

ASB, What Every Governing Board and Audit Committee Should Know

Sponsored by:

Sweetwater Union High School District

August 15, 2015

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The ASB Accounting Manual and Desk Reference

- A revised manual was released December 2012
- Can be accessed and downloaded for free from FCMAT's website at www.fcmat.org
 - This revision includes updated useful information as well as increases the number of forms and templates available in Microsoft Word and Excel on the FCMAT website.

**ASB – Great For Students
But Can Be Complex For Advisors
and Administrators**

District Board Policy and Regulations

Govern:

- Establishment of the student body organization
- Supervision of the organization's activities
- Operation and management of the organization's finances
- It is important ASBs are aware of district policy because district policy applies to the ASB.
- District board policy is another law that ASB must follow.

District Board Policy and Regulations, cont.

Anyone involved with ASB has a responsibility to report suspected fraud or abuse to principal and/or the business office.

The governing board of the school district, charter school or community college is ultimately responsible for everything that happens in the district, including the activities of student organizations.

Governing Board Approves Everything But May Have a Designee

- Obtain proper district governing board approval PRIOR to the fund-raiser occurring.
 - ASB fund-raising events should be approved at the beginning of year, by the board or whoever the board delegates to do so, or the governing board should approve policies and administrative regulations that delineate allowable and unallowable fund-raising events.
- Ensure parent organizations coordinate the timing of their fund-raisers with ASB fund-raisers so they aren't in competition with each other.

Even Revenue Potential Forms

Revenue Potential Form is an ESTIMATE with your ACTUAL results and the difference all shown in the same form.

- The students will learn:
 - Projecting for an expectation
 - Why actual results are different or why actual results agree
- Yes, there may be some guessing for the estimate section.
- ESTIMATE SECTION MUST BE FILLED OUT **PRIOR** TO EVENT.
- Revenue potential form can serve as the document to:
 - **Complete and submit to the board or designee for event approval.**
 - Ensure that the site administrator is informed and approves of all fund-raising activity at the site.
 - Notify the bookkeeper of an upcoming deposit.

Starting up ASB and/or New Clubs

- Submit a formal application that includes:
 - Title, powers and duties of the officers and the manner of their election
 - Scope of proposed activities
 - Name of organization
 - Endorsed by a certificated club advisor
- New clubs must be approved by:
 - Student council
 - Principal
- All new clubs should be formed according to the ASB constitution and board requirements in your specific district.

Donations

- Yes, ASB can gladly accept donations of money or property if the donation is for appropriate ASB expenditures.
- But they can't be:
 - Required
 - Mandatory
 - A prerequisite to participate in a program or activity
- All ASB rules and guidelines apply to any received donations.
- Make sure you know if the district's board policy on donations has special provisions/instructions for how ASB donations are to be acknowledged or accepted.

Allowable Expenses

- Must be in compliance with the law and local board policy
- Must promote the students' general welfare, morale, and educational experience
- Must be directly linked to the students' benefit
- Must be pre-approved
- Must be outside of what the school district should provide, or has provided in past, from their own general funding sources
- Must benefit a group of students (with few exceptions)

Allowable Expenses, cont.

- To justify the expenditure of public funds, the governing board must determine that the expenditure will benefit the education of students within its schools.
- If the governing board has determined that a particular type of expenditure serves a public purpose, courts will almost always defer to that finding: **Put in board policy.**
- Can be considered a gift of public funds unless in board policy.
 - Scholarships (discussed later in this presentation)
 - Donations to charity (discussed later in this presentation)
 - Flowers

Unallowable Expenses

Include:

- Regular curriculum and classroom supplies
- Salaries/supplies that are the district's responsibility
- Repair and maintenance of district equipment/facilities
- Items for employee personal use
- Faculty meeting costs
- Parent group costs
- Large awards unless approved in board policy
- Employee appreciation meals
- Employee clothing/attire
 - Coach uniforms paid by ASB is not recommended
- Donations
- Gifts of any kind

Are Awards Allowed?

- Board required to adopt rules and regulations about awards.
 - If no policy or regulations, no awards allowed.
- Authorized by E.C. 44015.
- Awards are allowed to employees for exceptional contributions and to students for excellence.
- Only student awards should come from ASB.
- Awards cannot exceed \$200 in value unless board policy states a higher amount.
- Awards are not authorized to community members, parents, or volunteers.
- Awards are not allowed for birthdays, weddings, funerals or holidays.

Are Awards Allowed?, cont.

- **FCMAT's recommendation:** Awards are only allowed if there is an approved board policy in place and if award does not violate other district policies (i.e., wellness policy). Only allow student awards from ASB funds.

Are Donations to Other Organizations Allowed?

- Donations are considered a "Gift of Public Funds".
 - Funds have been raised under the district's non-taxable status.
- Students can still organize fund-raisers to support specific charities if clearly identified as such.
 - If so, the checks should be written to the organization/charity.
 - An exception can exist only if district governing board approves a special fund-raising event with the funds clearly segregated within the ASB account.

Note: Donations are not allowed for needy families. A legal foundation must be established separate from the district.

Are Donations to Other Organizations Allowed?, cont.

- **FCMAT's recommendation:** Donations to other organizations are not allowed from ASB funds unless specific governing board approval has been obtained.

Are Scholarships Allowed?

- Yes, if the following exists:
 - Governing board, or authorized designee, approves the scholarship donation.
 - Acceptance must be in writing, including all conditions prescribed by the donor.
 - Statement must also be included regarding the disposition of any remaining balance.
 - Each scholarship and trust account must be established separately.
 - The donation cannot be for a specific student(s).
- Students may organize fund-raisers to raise money for scholarships.
 - If the district governing board approves a special fund-raising event with the funds clearly segregated within the ASB account.

Contracts for ASB

- Contract - legally binding document
 - Whoever is authorized to sign contracts under district policy are the same individuals that are allowed to sign ASB contracts.
 - School principals and ASB advisors are not usually board-approved signers. Make sure you check your district board policy before signing any contract.
 - Follow district policy regarding contracts
 - Authorized signers
 - Dollar limits
 - Required review/authorization
 - District contract policies and procedures protect the ASB, the students, and their assets.

Internal Controls/Spending

- Spending student money **MUST** be accomplished with sound internal controls, great accounting practices and conform to your board of education regulations (E.C. Sec.48933).
 - All disbursements **MUST** be:
 - Budgeted
 - Properly authorized by students
 - Paid **ONLY** from **ORIGINAL** documents/receipts, etc.
 - Service/product/goods **MUST** be **RECEIVED** and authorized

Internal Controls/Spending, cont.

- Purchase orders must be completed **PRIOR** to the purchase.
 - Organized ASB's
 - Pre-approved by three (3) signatures on P.O.
 - Student representative
 - Certificated club advisor
 - Board designee (normally the principal)
 - District Policy Should Identify The Board Designee At Each School Site
 - Unorganized ASB's
 - Pre-approved by only one signature on the P.O.
 - This signer/trustee is normally the principal

Athletic Events

Athletic Events – Who Gets the Money?

- The governing board decides which club, parent organization or district account will receive revenues raised from these types of events. Once that decision is made, then appropriate board policy, regulations, and procedures apply.
 - If the athletic event is considered ASB activity/club revenue – all ASB rules apply.
 - Rather than accounting for athletics through the General ASB account – Create an Athletics Club that all sports run through.
 - Athletics are best operated outside of ASB

ASB Types

- **Unorganized**
 - Elementary and K-8 school sites
 - Also: **Adult Ed, Special Education, ROP, Continuation**
 - Usually no student council or student clubs
 - Limited student decision making: School Principal/Trustee oversees raising and spending of funds and CAN make all decisions.
 - Note: Although the Principal/Trustee can make the decisions, this does not change the rules on how and why we raise and spend these ASB funds.
 - Requirements are not as strict.

ASB Types, cont.

- **Organized**
 - Middle and high schools; community colleges
 - Activities are organized around student clubs and a student council
 - Students are the primary authority when making decisions:
 - Formal meetings
 - Develop budgets
 - Plan fund-raisers
 - Decide how funds will be spent
 - Approve payments
 - Advisors and school principal
 - Provide assistance, advice, and co-approval

Starting up ASB and/or New Clubs

- Submit a formal application that includes:
 - Title, powers and duties of the officers and the manner of their election
 - Scope of proposed activities
 - Name of organization
 - Endorsed by a certificated club advisor
- New clubs must be approved by:
 - Student council
 - Principal
- All new clubs should be formed according to the ASB constitution and **board requirements** in your specific district.

Starting up ASB and/or New Clubs, cont.

- All clubs need to be approved, even activity clubs, for liability reasons.
 - Need a certificated club advisor.
 - If no financial activity, then there is no need for monthly meetings with minutes or budgets.

- It's all about Students:
 - Fund-raising
 - Participating
 - Doing
 - Learning
 - Experiencing
 - Making decisions (unless unorganized)

What is ASB Composed of?

- Middle schools, high schools, and community colleges (organized)
 - Activities are organized around
 - Student Clubs
 - Student Council
- Elementary (unorganized)
 - Activities organized around
 - Classes
 - MAY be Clubs
 - MAY be a Student Council

Student Club and Trust Accounts

- So, what is a CLUB?
 - Composed of currently enrolled students at that specific school site
 - Certificated employee as an advisor
 - Students **MUST** play a major role
 - Students are the primary authority when making decisions
 - Have approved constitution
 - Elected officers
 - Must have a budget
 - Formal meetings
 - Minutes of meetings
 - Clubs report to the student council

Student Club and Trust Accounts, cont.

- Funds held in trust by student council
 - ASB constitution or bylaws should state what happens to funds of inactive clubs
 - If constitution or bylaws silent, would revert to general ASB account
 - i.e., Student council or leadership class
 - Try to spend money for same reason it was raised
 - Define what an inactive club is
 - i.e., 18 months (district can determine)

How Do Parent Groups Fit In?

- Parent group funds cannot be commingled with district/ASB funds.
 - Non-student groups cannot deposit funds into the ASB accounts unless they are truly being donated to the ASB.
 - Once the funds are donated to ASB, only the student organizations control how the funds will be used.

The FCMAT ASB Manual gives detailed information about non-student groups in Chapter 21.

What Should we do with Funds that Don't Belong in ASB?

- Non-ASB accounts, including, but not limited to, pass-through type accounts, should be transferred into a district donation account.
 - Discontinue accounting for non-ASB activities in the ASB financial records.
- Donations from parents, students or community members or groups should be deposited in the school site's district donation account, not accounted for through the ASB, unless truly supplementing fund-raising.

ASB Accounts are Not Pass-Through Accounts

- ASB accounts should not be used as pass-through or clearing accounts.
- Only money that should be deposited into ASB:
 - Actual ASB funds
 - Will be used for appropriate ASB purposes

ASB is ASB Specific

- When non ASB activities are comingled with ASB, this is where problems start.
- Comingled funds are not allowed and may appear to be fraud or negligence.
- Avoid even the APPEARANCE of Fraud.
- Let's look at the concept of Fraud

Summary

- The Governing Board is Ultimately Responsible for All Things ASB
- The Governing Board may appoint a Designee.
- If the governing board has determined that a particular type of expenditure serves a public purpose, courts will almost always defer to that finding: **Put in board policy.**
- Adopt both the FCMAT ASB Manual and The District ASB Manual as part of Board Policy

FRAUD

There are many words for Fraud

✓ **Misappropriation**

✓ Theft

✓ **Embezzlement**

Let's focus on the two terms of –

Misappropriation

and

Fraud

WHAT IS MISAPPROPRATION OF FUNDS?

MISAPPROPRIATION

"In law, **misappropriation** is the **intentional, illegal use of the property or funds** of another person for one's own use or other unauthorized purpose, particularly by a **public official**, a trustee of a trust, an executor or administrator of a dead person's estate or **by any person with a responsibility to care for and protect another's assets** (a fiduciary duty)."

Definition by Wikipedia via Google Search

FRAUD

Black's Law Dictionary defines fraud as:

“**all** multifarious **means** which human ingenuity can devise, and which are resorted to by one individual **to get an advantage over another** by false suggestions or suppression of the truth. It includes all surprise, trick, cunning or dissembling, and any unfair way **by which another is cheated.**”

**WHY ARE ASB'S SUCH TARGETS
FOR FRAUD ???**

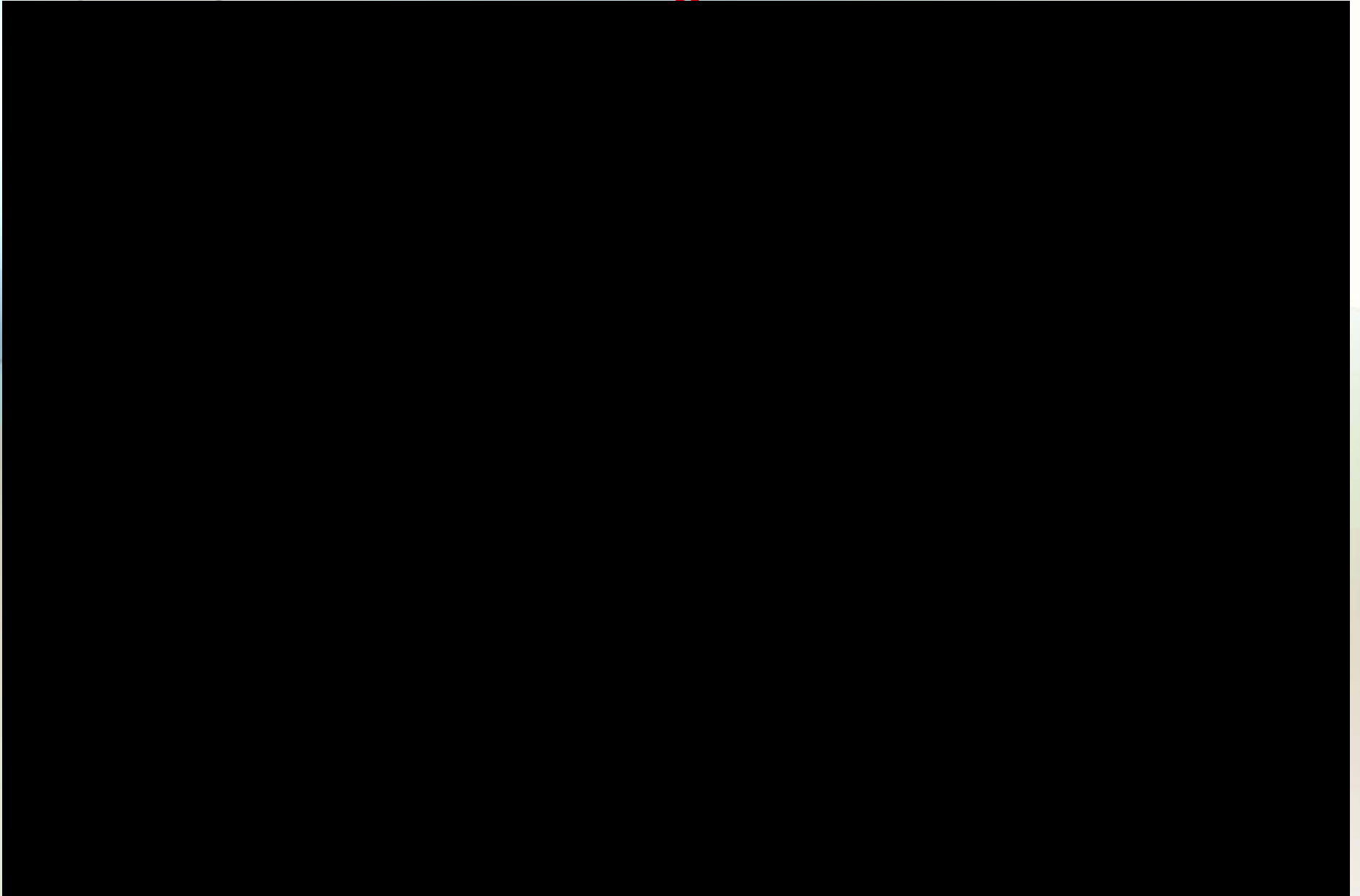
WHY THE FOCUS ON FRAUD?

Fraud Is Everywhere

Allegations of ASB Fraud



When Things Go Bad.



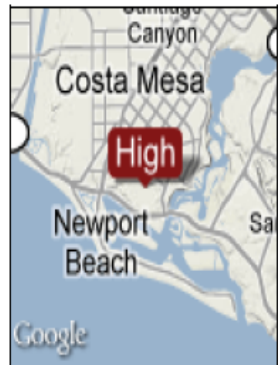
Former Newport Beach high school employee accused of stealing student body funds

June 26, 2010 | 8:14 am



Newport Harbor High

600 Irvine Ave., Newport Beach, 92663



- Public school in the Newport-Mesa Unified district.
- Grades 9-12
- 2,419 students
- 92 faculty members

Source: California Department of Education

[More »](#)

SANDRA POINDEXTER, BEN WELSH Los Angeles Times





A former Newport-Mesa Unified School District employee is free on bail and could face charges of grand theft for allegedly stealing \$11,000 worth of cash and checks from Newport Harbor High School's student association, police said Friday.

Juan Medinaperalta, 26, of Orange, was arrested Tuesday following a month-long investigation by police into funds that never ended up at the district offices as they were supposed to.

In May, school officials handed Medinaperalta a bag with \$7,179.45 in cash and more than \$4,500 in checks, said Sgt. Steve Burdette.

PHS employee suspected of stealing school funds

by Kendall Wright | Patterson Irrigator

Mar 23, 2010 | 1424 views | 0  | 21  |  | 

After more than two years of investigation, a Patterson High School employee was arrested late last week on suspicion of **stealing more than \$40,000 from student clubs and organizations** during the 2007-08 school year.

Police arrested 27-year-old Patricia Flores of Patterson on suspicion of embezzlement and grand theft on Thursday, March 18, following an independent review of accounts and bookkeeping records by an accountant certified in fraud detection. The accountant linked Flores to the theft of \$47,872.5~~x~~ over a period of six to eight months during her time as the high school's account clerk.

School officials and investigators began suspecting that **Flores was not recording cash for various accounts and manipulating the school's bookkeeping records** when an annual audit of student body funds also revealed that **accounts were short on money**, said Steve Menge, the school district's assistant superintendent of administrative services. Additional complaints from students that their checks hadn't been cashed only furthered school officials' suspicions, he said.

Flores — a 2001 graduate of PHS — had been employed with the school for four or five years before she resigned in August 2008.

"It was a real surprise to everyone, especially because nothing like this has happened in the past," Menge said. "It's really bothersome when things like this happen in your place of business.

"We always try to hire people with that element of trust, and it's hard when they take it away."

Principal Dave Stubbs said that numerous school activities and organizations — normally funded through student fundraisers — suffered as a result of the theft.

"Because this was (associated student body) money, it was directly related to clubs, teams and organizations that operate for our students," Stubbs wrote in an e-mail. "It had a large impact, but the good news is that that all the organizations were able to continue to operate."

Before the theft, Menge said the district had conducted an annual audit of school money, but **random audits are now performed**

**AGAIN: WHY ARE ASB'S SUCH
TARGETS FOR FRAUD???**

Why Are ASB's Such Fraud Targets ???

What does an ASB have that is highly liquid, transports easily, derived from numerous sources, difficult to trace, and is easily removed???????

Cash

- Cash from Fund-raising – (Candy Drives, Auctions)
- Cash from Events – (Football Gate Receipts, Dances, Bake Sales)
- Cash from Donations

Poor Oversight

At any level (i.e., District Office, Principals, Activities Directors, Internal Auditors)

Poor Oversight, cont.

There are many rules and regulations that require compliance and a lot of patience to implement, along with many who don't want to follow the procedures.

THREE INGREDIENTS NEEDED FOR FRAUD

MOTIVE

OPPORTUNITY

ACCESS

**WHAT IS SO IMPORTANT
ABOUT THOSE THREE
INGREDIENTS???**

Think About These “3” When Evaluating Your ASB

- Who Has **Opportunity**?
- Who Has **Motive**?
- Who Has **Access**?

Perceived Financial Pressure

- Sudden financial shortfalls
- Living beyond one's means
- Greed
- Poor credit standing and inability to obtain credit
- Unexpected significant medical expenditures
- Large education expenditures
- Family or peer pressure
- Gambling losses – (mobile home park example)
- Alcohol, drugs, extramarital affairs

Perceived Opportunity

- Poor internal controls
- Poor training
- Poor supervision
- Those who steal are not prosecuted
- Poor or ineffective anti-fraud programs & policies and procedures
- Management at the top are perceived as unethical. An unethical culture.

Rationalization

Psychologists like Cressey have taught that before the crime takes place, some type of morally acceptable behavior is necessary. In other words, they must somehow justify their actions by thinking something like:

- This is just a loan and I'll pay it back when I get paid.

Access or No Access?



Don't Forget.....

Fraud detection and prevention is more about enforced internal controls, awareness, and observations of changing behaviors and changing accounting habits.

INTERNAL CONTROLS

Internal Controls

Never count money alone. (Churches have two or even three witnesses for counting money) – What does that tell us?

Booster Club



CASH IS THE MOST IMPORTANT AREA

- The following slides are designed to provide you with an idea of how much activity and risk accompanies cash.
- Remember, cash is a product of fundraising and travels through many hands.

Cash Control Procedures

THESE ARE THE DETAILS

- Most fraud that occurs in ASB is directly related to procedures for handling of cash and checks.
- Internal controls CRITICAL.
 - Protect ASB's assets (cash).
 - Protect students, employees and staff who handle cash from accusations or errors.
- Principal must ensure:
 - Proper cash control procedures established and followed:
 - During fund-raising event.
 - When cash and checks given to ASB bookkeeper for deposit into ASB account.
 - That unless cash control procedures are in place for the fundraiser, the event cannot be held.

Cash Control Procedures, cont.

- Must be able to tie all proceeds to the specific fund-raiser from which they were generated.
- Ensure all proceeds from an event are properly turned in and accounted for.
- Proper internal controls include:
 - Proper inventory of concession items
 - Proper cash handling and physical chain of custody for all cash receipts
 - No commingling of receipts from separate events
 - Immediate delivery of all event proceeds to the ASB bookkeeper
 - **Use of three-part receipts** when turning in all event proceeds. Invest in Multi-Part Forms such as Cash Count Forms.

Cash Control Procedures, cont.

- Dual cash counts
 - Always count funds with a witness and countersign the proper deposit forms.
- Endorse all checks – “For Deposit Only ...”
- Always use pre-numbered receipt books or tickets.
- Timely deposits (2-3 days)
 - Make the bank deposit **THAT DAY**, if possible!
 - Never leave un-deposited money at a school over weekends or holidays
- Control over tickets and receipt forms
- Reporting overages and shortages
 - Loss of tickets the same as loss of cash

Cash Control Procedures, cont.

- Safe storage is a MUST
 - The safest place for money to be is in the bank.
 - Second safest place is a SAFE.
- *FUNDS SHOULD NEVER BE TAKEN HOME, PUT IN A DESK DRAWER, OR EVEN IN A LOCKED FILE CABINET.*
- If you cannot deposit the money in the bank that day - **PUT THE MONEY IN THE SAFE WITH A WITNESS PRESENT!!**

Cash Control Procedures, cont.

- Cash Control Procedures include:
 - Pre-numbered tickets for all sales events
 - Cash register for store-type sales
 - Pre-numbered receipt books for receipt transactions
 - Tally sheets for designated activities
 - Inventory control for vending machines, stores, and concession stands
 - Cash boxes to keep the received money safe

Cash Control Procedures for ASB Bookkeepers

- Provide materials to ASB advisors for fund-raisers, and keep stock on hand.
 - Ticket rolls
 - Receipt books
 - Forms
- Responsible for receipts once received from ASB advisor until deposited.
 - Count cash in presence of another person.
- Principal must work with each student organization to develop methods for securing cash collected after hours and on non-school days.

Cash Control Procedures for ASB Bookkeepers, cont.

- No one should leave funds unattended on the ASB bookkeeper's desk.
 - If the bookkeeper is not available, assign another individual to receive the deposit and sign for the received funds in their absence.
- Many times an ASB bookkeeper has been falsely accused of theft when students, teachers, parents or other staff have been the criminal.

Cash Control Procedures for ASB Bookkeepers, cont.

- If the proper documentation is not received and/or if that documentation does not contain the initials or signatures of one or two individuals who have counted the funds prior to being received by the bookkeeper, there is a risk that someone may allege that more funds were raised than the bookkeeper indicates.
 - All funds should be counted by those performing the fund-raising.

Any Questions
Thank you for attending!