SAFEGUARDING ASSOCIATED STUDENT BODY FUNDS – CHECKING ON BALANCES

Summary

The 2005-2006 Santa Clara County Civil Grand Jury (Grand Jury) reviewed the internal accounting controls of selected Santa Clara County public schools and districts relating to the management and administration of the Associated Student Body (ASB) funds and accounts. This inquiry was based on a citizen’s complaint about the embezzlement of approximately $485,000 of ASB funds from Bret Harte Middle School (Bret Harte) in the San Jose Unified School District (SJUSD), which occurred over a seven-year period ending in January 2005.

It appears that SJUSD has implemented a series of revised policies and procedures that better protect ASB funds.

Background

The Fiscal Crisis and Management Assistance Team (FCMAT) was established in 1992 under state law (AB1200) to help local educational agencies fulfill their financial and management responsibilities. FCMAT provides fiscal advice, management assistance, training, and other school business services. It publishes the Associated Student Body Accounting Manual & Desk Reference. This manual provides guidance to faculty, staff, and students about the management and administration of ASB funds. The manual states:

“Under the law, students in California’s public schools may raise money and make decisions about how they will spend this money. Student organizations that are established to raise and spend money on behalf of students are called Associated Student Body Organizations or ASBs. The funds that are raised and spent by student organizations are called associated student body funds or ASB funds. In the minds of public school officials and the general public, ASB funds may be thought of as a few bake sales or car washes a year. What is surprising is that ASB funds have become big business for student organizations. An ASB in a large school district may raise between a half million and a million dollars a year!

“ASB organizations and ASB funds represent an opportunity for students to learn some of the principles of operating a small business and make a contribution to their school.”
In January of 2005, immediately upon detection of a suspicious transaction, an internal audit of ASB funds was initiated by SJUSD. This audit found that the Bret Harte Middle School failed to administer its ASB accounts properly, failed to provide timely bank reconciliation, and failed to conform to the rules and regulations of ASB’s governing body. The audit revealed that about 260 suspicious transactions (involving the issuance of nearly $485,000 in checks) had taken place during a seven-year period. The transactions involved altering amounts on copied invoices and obtaining payment with fraudulently generated invoices. The largest loss came from transactions that lacked supporting documentation.

The audit led to an investigation by the San Jose Police Department in January 2005. The Bret Harte ASB Clerk was indicted, convicted, and sentenced to three years in state prison. The Clerk was ordered to repay $700,000 in restitution. No other SJUSD personnel were believed to be involved in the embezzlement.

Discussion

The Grand Jury reviewed the policies, practices, and procedures that were in place during the embezzlement at the Bret Harte Middle School. The inquiry checked to see that appropriate corrective actions had been taken to prevent similar fraudulent activities in the future. The Grand Jury also looked beyond SJUSD and visited another district office, another middle school, and two high schools. During these visits, the Grand Jury reviewed ASB fund policies, practices, and procedures to determine if similar problems might exist at other schools.

SAN JOSE UNIFIED SCHOOL DISTRICT

After the embezzlement was uncovered, SJUSD published an Administrative Bulletin titled “Procedure for Issuance of ASB Checks,” dated February 16, 2005. This bulletin was sent to all school administrators in SJUSD. The Administrative Bulletin contains ten specific guidelines to improve the ASB payment process. This bulletin clearly states that the principal of each school is responsible for ASB funds and activities, and the District Office is responsible for general oversight of the funds.

Prior to the embezzlement, SJUSD conducted an annual audit at schools within the District. The audit checklist was a two-page document which sampled ASB activity, but was not comprehensive. After the embezzlement, SJUSD revised the “ASB – Mid Year Audit Program Checklist.” This eight-page document includes the following audit objectives:

- “Cash in the balance sheet is on hand or in transit, and reconciled to the accounts in a timely manner.

- “Cash receipting procedures provide for an adequate audit trail through the use of cash receipts or other documentation.
• “Cash disbursements contain the required three signatures for approval and prohibited expenditures are avoided.

• “Inventory is properly accounted for with physical inventories being taken and cost pricing supported by recent invoices.

• “Minutes of ASB meetings are maintained and included approvals of fundraisers and authorizations of expenditures.

• “Revenues are supported by revenue potentials to account for monies expected to be collected and monies actually collected.

• “Tickets are safeguarded from improper use and accounted for at each event.”

The Grand Jury also reviewed several manuals and tools currently in use to train SJUSD School and ASB administrators to monitor and manage the ASB funds. These included:

• Associated Student Body Accounting Manual and Desk Reference

• General Guidelines & Accounting Procedures for Student Body

• Associated Student Body (ASB) Finances Training Manual (September 16, 2005)

• Quicken 2005 for Student Body

• SJUSD Accounting Procedures for Student Body Training – 2003/2004

SANTA CLARA UNIFIED SCHOOL DISTRICT

The Grand Jury visited Buchser Middle School and the District Office of the Santa Clara Unified School District. At the time of the visit to the middle school, the interim Principal explained that ASB funds were managed by the Bookkeeper who coordinated with the teacher assigned to a particular student activity. Though the Bookkeeper signs the checks issued for ASB expenses, two signatures are required for each check. The second signature is that of the Principal or the Vice Principal. Generally, the Vice Principal provides the backup signature. The account records and bank statements are reviewed by the Principal.

Within the District, all middle and high schools have bookkeepers. The elementary schools utilize the office secretary to manage the funds.

At the District level, the Assistant Superintendent for Business Services plays an integral role to ensure that ASB funds are properly administered, bank accounts are balanced, and key personnel are trained. The District requires continuous training and professional development for all personnel involved with finances.
The District requires all personnel involved with ASB funds, such as school principals, vice principals, bookkeepers, secretaries, and District staff involved with school finances, to attend monthly meetings. This allows everyone to share best practices, answer questions about processes, and arrange for additional training. New employees who are involved with financial functions at the school or District level attend a training session through the California Association of School Business Officials (CASBO). At the session, each participant receives the latest copy of the Associated Student Body Accounting Manual. Every other month, bookkeepers in the middle and high schools, and the secretaries in the elementary schools attend a meeting to discuss financial processes and issues.

In addition to training and meetings, the District provides another manual to describe financial standards for managing ASB funds. This manual is for all ASB administrators and staff. The material is taken from the Associated Student Body Accounting Manual and other sources, such as forms and guidelines for the District. Each school must have a copy of both manuals.

Monthly and annual audits are performed by the Assistant Superintendent. External audits are performed annually on selected schools. Each month, one middle or high school receives an internal audit by the District.

**MILPITAS UNIFIED SCHOOL DISTRICT**

The Grand Jury visited Milpitas High School in the Milpitas Unified School District and met with its Principal. Also in attendance were the Assistant Superintendent and Director of Business from the District. They explained that the ASB funds were managed by the ASB Bookkeeper who coordinated the ASB funds with the teacher/advisor assigned to a particular student activity.

The Bookkeeper’s job is to record all the cash and checks received from school events and acknowledge receipt to the student group. Receipt of the money is recorded at the student group’s meeting and published in its meeting minutes. The cash and checks are placed in a safe until deposited into the bank. The Bookkeeper maintains an ASB account for each student group and reconciles the bank statements with each account. The Principal also reviews the account records and bank statements. A copy of the statement is sent to the District Office. Each student group receives an update of its ASB account deposit and disbursement activities.

A disbursement from an ASB account is always paid by check and never by cash or credit card. A request for a payment is initiated by the student activity that incurred the expense. The request is reviewed at a meeting of the group overseeing the student activity. If approved, the request for payment is accompanied by the published minutes of the meeting and is co-signed by a student officer and the supervising teacher of the student group.
The issued check, together with the invoice and documentation, is sent to the Principal for signature. After the Principal signs the check, a cosigner is required, who can be the ASB Student Advisor or the Assistant Principal. There must always be two signatures on a check and the only individuals authorized to sign a check are the Principal, the Assistant Principal, and the ASB Student Advisor. The Bookkeeper is not authorized to sign checks.

Any check that entails a tax payment, such as a disbursement to a contractor requiring withholding taxes, must be processed by the District Finance Department. In this case, the Bookkeeper creates a check payable to the District. It is signed by the required two administrators and sent to the District, which then issues a check to the vendor, adjusted for the tax calculations.

At the District level, the Finance Director plays an integral role to ensure that ASB funds are properly administered, and key personnel are trained. The District has a manual available at the school for training and reference, which includes financial standards, guidelines, and forms. An outside auditor reviews accounts annually.

FREMONT UNION HIGH SCHOOL DISTRICT

The Grand Jury visited Monta Vista High School in the Fremont Union High School District and met with the Principal and the Assistant Principal responsible for the ASB program. The ASB Bookkeeper handles the day-to-day financial operation of the program.

The Principal explained that all checks must be signed by two authorized members of the school’s administration. There are five administrators authorized to sign checks. Usually, the two signers are the Principal and Assistant Principal responsible for the ASB program. Unlike at other schools, the ASB Bookkeeper is not authorized to sign checks.

The school appears to have tracking mechanisms to correlate expenses with requests for payments.

Conclusion

The results of this review revealed that SJUSD has implemented revised policies and procedures at the local school level, as well as at the District Office. These address shortcomings that previously existed. In the small sample of schools visited in other districts, controls also appear to be in place.
PASSED and ADOPTED by the Santa Clara County Civil Grand Jury on this 1st day of June, 2006.

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Thomas C. Rindfleisch
Foreperson
References

Documents


6. Associated Student Body Workshop (undated).


10. Internal Audit Report SJUSD Middle School (ASB), May 12, 2005.


Interviews

1. February 10, 2006, Principal, Bret Harte Middle School, San Jose Unified School District.

2. February 16, 2006, Director of Internal Audit, San Jose Unified School District.

3. March 20, 2006, Interim Principal and Vice Principal, Buchser Middle School, Santa Clara Unified School District.

4. March 28, 2006, Principal, Milpitas High School; Assistant Superintendent; and Director of Business; Milpitas Unified School District.


6. April 3, 2006, Principal and Assistant Principal, Monta Vista High School, Fremont Union High School District.