	135,059
May	2,550	-	3,426	20,457	10,089	12,670	-	7,000	9,775	10,804	10,261	4,540	13,324	104,896
June	1,090	-	23,191	18,640	17,791	40,652	3,300	11,467	18,430	3,500	8,594	9,369	12,200	168,224
July	2,785	-	10,195	8,923	-	7,000	3,250	-	2,557	-	11,595	7,000	3,001	56,306
August	5,775	-	13,284	3,545	-	10,750	17,156	15,000	11,113	9,847	6,605	7,621	9,786	110,482
September	11,750	1,704	3,149	6,965	11,209	19,525	9,465	16,895	17,808	14,688	10,500	14,967	13,070	151,695
October	8,275	-	14,449	6,880	16,460	20,772	20,390	17,123	8,100	11,137	5,484	5,306	-	134,376
November	-	-	16,201	7,028	11,899	13,709	22,436	16,148	18,775	10,302	9,108	11,250	-	136,856
December	2,725	4,000	9,619	8,795	6,900	12,150	16,961	15,930	39,263	17,010	15,641	10,176	-	159,170
Totals	\$59,910	\$13,854	\$145,714	\$144,859	\$120,006	\$174,344	\$138,416	\$138,467	\$171,914	\$ 129,309	\$125,187	\$103,711	\$97,912	\$1,563,603

* Amounts are rounded to the nearest whole dollar.

The former finance clerk began working at the district on February 17, 1998 and retired on November 3, 2017. The earliest check found to be irregular is recorded as paid to PYLUSD and is dated January 3, 2005. The check is for \$3,200 and coded as “TRANSP TO DISTRICT” which is interpreted to mean transportation to the district.

The transactions shown in Table 10 above and Table 11 below are presented in a calendar year format that starts with the first potentially diverted transaction in January 2005. Following this first transaction, except for a time in 2006 where there were no transactions, potential activity indicative of a potential diversion of funds is consistent year after year until the former finance clerk retired November 3, 2017.

FCMAT also performed a comparison of the number of checks written, by month and year, for the same time period as shown in Table 10. Table 11 below shows this information.

Table 11: Number of Checks Written, by Month and Year

Month/ Year	\$704,144							\$859,459							Total
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017		
January	1	1	6	4	3	3	3	-	2	-	3	2	6	40	
February	2	1	3	4	2	3	3	4	5	5	3	3	3	41	
March	6	-	5	4	3	2	5	2	4	5	4	4	3	47	
April	2	-	3	6	5	4	3	3	4	4	4	2	2	42	
May	2	-	1	6	3	2	-	2	3	3	3	2	4	31	
June	1	-	8	6	6	11	1	4	6	1	3	3	4	54	
July	1	-	3	3	-	2	1	-	1	-	4	2	1	18	
August	2	-	4	1	-	4	5	5	3	3	2	2	3	34	
September	4	1	1	2	4	6	3	5	5	5	3	5	4	48	
October	2	-	4	2	5	6	6	5	3	5	2	2	-	42	
November	-	-	4	2	4	4	7	5	6	4	3	3	-	42	
December	2	1	3	3	2	4	6	5	11	5	5	3	-	50	
Totals	25	4	45	43	37	51	43	43	53	43	39	33	30	489	

Neither FCMAT nor the district have any canceled checks from the bank between January 2005 and June 2011 (except for the three checks identified in June 2009 totaling \$9,826.50 shown in Table 7) for the additional potentially diverted ASB funds totaling \$694,317.31. However, similar to check amounts, the distribution of the number of checks written monthly and annually can be compared and a pattern discerned. The pattern and distribution of potentially diverted checks and the types of potentially falsified check payees from this time period are consistent with those found in fiscal years 2010-11 through 2017-18 totaling an additional \$859,459.09; therefore, the total amount of potentially diverted funds is \$1,563,602.90.

Table 12 summarizes all potentially diverted funds, based on check payee category.

Table 12: All Potentially Diverted Funds, by Payee

School/Fiscal Year	Former Finance Clerk		Former Finance Clerk's			Totals
	Potentially Diverted	Mismatched	Husband	Mother	No Image	
2004-05	\$28,600.00	\$-	\$-	\$-	\$-	\$28,600.00
2005-06	39,460.00	-	-	-	-	39,460.00
2006-07	84,521.80	-	-	-	-	84,521.80
2007-08	169,619.50	-	-	-	-	169,619.50
2008-09	105,846.05	9,826.50	-	-	-	115,672.55
2009-10	136,906.25	-	-	-	-	136,906.25
2010-11	129,363.71	3,300.00	-	-	-	132,663.71
2011-12	-	147,029.88	-	-	-	147,029.88
2012-13	-	155,393.64	-	-	-	155,393.64
2013-14	-	156,242.12	-	7,700.00	-	163,942.12
2014-15	-	125,736.80	-	-	3,500.00	129,236.80
2015-16	-	104,784.80	1,540.00	-	-	106,324.80
2016-17	-	117,117.50	11,257.00	-	-	128,374.50
2017-18	-	17,878.85	7,978.50	-	-	25,857.35
Grand Totals	\$694,317.31	\$837,310.09	\$20,775.50	\$7,700.00	\$3,500.00	\$1,563,602.90
Total Diverted/ Mismatched Checks	216	261	9	2	1	489

Interview with the Former Finance clerk

Image 8 is a letter sent to the former finance clerk on November 29, 2018 via email and U.S. Postal Service certified mail with return receipt requested. In the letter, FCMAT extended a request to meet with the former finance clerk. The former finance clerk's name and address have been redacted from the letter.

Image 8



November 29, 2018

VIA U.S. CERTIFIED RETURN RECEIPT MAIL & EMAIL

VIA U.S. CERTIFIED RETURN RECEIPT MAIL & EMAIL

Receipt No: 7016-0750-0000-6110-1010

Receipt No: 7016-0750-0000-6110-1027

Former Finance Clerk
Address
City, State, Zip

Former Finance Clerk
Address
City, State, Zip

RE: Placentia-Yorba Linda Unified School District, Esperanza High School ASB

Dear Former Finance Clerk,

Hope all is well. We are auditing transactions at Esperanza High School ASB. In accordance with Education Code, Section 1241.5, the Orange County Superintendent of Schools has authorized an AB 139 Extraordinary Audit to be conducted by the Fiscal Crisis and Management Team (FCMAT).

You and I may have met some time ago at a CADA conference when you presented an ASB Finance workshop. If my memory is correct, I was presenting a FCMAT ASB workshop and you may have been in another breakout session at the same time. And you may have attended one of the districts ASB workshops I have presented.

During our review of ASB transactions at Esperanza High School we have come across some checks written to you, but we cannot find the supporting documentation for the checks. We would like to meet with you to review the checks in hope that you can help us understand the check purpose and perhaps you may have a backup set of supporting documents. With your extensive ASB experience, you probably have the information we need.

We are looking forward to meeting with you. We have available meeting dates of Friday, December 14th, 2018 or Monday, December 17th, 2018. If you are busy those days, we are happy to discuss other dates to meet with you. We will hold the two dates open and hopefully you can contact me by Tuesday, December 11th to confirm or discuss other dates you may have available. We look forward to speaking with you and you can reach me at my personal cell phone of (xxx) xxx-xxx or Email at xxxxxxxx@xxxxx.org.

Thank you in advance for your help.

The former finance clerk responded to the November 29, 2018 email on Monday, December 3, 2018 at 12:20 p.m. and explained she has been ill but could meet at the end of the month. FCMAT responded on Tuesday, December 4, 2018 11:09 a.m., indicating a desire to meet when she was feeling better and asking her to provide some possible dates for a future meeting. FCMAT did not receive a response, so sent another email on Monday, December 17, 2018 at 8:49 p.m. requesting a meeting date. She responded to that email on Tuesday, December 18, 2018 at 1:25 p.m. with the following:

I have Doctor appointments on January 11 and will be in OC then. Send me a list of what you are looking for and I will get my work files out of storage and hopefully have your questions answered. [emphasis added]

FCMAT was pleased to hear we could meet on January 11, 2019 and surprised to learn the former finance clerk possessed files in storage. In FCMAT's experience, it is irregular for finance clerk to keep files outside of the school site ASB office. Learning that files were kept at her storage also could be one reason many files were missing at the Esperanza High School ASB office. Prior to this news, the district and FCMAT had presumed these documents had been destroyed or were never created.

FCMAT responded the same day, Tuesday, December 18, 2018, at 9:59 p.m., thanking her and stating that we would try and adjust our schedule to hold open the date of January 11, 2019 to meet with her. At 10:07 p.m. on December 18, 2018, the former finance clerk replied, stating, "I need the info from you to proceed." At 10:40 p.m. on December 18, 2018, FCMAT responded as follows:

The audit differences I have are what look to be primarily checks to you, a person named [former finance clerks' husband], and a [former finance clerks' mother]. I've been compiling the data from cancelled checks I requested from the bank and compared those cancelled checks to the transactions entered into the ASB accounting software. The comparison kicked out mismatches between the data in the accounting software and the cancelled checks from the bank and are specific to the three names above.

I am soooooo happy to read you have files in storage because your records have to be better than what the school site has. So please please bring all your files to our meeting from your storage so we can review the documentation together. Please just bring it all...

FCMAT did not receive a response to the email above and followed up with an email on Friday, December 21, 2018 at 12:16 p.m., which confirmed that we were available to meet any time on January 11, 2019 and that we had a meeting room available at the Orange County Department of Education that day; the address and room number were included in the email. FCMAT also wrote that we knew she had a doctor's appointment that day and that we were willing to wait the entire day. She responded the same day, Friday, December 21, 2018, at 1:15 p.m., stating, "Ok thanks, I should be done by 11:00 see you then."

On Friday, January 11, 2019, FCMAT arrived at the Orange County Department of Education at 8 a.m. and waited for the former finance clerk to arrive. At 1:35 p.m. FCMAT received a phone call from an attorney who stated the former finance clerk would not be meeting. The attorney stated the former finance clerk was sick and was not officially retained by the former finance clerk. Because the attorney was not officially retained by the former finance clerk, FCMAT did not provide specific details about why we wanted to meet and hoped to be able to meet with the former finance clerk at a later date.

At 3:42 p.m. that same day, while still at the county office, FCMAT sent an email to the former finance clerk stating the following:

I just completed a phone call from [Attorney], an attorney. [Attorney] informed me that you are not able to meet today and are not feeling well. We hope you will get well soon.

As an update, so far, we have been able to go back in the ASB accounting records to June 2011 with the bank provided cancelled checks which has been very helpful for us. Nothing really has changed from my prior emails and we continue to really want to speak with you as soon as possible. If you have retained or are considering retaining an attorney, that is fine with us. If you and your son, whom we believe may be an attorney, or you and another attorney such as Mr. [Attorney] would like to meet, we are happy to bring the FCMAT attorney and all of us sit down together.

The best days we have available to meet are Thursday or Friday, January 24th or 25th, or Friday, February 8th, 2019. If these dates are not available, please propose several alternative dates in February 2019 that you can meet so that we can coordinate FCMAT schedules. Of course we cannot compel you to meet with us, it is your choice. I'm personally really hopeful you will meet. If we don't hear from you by Tuesday, January 22nd, 2019, field work will conclude and we will need to proceed without your help and issue our report. We truly do not want to conclude the audit without your help, but will respect your decision if you do not want to meet.

Once again, hope you feel better and we hope you will agree to meet with us. 😊 We would prefer to meet just with you, but welcome others you may want to attend or represent you.

On Tuesday, January 15, 2019 at 1:43 p.m., the former finance clerk's attorney emailed FCMAT and offered to meet on February 8, 2019 at 10:30 a.m. The attorney stated the former finance clerk "has several medical treatments ("infusion") every other Friday; these treatments have some rather debilitating effects for a few days." FCMAT responded at 3:18 p.m. the same day thanking the attorney. On Thursday, January 17, 2019 9:42 a.m., FCMAT wrote the attorney confirming that the meeting would be held at the Orange County Department of Education on February 8, 2019. FCMAT also wrote, "Because you and I have talked, and thinking what's best that would benefit the [former finance clerk,] we decided we will not have a FCMAT attorney with us."

On February 8, 2019 FCMAT met with the former finance clerk and her attorney. The meeting took place at the Orange County Department of Education, 200 Kalmus Drive, Costa Mesa, CA 92626, Room A-1036 and lasted from 10:35 a.m. to approximately 11:45 a.m. Room A-1036 is a private conference room with a door to a lobby, from which one can exit directly to the parking lot. The former finance clerk and her attorney chose seats in the conference room closest to the unlocked conference room door and building lobby exit door. Both of these doors were unlocked, unobstructed, and easy to exit through. FCMAT taped a do not disturb sign to the conference room door. A box of Kleenex tissue and bottles of water were available in the room. A FCMAT representative, one of FCMAT's consultants, the former finance clerk and her attorney were the only persons present at the meeting.

The meeting on Friday, February 8, 2019 is summarized as follows:

- The attorney stated the former finance clerk was ill and that he had requested medical records from her physician but that they were slow to provide them.
- The former finance clerk stated she has been seeing a doctor for 25 years before receiving a diagnosis of cancer eight years ago, and that she has been undergoing chemotherapy.
- The FCMAT representative remembered seeing the former finance clerk at district ASB training workshops she attended, and she also remembered those training meetings.

- The FCMAT representative stated that the amount of the check issues or misdirected checks that are in question is over \$1.5 million.
- The attorney appeared shocked at the amount and looked to his client, possibly indicating he was not aware the amount was so high.
- The FCMAT representative explained that the possibly mismatched, diverted, or misdirected funds are funds raised by students for students, are student trust funds, and are not district operating funds.
- The FCMAT representative showed the attorney and his client a binder with Excel schedules and copies of the misdirected checks written to the former finance clerk, her husband and her mother. The schedules showed that the payees listed in the accounting records by the former finance clerk did not match with actual check payees on the cancelled checks from the bank. The misdirected check copies clearly indicated that his client was the payee and endorser of the checks. The FCMAT representative also explained that two of the district's authorized check signers were shown checks with their signatures and that both signers stated the signatures were forgeries, not theirs, and that they would never have approved such payments.
- The FCMAT representative explained that the ASB accounting records were maintained by the former finance clerk and that the district was missing a large number of ASB records, which is why he was happy to read in the former finance clerk's email that she had records in her storage.
- The FCMAT representative asked the former finance clerk if she had brought the records with her. She replied that she did not have any records.
- The FCMAT representative asked if the former finance clerk's husband knew about the checks written to his name and deposited to her account. She stated that her husband does not know about the checks, including the checks made out to his name. She said her husband is also ill and described the illnesses.
- The FCMAT representative asked about the checks to the former finance clerk's deceased mother. She confirmed the date of her mother's death.
- Throughout the interview the former finance clerk repeated that she was "ashamed" and stated, "That is not me," or, "This really isn't me or who I am." She remained quiet and maintained that she could not remember much but nodded her head when she agreed.
- The former finance clerk stated that some checks were written to her, such as reimbursements. The FCMAT representative explained that reimbursement checks were discovered and, even though there was little documentation, those checks were cleared as diverted and were not included among the mismatched checks. Further, if there was any question or possible way to clear a check as not diverted, those transactions were also not included in the total findings.
- The former finance clerk needed to leave the room a few times to go to the restroom. The FCMAT representative showed her the way to the restroom and explained how to return to the conference room. When the FCMAT representative walked the former finance clerk to the restroom, he moved the findings binder over to the attorney for him to look through at his leisure.

- The FCMAT representative asked the former finance clerk if she had any money left or could sell off homes to pay restitution. She stated she did not own homes other than a \$7,000 mobile home. At no time did the former finance clerk deny the checks written to her were hers; she repeatedly stated, “That’s not me,” and indicated how ashamed she was throughout the interview.
- As the interview progressed, the former finance clerk became weaker and all parties present decided there was no need to discuss anything further. The meeting concluded, and the FCMAT representative and the attorney walked the former finance clerk outside. The FCMAT representative stayed with the former finance clerk while the attorney went to get his car, so she did not have to walk through the parking lot. While together waiting for the car to arrive, the former finance clerk told the FCMAT representative she was glad it was him who met with her today.

Other Information

IRS Form 1099

When FCMAT examined the ASB accounting records, there was no evidence that the former finance clerk issued herself or her husband an Internal Revenue Service Form 1099 for any of the funds in any of the years in which checks were written to herself or her husband. Form 1099 is the federal form used to report to the IRS income other than wages, salaries and tips. The district confirmed that the former finance clerk’s diverted checks were never part of her salary or part of her IRS Form W-2 Wage and Tax Statement. All income is required to be reported to the IRS on an annual tax return. If the former finance clerk failed to report any of the mismatched or diverted funds received by her or her husband on their joint annual tax return, she may be subject to a number of severe federal and state income tax penalties, both civil and criminal, including those applicable to individuals who evade reporting income taxes. Penalties for IRS fraud can be as high as 75% of the amount of taxes due and can lead to incarceration.

Diverted Checks Hidden from The District

The former finance clerk controlled the ASB accounting records and the accounting software, and was responsible for reconciling the bank account. Reconciling the bank account meant she controlled the use and viewing of cancelled checks received from the bank. The diverted checks were recorded in the ASB accounting records as checks to other known and commonly-used vendors. As a result, the accounting records reconciled with the bank records, which gave the appearance that all was well.

The absence of the cancelled checks written to the former finance clerk, and with them the forged check signers’ signatures on those checks, left no audit trail. Because the official check signers never signed the checks, and because students and administrators never saw the checks, nobody was aware of the diverted checks. Thus, no questions were asked and no one had reason to suspect something was wrong.

Consistently diverting relatively similar total annual amounts year after year created little or no fluctuations in the financial reports; as a result, nothing stood out as a financial variance to raise a red flag. As long as this remained the case, the ASB books looked healthy to the untrained eye.

Use of Alternate Identity

As stated earlier in the report, two checks were written to the former finance clerk's mother; however, her mother's date of death was June 26, 2010, approximately 3 1/2 years before the checks were written to the mother. The two checks were written on December 13 and 18 of 2013. The two checks were endorsed on the reverse side using the name of the former finance clerk's mother but in handwriting comparable to that of the former finance clerk. Because her mother had passed away before the checks were written, the use of her mother's identity could be considered use of an alternate identity to perpetuate continued diversion of checks.

Summary

Based on the evidence, interviews, forensic and fiscal analysis, available documentation examined, and the patterns and projections identified in this report, the total amount of Esperanza High School ASB funds that may have been diverted is \$1,563,602.90.

FCMAT also found that the potentially diverted ASB funds are isolated to Esperanza High School. No evidence was found nor is any available that would implicate any other schools from which FCMAT sampled financial transactions.

Judgments regarding Guilt or Innocence

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

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

If the county superintendent determines that there is evidence that fraud or misappropriation of funds has occurred, the county superintendent shall notify the governing board of the school district, the state controller, the superintendent of public instruction and the local district attorney.

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

Recommendation

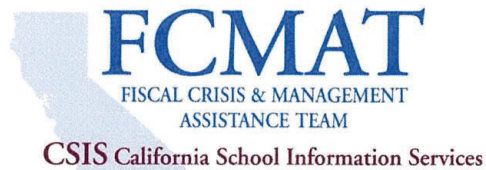
The county superintendent should:

1. Notify the governing board of the Placentia-Yorba Linda Unified School District, the State Controller, the Superintendent of Public Instruction, and the local district attorney that fraud, misappropriation of funds or other illegal fiscal practices may have occurred, and that the Orange County Department of Education has concluded its review.

Appendix

Study Agreement

OCDE AGREEMENT#: 47218



**FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
AB139 STUDY AGREEMENT
September 4, 2018**

The Fiscal Crisis and Management Assistance Team (FCMAT), hereinafter referred to as the team, and the Orange County Department of Education, hereinafter referred to as the COE, 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. Scope and Objectives of the Study

The COE has requested that FCMAT assign professionals to conduct an AB 139 Extraordinary Audit. This audit will be conducted pursuant to Education Code Section 1241.5 (b). The COE has received information regarding possible fraud, misappropriation of funds or other illegal practices at the Placentia-Yorba Linda Unified School District, and is requesting that FCMAT review cash disbursement transactions at Esperanza High School's Associated Student Body (ASB) account.

The team will review and test recorded transactions for fiscal years 2015-16 through 2017-18 to determine if fraud, misappropriation of funds or other illegal activities may have occurred. Testing for this review will be based on the auditor's judgment and a sample of transactions and records for this period. Testing and review results are intended to provide reasonable, but not absolute certainty about whether the charter's financial transactions and activity were sufficiently accurate.

The primary focus of this review is to determine, based on the sample testing performed and auditor's judgment (1) whether any district personnel used ASB funds for non-ASB reasons at Esperanza High School; (2), the extent of any possible fraud, misappropriation of funds or other illegal practice isolated to the testing period, and (3) based on that assessment, whether fraud, misappropriation of funds or other illegal fiscal practices may have occurred.

B. Services and Products to be Provided

1. Orientation Meeting - The team will conduct an orientation session at 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 district office and at school sites if necessary; and will continue to review pertinent documents off-site.
3. Progress Reports - The team will inform the COE of material issues as the review is performed.
4. Exit Meeting – The team will hold an exit meeting at the conclusion of the on-site review to inform the COE of any significant findings to that point.
5. Draft Report – When appropriate, electronic copies of a preliminary draft report will be delivered to the COE's administration for review and comment on a schedule determined by the team.
6. Final Report - Electronic copies of the final report will be delivered to the COE and/or district following completion of the review. Printed copies are available from the FCMAT office upon request.
7. Follow-Up Support – If requested, the team will meet with the COE and/or district to discuss the findings and recommendations of the report.

3. PROJECT PERSONNEL

The FCMAT study team may also include:

- A. *To Be Determined FCMAT Staff*
- B. *To Be Determined FCMAT Consultant*

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

4. PROJECT COSTS

The cost for studies requested pursuant to EC 42127.8 (d) (1) shall be:

- A. \$1,100 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 \$38,800.

- 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, located at 1300 17th Street, City Centre, Bakersfield, CA 93301.

5. RESPONSIBILITIES OF THE COE AND/OR DISTRICT

- A. The district will provide office and conference room space during on-site reviews.
- B. The district will provide the following if requested:
 - 1. Policies, regulations and prior reports addressing the study request
 - 2. Current or proposed organizational charts
 - 3. Current and two prior years' audit reports
 - 4. Any documents requested on a supplemental list. Documents requested on the supplemental list should be provided to FCMAT only in electronic format; if only hard copies are available, they should be scanned by the 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 COE's administration will review a preliminary draft copy of the report. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the team prior to completion of the final report.

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

6. **PROJECT SCHEDULE**

The following schedule outlines the planned completion dates for different phases of the study 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 COE 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 COE does not provide written notice of termination prior to completion of fieldwork, the team will complete its work and deliver its report and the COE will be responsible for the full costs. The COE 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 COE 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 COE. 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 COE in any manner without prior express written authorization from an officer of the COE.

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 COE, 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 Orange County Department of Education named as additional insured, indicating applicable insurance coverages upon request.

10. HOLD HARMLESS

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

11. CONTACT PERSON

Contact: Dean West, Associate Superintendent, Business Services
 Telephone: (714) 966-4229
 E-mail Address: dwest@ocde.us



September 18, 2018

Patricia McCaughey, Administrator
 Orange County Department of Education
 *Legal Name: Orange County Superintendent of Schools

Date



September 4, 2018

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

Date