



CSIS California School Information Services

San Diego County Office of Education

regarding the

San Ysidro School District

Extraordinary Audit

June 8, 2018

Michael H. Fine
Chief Executive Officer







CSIS California School Information Services

June 8, 2018

Paul Gothold, Ed.D., Superintendent
San Diego County Office of Education
6401 Linda Vista Road
San Diego, CA 92111-7319

Dear Superintendent Gothold:

On November 15, 2017, the Fiscal Crisis and Management Assistance Team (FCMAT) and the San Diego County Office of Education entered into a study agreement to provide an Assembly Bill 139 extraordinary audit of the San Ysidro School District located in San Ysidro. Specifically, the agreement states that FCMAT will perform the following:

The COE has requested FCMAT to 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 developed information regarding possible fraud, misappropriation of funds or other illegal fiscal practices at the San Ysidro School District and is requesting that FCMAT review employee compensation (all payroll related expenses) and any additional payments made outside of payroll (including, but not limited to, salary, expense allowances, housing allowances, insurance buyouts, off-schedule payments, retro payments, vacation payments, deferred compensation payments, termination payments, commercial warrant reimbursements, revolving cash reimbursements and petty cash reimbursements), and relevant internal controls related to the former superintendent Julio Fonseca and former interim superintendent/deputy superintendent Jose Arturo Sanchez-Macias (collectively the “Scope of Work”).

The primary focus of this review is to determine, based on the testing performed, whether (1) the district’s reporting and monitoring of payroll and other payment transactions related to employee compensation (all payroll related expenses) and payments made outside of payroll (including but not limited to, salary, expense allowances, housing allowances, insurance buyouts, off-schedule payments, retro payments, vacation payments, deferred compensation payments, termination payments, commercial warrant reimbursements, revolving cash reimbursements and petty cash reimbursements) have adequate management and internal controls, and (2) based on that assessment, whether fraud, misappropriation of fund or other illegal fiscal practices may have occurred.

FCMAT

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Management controls include the process for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting and monitoring performance. Specific audit objectives will include evaluating the establishment, implementation and effectiveness of policies, procedures and internal control activities through the review of financial transactions recorded by the district relating to the Scope of Work.

The team will review and test recorded transactions for fiscal year 2015-16 through 2017-18 to date, to determine if fraud, misappropriation of funds or other illegal fiscal activities may have occurred. Testing for this review will be based on a sample of transactions and records for this period. Testing and review results are intended to provide reasonable but not absolute assurance regarding the accuracy of the district's financial transactions and activity to accomplish the following:

1. Provide reasonable assurance to management that the internal control system is established, implemented and monitored.
2. Prevent internal control activities from being overridden by management.
3. Help identify and correct inefficient processes.
4. Ensure that employees are aware of the proper internal control expectations.

This final report contains the study team's findings and recommendations in the above areas of review. FCMAT appreciates the opportunity to serve the [district name], and extends thanks to all the staff for their assistance during fieldwork.

Sincerely,



Michael H. Fine
Chief Executive Officer

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About FCMAT

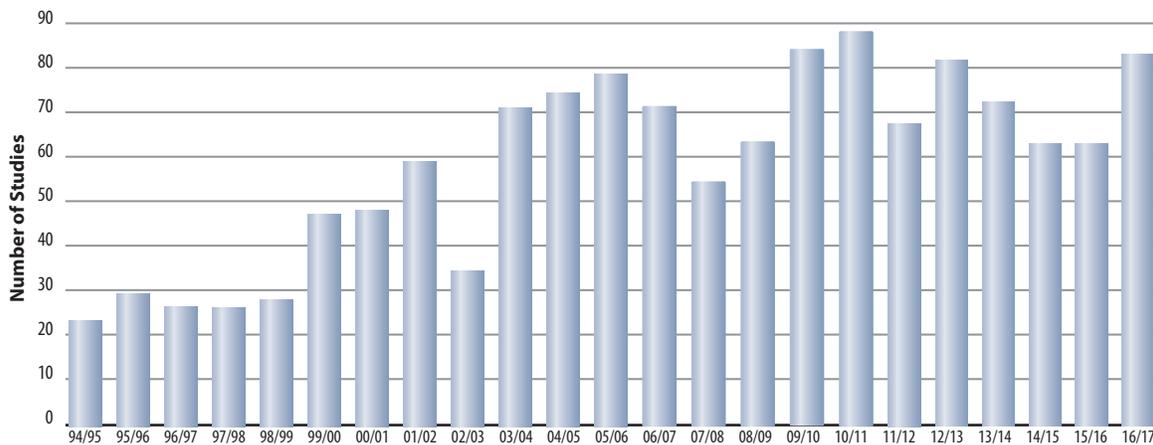
FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related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

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 San Ysidro School District is located south of San Diego along the southern border of California and serves approximately 5,230 students in grades K-8 at five elementary schools, two middle schools and a preschool and child development program.

The district has struggled with leadership instability for more than a decade. In 2015, the acting superintendent vacated his position to serve as interim county superintendent for San Diego County Office of Education. At that time, the board sought a replacement and recruited a new superintendent from the Bassett Unified School District. A three-year contract for his services was executed on June 9, 2015.

At the time of the new superintendent's hiring, the district's administrative position responsible for overseeing the business operations of the district was vacant. Under the leadership of the new superintendent the district sought and filled a new chief operating officer position to fulfill these duties; this position title was subsequently revised to deputy superintendent. The candidate selected for this position was recruited from the Bassett Unified School District. During the August 13, 2015 board meeting a contract was executed for this position with an official start date of September 1, 2015.

Both of these administrators served in the San Ysidro School District less than two and one-half years. During the course of their employment numerous revisions were made to the contracts of both administrators. On September 1, 2017 the superintendent resigned from his position. Less than 30 days later the deputy superintendent resigned.

Upon the resignation of the superintendent, the board designated the deputy superintendent to act as interim superintendent in conjunction with his regular duties until such time as the district appointed a new superintendent. In the capacity of deputy superintendent, he was tasked with overseeing the administration of the separation agreement of the former superintendent. The approach and the additional vacation payout requested by district staff when processing the separation payment to the former superintendent raised numerous questions by the county office of education, after which district and county office staff worked together in determining the method for processing and correcting payments. The questions raised through this process led the county office to request an AB 139 audit.

It is standard practice of the county office to conduct routine review of payments processed using the commercial warrant (accounts payable) process for districts countywide. It is not the standard practice of the county office to conduct routine reviews of employment contracts and payroll transactions. Due to the size of the payment, and the inclusion of approximately 192 days of vacation in addition to separation salary, the county office requested supporting documentation from the district sufficient to validate the amount being paid. The district was unable to provide adequate documentation to support the initial payment being processed, which elevated the concerns regarding contract payments over the duration of employment. This concern subsequently extended to payments made to the former deputy superintendent as well.

Because the district was not forthcoming with supporting documentation, the county office began an internal review and reconciliation of the contractual agreements of the former superintendent and deputy superintendent and their compensation. Based on its review, the county

office believed there was cause for concern regarding possible fraud, misappropriation of funds or other illegal fiscal practices at the San Ysidro School District.

On November 7, 2017, the Fiscal Crisis and Management Assistance Team (FCMAT) received a request from the county office for an Assembly Bill (AB) 139 extraordinary audit of the San Ysidro School District. Under the provisions of Education Code Section 1241.5, on November 15, 2017, FCMAT entered into a contract with the county office to conduct an AB 139 extraordinary audit to determine if fraud, misappropriation of funds or other illegal fiscal activities 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 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. Because the purpose of an AB 139 extraordinary audit is to determine if fraud, misappropriation of funds or other illegal fiscal activities may have occurred, it is considered a 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 foundation of a fraud audit is to determine if sufficient evidence exists that fraud, misappropriation of funds, or other illegal fiscal acts may have occurred and to document the findings for referral to the local district attorney’s office and further investigation by law enforcement.

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

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

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

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

Fraud Audit Fieldwork

Fraud audit fieldwork consists of gathering information and documentation 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.

FCMAT visited the San Diego County Office of Education and San Ysidro School District on January 17-19 and February 5, 2018 to conduct interviews, collect data and review documents. FCMAT interviewed district board members, current administrative personnel, business office staff, and COE staff to obtain information related to general business practices and events that transpired during the period under review, including financial mismanagement, abuse or fraud. During interviews FCMAT asked questions about the allegations; policies and procedures; transactions and activities; authorization levels; job duties; and the internal control structure including control activities and lines of authority and oversight of district business activities. Open ended questions were designed to elicit information about other possible irregularities regarding the scope of the engagement.

The fieldwork focused on determining whether there is sufficient evidence to indicate that fraud misappropriation of funds, or other illegal fiscal activities may have transpired through transactions compensating the former superintendent and deputy superintendent, and processed by management and key employees using the payroll and commercial warrant systems of San Ysidro School District.

Scope and Procedures

FCMAT reviewed, analyzed, and tested records that included employee compensation processed through the district's payroll system and any additional payments made outside of payroll including those processed using the commercial warrant system, revolving accounts, clearing accounts and petty cash. Transactions reviewed included but were not limited to payments associated with contracted salary, expense allowances, relocation stipends, moving expense allowances, insurance buyouts, off-schedule salary increases, retroactive salary, vacation payouts, employer

paid deferred compensation, and separation pay. FCMAT also reviewed transaction authorizations, employment contracts and addendums, board minutes and audio files, board policy and administrative regulations.

Transactions were examined for proper authorization, compared to employment contracts, reviewed for completeness, and compared to board policy. To investigate the allegations, FCMAT study team members evaluated policies, procedures, and other internal control activities and tested transactions recorded by the district to verify the compliance and effectiveness of those controls.

Transaction Sampling

FCMAT developed and conducted audit procedures to analyze and evaluate the allegations and potential outcomes. Fraud audit scope, objectives, and substantive transaction testing was based on the audit team's experience and professional judgment and did not include the testing of all available transactions and records. The sample population is represented by the documents and other evidence and information provided by the district and county office of education that were available for review as related to the study objectives. FCMAT reviewed all identifiable payments made to the former superintendent and former deputy superintendent. Transaction testing and examination results are intended to provide reasonable but not absolute assurance on the accuracy of the transactions and financial activity and/or identify if fraud, misappropriation of funds or other illegal fiscal acts may have taken place during the period under review.

FCMAT identified transactions for review based on recorded data in the district's detailed general ledger, warrant register, vendor history reports, payroll registers, and other reports for the 2015-16, 2016-17, and 2017-18 (through January 5, 2018, respectively) fiscal years. These source reports were exported from the district's PeopleSoft and legacy financial systems by the county office. Specific selected disbursement checks from the accounting reports were identified, and supporting documentation was requested and examined.

Transactions selected were analyzed and compared with board policy, administrative regulations, operational procedures and industry standard or best practice procedures. Transactions were compared to contract terms, documentation of receipts for expenditures, and evaluated for proper authorizations and reasonableness based on the team's judgment and technical expertise in school district business operations, internal controls, and accounting practices. FCMAT's findings are the result of the above audit procedures, and interviews with district board members, current administrative personnel, business office staff, and county office staff.

Study Team

The FCMAT study team was composed of the following members:

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

Responsibilities and Overview of Fraud

Fraud

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

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

Occupational Fraud

Occupational fraud occurs when an organization's owners, executives, managers or employees use their occupation to deliberately misuse or misapply the employer's resources or assets for personal benefit. The three main types of occupational fraud are asset misappropriation, corruption, and financial statement fraud.

Asset misappropriation fraud includes the theft or misuse of district assets and may take place in the form of cash skimming, falsifying expense reports and/or forging company checks. Corruption schemes involve an employee(s) 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; the most common method of detection comes from tips, which help prevent occupational fraud three times as often as any other detection method. According to the 2018 Report to the Nations conducted and published by the Association of Certified Fraud Examiners, asset misappropriation causes the smallest median loss of \$114,000 but is the most common form of occupational fraud, occurring in more than 89% of 2,690 reported cases. Corruption schemes accounted for 38% of the cases reported, with a median loss of \$250,000.

Based on this study, there is a direct correlation between the perpetrator's position and authority in an organization and the losses incurred. The report notes that losses from fraud by owners and executives are six times higher than those from fraud by managers and 17 times higher than losses incurred as a result of fraud by employees. Proper monitoring and effective oversight are also highly effective at preventing fraud.

Internal Controls

Internal controls are among the most important aspects of any fraud prevention program. Managers in a position of authority have a higher standard of care to establish the ethical tone and serve as examples to other employees. Employees with administrative responsibility have a fiduciary duty to the organization in the course of their employment to ensure that activities are conducted in compliance with all applicable board policies, laws, regulations, and standards of conduct. Management personnel are entrusted to safeguard assets and ensure that internal controls function as intended.

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

An organization establishes control over its operations by setting goals, objectives, budgets and performance expectations. Several factors influence the effectiveness of internal control, including the social environment and how it affects employees’ behavior, the availability and quality of information used to monitor the organization’s operations, and the policies and procedures that guide the organization. Internal control helps an organization obtain timely feedback on its progress in meeting operational goals and guiding principles, producing reliable financial reports, and ensuring compliance with applicable laws and regulations.

Internal control is the principal mechanism for preventing and/or deterring fraud or illegal acts. Illegal acts, misappropriation of assets or other fraudulent activities can include an assortment of irregularities characterized by intentional deception and misrepresentation of material facts. Effective internal control provides reasonable assurance that operations are effective and efficient, the financial information produced is reliable, and the organization complies with all applicable laws and regulations.

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

Internal Control Component	Characteristics
Control Environment	The set of standards, processes and structures providing the basis for carrying out internal control across an organization. Comprises the integrity and ethical values of the organization. Commonly referred to as the moral tone of the organization, the control environment includes a code of ethical conduct; policies for ethics, hiring and promotion guidelines; proper assignment of authority and responsibility; oversight by management, the board or an audit committee; investigation of reported concerns; and effective disciplinary action for violations.
Risk Assessment	Identification and assessment of potential events that adversely affect the achievement of the organization’s objectives and the development of strategies to react in a timely manner.
Control Activities	Actions established by policies and procedures to enforce the governing board’s directives. These include actions by management to prevent and identify misuse of the district’s assets, including preventing employees from overriding controls in the system.
Information and Communication	Ensures that employees receive information regarding policies and procedures and understand their responsibility for internal control. Provides opportunity to discuss ethical dilemmas. Establishes clear means of communication within an organization to report suspected violations.
Monitoring Activities	Ongoing monitoring to ascertain that all components of internal control are present and functioning; ensures deficiencies are evaluated and corrective actions are implemented.

The five components of internal control are supported by 17 underlying principles that help ensure an entity achieves effective internal control. Each of the five components listed above and their relative principles must be present and functioning in an integrated manner to be effective.

An effective system of internal control can provide reasonable but not absolute assurance that the organization will achieve its objectives.

While the board and all employees in the district have some responsibility for internal controls, the superintendent, board and other key management personnel have a higher ethical standard, fiduciary duty and responsibility to safeguard the assets of the district.

Control Environment

The internal control environment establishes the moral tone of the organization. Though intangible, it begins with the leadership and consists of employees' perception of the ethical conduct displayed by the board and executive management.

The control environment is a prerequisite that enables other components of internal control to be effective in achieving the goals and objectives to prevent and/or deter fraud or illegal acts. It sets the tone for the organization, provides discipline and control, and includes factors such as integrity, ethical values and competence of employees.

The control environment can be weakened significantly by a lack of experience in financial management and/or comprehension of internal control.

Control Activities

Control activities are a fundamental element of internal control and are a direct result of policies and procedures designed to prevent and detect misuse of a district's assets, including preventing any employee from overriding system controls. Transaction control activities are implemented to reduce the risk in specific business processes. Examples of control and transaction control activities include the following:

1. Performance reviews, which compare actual data with expectations. In accounting and business offices, this most often occurs when budgeted amounts are compared with actual expenditures to identify variances and followed up with budget transfers to prevent overspending.
2. Information processing, which includes the approvals, authorizations, verifications and reconciliations necessary to ensure that transactions are valid, complete and accurate.
3. Physical controls, which are the processes and procedures designed to safeguard and secure assets and records.
4. Supervisory controls, which assess whether the transaction control activities performed are accurate and in accordance with established policies and procedures.
5. Segregation of duties, which consists of processes and procedures that ensure that no employee or group is placed in a position to be able to commit and conceal errors or fraud in the normal course of duties. In general, segregation of duties includes separating the custody of assets, the authorization or approval of transactions affecting those assets, the recording or reporting of related transactions, and the execution of the transactions. Adequate segregation of duties reduces the likelihood that errors will remain undetected by providing for separate processing by different individuals at various stages of a transaction, and for independent review of the work.

Independent auditors' reports on internal control over financial reporting are based on an audit of financial statements performed in accordance with government auditing standards. In planning and performing independent financial audits, auditors consider internal control over financial reporting to determine audit procedures that are appropriate in the circumstances. Therefore, they may express their opinion on the financial statements, but not on the effectiveness of an organization's internal control. The auditors' consideration of internal control is not designed to identify all deficiencies in internal control that might be a material weakness or significant deficiency, which means that material weaknesses or significant deficiencies may exist that were not discovered during the audit.

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

- Failure to adequately segregate duties and responsibilities related to authorization.
- Failure to limit access to assets or sensitive data (e.g. cash, fixed assets, personnel records).
- Failure to record transactions, resulting in lack of accountability and the possibility of theft.
- Failure to reconcile assets with the correct records.
- Failure to detect unauthorized transactions, resulting in skimming, embezzlement or larceny.
- Lack of monitoring or implementation of internal controls by the board and management, or because personnel are not qualified.
- Collusion among employees where little or no supervision exists.

A system of internal control consists of policies and procedures designed to provide the board and management with reasonable assurance that the organization is achieving its objectives and goals. Traditionally referred to as hard controls, these include segregation of duties; limiting access to cash; management review and approval; and reconciliations. Other types of internal control, typically referred to as soft controls, include management tone, performance evaluations, training programs, and maintaining established policies, procedures and standards of conduct.

Fraud and the misuse of physical or cash assets occur when three factors converge: pressure, opportunity, and rationalization. This is known as the fraud triangle. When two of the three factors are present, the probability that fraud will occur increases. When all three factors are present, the potential for fraud to occur is high.

Employees should be regularly trained in what constitutes fraud and how it damages the organization. Employees should have several avenues for reporting improprieties and should be encouraged not to ignore warning signs. Risk awareness training about suspicious situations that merit reporting will help create a districtwide culture that supports appropriate reporting.

The district should also implement common fraud detection methods such as a third-party anonymous tip hotline, surprise audits or fraud risk assessments. Knowing that someone is checking or could anonymously report suspicious behavior can deter fraudulent activity.

Fiduciary Responsibilities

A fiduciary duty is the highest standard of care. The person who has a fiduciary duty is called the fiduciary, and the person to whom he owes the duty is typically referred to as the principal or the beneficiary. (source: https://www.law.cornell.edu/wex/fiduciary_duty)

A fiduciary also may be a person who holds a legal or ethical relationship of trust with one or more other parties (person or group of persons). In other words, a fiduciary takes care of money or other assets for another. District board members, administrators and management are examples of those who have fiduciary responsibilities or a fiduciary duty. The Cornell law source further describes several components of fiduciary duties, which FCMAT summarizes and applies to districts as follows:

Duty of Care: Before making a decision, collect all evidence and information available. Do your “due diligence” and review all the information and evidence available – don’t just accept the information as it is presented. Assess information with a critical eye and ask the questions: who, what, when and where. A fiduciary’s responsibility is to protect the assets of the district.

Duty of Loyalty: You cannot use your position in the organization to further your private interests. Avoid anything that might injure the district.

Duty of Good Faith: Advance the interests of the district. Do not violate the law. Fulfill your duties and responsibilities.

Duty of Confidentiality: Keep confidential matters confidential and never disclose confidential information to avoid personal liability.

Duty of Prudence: Be trustworthy to a degree of care and skill that a prudent board member, member of management, or fiduciary would exercise. Prudent means acting with wisdom and care, including exercising good judgment.

Duty of Disclosure: Act with complete candor. Be open, sincere, honest and transparent. Disclose all financial interests on Form 700, Statement of Economic Interests.

Gift of Public Funds

Article 16, Section 6 of the California Constitution specifies that the state Legislature cannot authorize any county, city, or other political subdivision to make any gift of public funds to an individual or corporation. Basically, Article 16 states that in the absence of a statute granting local educational agencies (LEAs) the legal authority to make a special expenditure (e.g., for food, clothing, awards, etc.), the legality of any expenditure is determined by the “gift of public funds” provision in the California Constitution, Article 16, Section 6. This constitutional provision prohibits making any gift of public money to any individual (including public employees), corporation, or other government agency. It states, “... the Legislature shall have no ... power to make any gift, or authorize the making of any gift, of any public money or thing of value to any individual ... whatever ...”

In general, the constitutional prohibition of the gift of public funds is not an issue when a direct and primary public purpose is accomplished so that the public receives a benefit from the expenditure. However, if the gift is to an employee or other individual, and there is no benefit to the public as a result, it can be considered a gift of public funds.

On the other hand, it is also well established that expenditures of public funds that involve a benefit to private persons (including public employees) are not gifts within the meaning of

the California Constitution if those funds are expended for a public purpose. This means that public funds may be expended only if a direct and substantial public purpose is served by the expenditure and private individuals are benefited only incidentally to the promotion of the public purpose. To justify the expenditure of public funds, an LEA's board must determine that the expenditure will benefit the education of students in its schools. Expenditures that most directly and tangibly benefit students' education are more likely justified. Expenditures driven by personal motives are not justified even if they have been a longstanding local custom or are based on benevolent feelings.

If the LEA's board has determined that a particular type of expenditure serves a public purpose, courts will almost always defer to that finding. Therefore, if a district has a board policy stating that specific items are allowable, there is more certainty that the expenditure might be considered allowable.

The constitutional prohibition of gifts of public funds is designed to obstruct the misuse of public money. Gift of public funds violations occur under many circumstances. FCMAT's experience regarding gift of public funds is that misuse often occurs under two circumstances.

1. Noble or Virtuous Purpose - An example of a noble or virtuous purpose that may be considered a gift of public funds is the purchase of flowers from district funds for the funeral of a student or family member of a board member.
2. Moral or Justifiable Obligation - A moral or justifiable obligation is the most common form of gift of public funds resulting from a desire to convey some form of gratitude. Often, staff members who are not formally trained in school district and governmental policies and procedures unknowingly participate in giving gifts of public funds because of a moral or justifiable obligation. For example, a coach may be grateful to a number of individuals who have helped with the sports program, or to individuals who are considered high-value stakeholders, well-known contributors, longtime friends of the program, contributed countless hours of assistance to the sport, or may not be able to afford attending an event. The coach may offer them free event tickets or distribute unsold tickets or other items.

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

Findings

Internal Control Deficiencies

The weakness or absence of fundamental internal control elements has created an environment with considerable risk for fraud, misappropriation of funds and misuse of district assets at the district. FCMAT identified significant weaknesses in multiple areas of internal control because of ineffective or complete lack of formalized procedures. Among these weaknesses were improper segregation of duties, improper application and/or enforcement of board policy, weak management and oversight of business activities, management override of limited control activities that were established, lack of oversight of internal control by the board and failure to detect unauthorized transactions, potential failure to record transactions and potential collusion among administrative staff.

During FCMAT's review, the team identified several circumstances that included all three factors of the fraud triangle. The opportunity for fraud varies throughout the district depending on the duties assigned to an employee but includes the administrative and executive staff. Pressure existed for the two former administrators to improve the district's fiscal position and its administration, both of which suffered considerably over the decade preceding their employment. These perceived improvements to both the district's fiscal condition and administrative leadership were used to rationalize the numerous revisions to their contracts that resulted in significant personal financial benefit to each administrator. Executive staff used the board's lack of fiscal knowledge and placed people in positions for which they were not fully qualified, or pressured them, so that executive staff could use the district's resources for their personal benefit.

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

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

FCMAT found that the former superintendent and the former deputy superintendent commonly bypassed all controls and reduced the span of authority and control in key positions. They also circumvented procedures relating to payroll, purchasing, transaction processing and contract management by human resources staff, as well as board policy and/or industry best practices. This was evidenced by:

- Extensive use of a personal credit card by the former deputy superintendent for numerous district expenditures, most of which should have been processed using the district's purchase order authorization and vendor payment process. Reimbursement requests related to these credit card charges were not supported by approved purchase orders or other advanced authorization documentation. Additionally, the former deputy superintendent personally benefited as the credit card account accrued points up to five

- times the value of district expenditures that could be exchanged for items and services that provide a personal benefit, including travel expenditures and gift cards.
- Both the former superintendent and the former deputy superintendent routinely bypassed the purchasing and accounts payable processes by using the clearing account, the petty cash account, and the revolving cash account to make purchases and reimbursements to themselves without proper documentation.
 - Because the purchase order process was routinely bypassed by using a personal credit card for expenditures and/or using the clearing, petty cash, or revolving account, the ability to determine budget availability before making the expenditure was negated. The coding of an expenditure and determination of board approved budget availability frequently took place after purchases were made.

Employment Contracts, Payroll Irregularities and Absence Tracking

Management has the unique ability to perpetrate fraud due to its ability to directly influence the decisions of board members and/or manipulate accounting transactions and records. Fraud may be concealed by withholding or misrepresenting information in response to inquiries (board members, staff, COE, FCMAT) or by falsifying documents (contracts and addendums). Fraud may also be perpetrated through collusion among management, employees and/or third parties.

Over the period of employment the contracts of both the former superintendent and the former deputy were amended multiple times; the terms of each similarly benefited each party. Those amendment dates were as follows:

	Former Superintendent	Former Deputy Superintendent
Initial Contract	June 9, 2015	August 13, 2015
First Amendment	September 24, 2015	September 24, 2015
Second Amendment	March 11, 2016	March 11, 2016
Third Amendment (mistitled as First Amendment)	December 14, 2016	December 14, 2016
Addendum No. 2	Separation September 1, 2017	September 11, 2017

During interviews, board members provided conflicting reports relative to the content of contracts, addendums and the explanations and content of changes of each prior to board approval. Several board members questioned the content of contract addendums presented for approval and those presented for signature subsequent to deliberation and approval by the board, stating that the language in the addendum(s) presented for signature subsequent to the board meeting differed from what was presented and explained to the board at meetings. Furthermore, board members gave inconsistent reports as to how the content was described for consideration and who was present and explained the content of each addendum to the board for consideration: legal counsel, the former deputy superintendent or both. FCMAT was provided with one addendum by a board member that contained conflicting language with the final executed addendum, suggesting that the final version was different from the version provided to the board.

Management has the ability to direct employee actions or solicit their help in perpetrating fraud. This may take the form of directing employees to perform tasks or process transactions in ways that are inconsistent with industry standard or best practice. In an environment of weak internal

control, management has the ability to override existing controls, providing opportunity to commit and/or conceal fraud. Interviews with district and county staff revealed that the former superintendent and the former deputy superintendent exploited their position to influence the actions of employees, including those relative to human resources, procurement, payroll and accounts payable transactions, some of which resulted in their own personal benefit.

The separation of duties between human resources and payroll is essential to internal control over position management and payroll. The human resources department is responsible for the development of board authorized positions including duties and responsibilities, salary schedule placement or rate of pay, minimum qualifications and experience and ensuring qualified candidates are employed in those positions. This role is most commonly separated from the business services department where payroll transactions are processed. The former deputy superintendent was responsible for overseeing the activities of both human resources and payroll, providing a greater opportunity for management override over control activities associated with personnel matters and payroll.

FCMAT found several areas in contract and addendum language for the former superintendent and former deputy superintendent positions to be inconsistent with industry standard language. For example, language addressing continuing health care coverage or gap coverage, often referred to as Other Post-Employment Benefits (OPEB), was added to contracts through addendum and required the district to set sufficient funds aside in a trust account each year to fund the future obligation. Subsequent contract addendums modified this language to disburse the funds for the annual set-aside directly to the former superintendent and former deputy superintendent at their request. Another example included contract amendments revising traditional language for employer paid term-life insurance coverage to extend an option to forgo district paid term life insurance and instead direct the amount allocated for the monthly term life insurance premiums into an employer paid deferred compensation account on their behalf; in the application of the language the value contributed to the deferred compensation far exceeded the value of the premiums and the term-life insurance coverage was never terminated. Both of these items will be discussed in length later in the report. The contract amendments were primarily associated with changes relative to compensation and fringe benefits, and language was reworded in ways that maximized personal benefit and provided for the most immediate access to cash contrary to language or practices used for all other employees.

In three circumstances where original contract language called for payments to be made directly to a vendor on behalf of the administrator, administrators initiated contract revisions to obtain cash payment personally. In two of the three cases, the benefit value was also increased.

Revisions to contract language and/or directions given to employees to process duplicate payments manipulated the standard methods for processing transactions in ways that produced the most favorable net cash payment to the former superintendent and former deputy superintendent, without regard for the appropriateness and in conflict with the administrators' fiduciary duty to protect the assets of the district.

Each administrator directly influenced the development and communication of their contract and addendum language to board members, giving the appearance of collusion. The revisions to contract language in subsequent addendums benefited both administrators in the same manner. Both administrators contributed to interpreting the application of the language for processing payments made directly to them or to vendors on their behalf. The effectiveness of internal controls was reduced and the risk for fraud increased as these two administrators exerted their influence over routine processes, overriding internal control activities by directing employees to

process transactions in ways inconsistent with industry standard and best practices, including processing transactions through the payroll process, bypassing board authorization for specific transactions including vacation payout, and use of position power to influence the actions of board members and staff.

FCMAT conducted an analysis of the payments processed through payroll to the former superintendent and of the language in board approved contracts and amendments. FCMAT found that base salary monthly compensation payments and monthly expense allowance payments for use of personal vehicle, cell phone and laptop aligned with the terms of those agreements.

FCMAT's analysis of the payments processed through payroll to the deputy superintendent for base salary as compared to the board approved contract and amendments identified inconsistencies. The first amendment to the contract made appropriate corrections relative to the designation of this position as classified management and PERS eligibility. A second amendment to the contract dated March 11, 2016 modified the position title from chief operating officer to deputy superintendent and referred to changes to the salary schedule presented in Exhibit A; however, there was no language detailing what changes were made to the exhibit and the district was unable to provide a revised Exhibit A .

No evidence supports the addition of two new steps to the salary schedule, expanding it from a three- to five-step schedule, nor is there evidence of board authorization of such increases.

FCMAT did not identify any board authorized changes to the Exhibit A salary schedule in any of the contract amendments for the former deputy superintendent.

Based on identifiable board approved documentation, the table below shows what should have been paid during fiscal years 2016-17 and 2017-18 without the two additional steps.

Fiscal Year 2016-17		
Period	Salary Paid Step 4	Board Authorized Step 3
JUL M01	\$17,378.59	\$16,710.18
AUG M02	\$17,378.59	\$16,710.18
SEPT M03	\$17,378.59	\$16,710.18
OCT M04	\$17,378.59	\$16,710.18
NOV M05	\$17,378.59	\$16,710.18
DEC M06	\$17,378.59	\$16,710.18
JAN M07	\$17,378.59	\$16,710.18
FEB M08	\$17,378.59	\$16,710.18
MAR M09	\$17,378.59	\$16,710.18
APR M10	\$17,378.59	\$16,710.18
MAY M11	\$17,378.59	\$16,710.18
JUNE M12	\$17,378.59	\$16,710.18
Total FY 16-17 Earnings	\$208,543.08	\$200,522.16
Excess Compensation	-	\$8,020.92

Fiscal Year 2017-18		
Period	Salary Paid Step 5	Board Authorized Step 3
JUL M01	\$18,615.94	\$17,211.49
AUG M02	\$18,615.94	\$17,211.49
SEPT M03	\$18,615.94	\$17,211.49
OCT M04	\$18,615.94	\$17,211.49
NOV M05	\$2,538.54	\$2,383.13
Total FY 17-18 Earnings	\$77,002.30	\$71,229.09
Excess Compensation	-	\$5,773.21

Based on FCMAT's analysis, the former deputy superintendent appears to have been overpaid \$8,020.92 in fiscal year 2016-17 and \$5,773.21 in fiscal year 2017-18. Additionally, the board authorized an off-schedule salary increase of 2% at its September 14, 2017 meeting that was paid in September on an off-cycle payroll. This payment was based on the higher unsubstantiated salary resulting in an additional overpayment of \$337.06 that is not included in the annualized monthly amounts summarized above.

The administration initiated duplicate payments and/or revisions to contract language after transactions were attempted or processed through appropriate payment methods for the transaction type when less desirable net payments resulted due to income tax and retirement contribution withholdings.

Expense Allowance

The former superintendent's original contract included a clause that provided for an expense allowance of \$600 per-month. The allowance was to be attributed to the use of the superintendent's personal automobile, cell phone, computer and internet services for business purposes. FCMAT did not identify any questionable matters relative to the processing of this allowance.

Relocation Stipend

The former superintendent's contract language stated that the superintendent was to receive a relocation stipend of \$10,000 to assist him with finding a new residence. The stipend was originally appropriately processed through the payroll system in July 2015, generating income tax and retirement withholding and a net check of less than \$10,000. On September 10, 2015, less than one month after the hiring of the deputy superintendent, a commercial warrant was processed duplicating the payment to the former superintendent; this warrant was subsequently canceled when the county office questioned the method of processing. The deputy superintendent then directed the payroll technician to process a second \$10,000 payment through the September 30, 2015 payroll after adjusting the allowance for dependents from 4 to 99, resulting in lower tax withholding and a greater net cash payment.

The duplication of payment was intentional and resulted in overpayment of compensation to the former superintendent that was not immediately repaid. The district reclaimed the full amount of the excess compensation over a 15-month period beginning in January 2016. This was processed as a voluntary payroll deduction of \$600 per month, the same monthly amount due to the superintendent as a monthly expense allowance, and a final payment in March 2017 of \$1,600.

Moving Expense

In addition to the relocation stipend noted above, the original contract for the former superintendent provided for the payment of moving costs up to \$7,500, to be paid by the district directly to the moving company with the lowest of three bids. A first amendment to the former superintendent's contract was prepared, presented to the board at its September 24, 2015 meeting and executed by the board president on that same date. The first contract amendment revised the contract language for moving costs to permit a reimbursement of actual expenditures, up to \$3,500, paid directly to the former superintendent upon submission of pertinent backup documentation and/or receipts. Review of payments made to the former superintendent revealed one payment of \$306.96 was processed using the commercial warrant system on July 10, 2015. This payment was supported by receipts; however, payment was made prior to board authorization of the contract amendment providing for reimbursement. A second payment of \$2,662.90 was processed as a (nontaxable) "housing allowance" through the payroll system on October 2, 2015; the district could provide no supporting documentation for this payment.

Continuing Coverage-Gap Coverage Insurance

No language relative to gap/ongoing health insurance benefits was included in the superintendent's and deputy superintendent's original contracts. Language in section 11B of the original contracts simply states that they both shall be offered the same health insurance benefits offered by the district to its management employees. On March 11, 2016 amendments were made to both the former superintendent's and the former deputy superintendent's contracts. Each amendment added provisions for continuing coverage/gap coverage for health insurance.

The language in each contract amendment was the same and provided for the accrual of two years continuing health benefit coverage for every full year of service up to a maximum accrual of 10 years. The sole purpose of the coverage was to provide continuing health insurance for the period, if any, between retirement or other qualifying event and eligibility for Medi-Cal and/or Medicare for a period of no more than 10 years. Language of this nature is not uncommon and is most commonly referred to as Other Post Employment Benefits (OPEB). Standard provisions similar to OPEB were also included in the new language added through the addendums, including provisions requiring the district to accrue the sufficient funds in a trust account to satisfy the future obligation to provide benefits. Additional language states that upon notification from the superintendent/deputy superintendent the district shall provide the continuing coverage. Lastly, language was included stating that balances in the account set aside to fund the obligation revert to the district once the superintendent/deputy superintendent become eligible for Medicare and the district would no longer be responsible for coverage.

At the direction of the former administrators, staff attempted to disburse the funds set aside for the OPEB liability directly to each of the two former administrators. The county office denied final processing of the payments as they did not coincide with the contract language. Subsequent to that failed attempt additional contract amendments were drafted. During the board's review of the new contract amendments, questions were raised as to why the amendments were necessary. The former superintendent stated that the county office's business service department felt the contract language was ambiguous. He then quickly shifted focus of the discussion to point out that none of the other 41 districts in the county was having its contracts reviewed; no additional clarity regarding the purpose and effect of revised contract language was provided. Ultimately, the ongoing/gap insurance language was subsequently revised through addendums for both the former superintendent and former deputy superintendent on December 14, 2016. The language in the amendment was revised to say that the district shall disburse the funds directly to the

superintendent and deputy superintendent rather than set it aside in a trust account to fund the future benefit costs. As a result, both administrators were paid an amount equal to two years of coverage in 2016-17 and 2017-18; \$18,000 and \$19,000 to each in each respective year.

Many times, a district will offer OPEB as part of the total compensation to attract and retain services of qualified employees. However, these benefits are not typically received until after their employment with the district ends and the employee meets the conditions of eligibility, which often requires the employee to serve in the district for a defined duration of time and to be of retirement age. These benefits often terminate once the retiree is eligible for Medicare.

Although the language clearly states that the district shall disburse the payment directly to the said employee, subsection B (iii) still states that the district shall provide the continuing or gap coverage to both employees, up to the accrued amount of time. FCMAT confirmed that the district continues to provide health insurance benefits to the former superintendent. To provide ongoing benefits after paying out the financial value of those benefits directly to the employee is a duplication of compensation.

Life Insurance / Deferred Compensation Contribution Election

The contracts of both former administrators contained provisions for group term life insurance during their employment with the district. The benefit amounts included in the former superintendent's and former deputy superintendent's contracts were \$100,000 and \$75,000 respectively. The benefit amount in both contracts exceed the statutory maximum of \$50,000, making a portion of the premiums paid on their behalf taxable compensation.

In the contract amendments for the former superintendent and the former deputy superintendent executed on March 11, 2016, the benefit amount for the term life insurance was increased to \$125,000 and \$100,000 respectively. The contract amendments were approved by the board at its March 10, 2016 board meeting. Prior to approval only the increases to each administrator's term life insurance benefit amount were discussed. No discussion was held about the additional language added regarding the administrators' option to "... elect to forgo term life insurance and instead deposit monthly into a deferred compensation account the amount District allocated for the monthly term life insurance premium." [emphasis added]

During FCMAT interviews it was noted that most parties involved in activities that required interpretation of this section of the contract were confused; some understood it to mean that the deferred compensation contributions should match the monthly district paid premium amount of \$8.20 and \$6.15, while others interpreted it to mean that the full benefit value of the term life insurance policy was to be contributed into the accounts.

FCMAT listened to audio files of the March 10, 2016 and December 14, 2016 board meetings. At no time does the board discuss the alternative options that are in the contract. The language in the amendments clearly states that the amount to be deposited is "the amount District allocated for the monthly term life insurance premium."

While payments are input by district staff into the commercial warrant system, deferred compensation plans and guidance are administered through the county office's Fringe Benefit Consortium, which operates at the county office. As district staff worked to implement the elections of the former superintendent and former deputy superintendent, county office representatives questioned the interpretation of the language and sought confirmation with the district's board president. Through this process the county office was informed that through conversation between the former interim county superintendent and the San Ysidro School District board

president it was determined that it was the board's intent to pay out the benefit value of each life insurance into a 401(a) deferred compensation plan. With this understanding in mind, and due to contribution limits established by Internal Revenue Code, it was determined that it would take three years to contribute the full benefit value for the former superintendent's contribution and two years for the former deputy superintendent's contribution.

FCMAT identified two payments processed by the district for contributions into the accounts established for the former administrators as follows:

Date	Vendor	Superintendent Contribution	Deputy Superintendent Contribution	Total
4-18-16	FBC Nationwide	\$53,000	\$53,000	\$106,000
1-20-17	FBC Empower Retirement	\$54,000	\$47,000	\$101,000
		\$107,000	\$100,000	\$207,000

The contract language clearly defines the amount to be set aside as the monthly premium payments made on behalf of said employees, not the benefit value of the policy. The monthly premiums for the term life insurance coverage for the former superintendent and the former deputy superintendent were \$8.20 and \$6.15, or total annual premiums of \$98.40 and \$73.80, respectively. Furthermore, the language clearly states the employee forgoes term life insurance if they elect to have the monthly premiums deposited into a deferred compensation account. Analysis of each former administrator's pay stubs and review of documentation supporting the payment of the premiums to the third-party administrator reveals that the district life insurance premiums continued until separation from employment. To provide ongoing life insurance benefits to each administrator after each exercised the option to defer the monthly premiums into a deferred compensation account is a clear misappropriation of funds. Furthermore, the benefit that resulted as a result of the applied interpretation resulted in a direct financial benefit to each administrator that would not have otherwise occurred because life insurance only provides a benefit to the beneficiary of each employee upon their death if employed by the district at the time of death. At that point the insurance company, not the district, covers the cost of the benefit value.

Both the former superintendent and the former deputy superintendent failed their fiduciary duty to ensure that proper administrative steps were taken to remove them from the policy from which they received alternative compensation based on their elections.

As mentioned earlier in the report, the two former administrators continually revised or added language to their contracts in ways that maximized personal benefit and provided for the most immediate access to cash. Per Government Code 53262, all contracts of employment with a superintendent and deputy superintendent of a local agency shall be ratified in an open session of the board body and shall be reflected in the board minutes. Additionally, copies of any contract of employment shall be available to the public upon request.

During the March 10, 2016 board meeting, after meeting in closed session, the board reported out that it conducted annual evaluations for both the former administrators. The audio file of the meeting revealed that the two former administrators worked with the interim superintendent who preceded the former superintendent and left the district to lead the county office and with legal counsel to negotiate revisions to their current contracts. The board president reported out that full disclosure of the newly negotiated contracts for the former superintendent and former deputy superintendent was not available and that both contracts were contingent upon review by

legal counsel and full execution. It was further stated that once the contracts were fully executed, they would be available as a public document. During open session of this same meeting, two contracts of the former administrators were listed on the agenda for board approval. When the agenda item was motioned and discussion ensued, the only dialogue regarding the contract amendments was that the contract durations were extended and that there was a title change from chief operating officer to deputy superintendent for the one administrator. At no time in open session did the board discuss the major revisions advancing both former administrators to step 3 of their current salary schedules, the addition of gap coverage providing each with two years of future health insurance for each year worked, or the option to forgo term life insurance and opt for a district funded deferred compensation account. Additionally, while the board stated that the employment agreements were not available for public review, the execution date of both contracts is March 11, 2016, the very next day after the meeting.

Board members, management and employees with oversight and administrative responsibility have a fiduciary duty to ensure that activities are conducted in compliance with all applicable board policies, laws, regulations, and standards of conduct. Because internal controls include policies, procedures, and checks and balances, if those entrusted to set the oversight and ethical tone fail, the entire organization may be compromised.

Vacation Payout

The former superintendent's contract provides for the accrual of two days of vacation per month of service. The contract does not limit the allowable vacation accrual balance. The contract stipulates that in the event employment is terminated the superintendent shall be entitled to compensation for unused vacation days at the rate of pay effective during the school year in which the vacation credit was earned. No other terms are provided for the payout of accrued vacation.

It is uncommon for a certificated superintendent to accrue vacation. It is more consistent with industry standard for this position to serve under a positive work year calendar based on total service days to be rendered, most commonly 221-225 days depending on the number of workdays in the calendar year and the number of paid holidays recognized by the district. For example, in a fiscal year that has 260 total possible workdays where the district recognizes 15 paid holidays and 24 compensated nonwork days, the total workdays is 221. The former superintendent's contract is silent relative to holidays and simply states that the former superintendent is to render service that corresponds to 248 paid service days. Considering the accrual of 24 paid vacation days this would be 224 paid service days, which is consistent with industry standard.

The former superintendent provided 26 months of service during his employment in the district from July 1, 2015 through September 1, 2017, accruing 52 days of vacation during this time frame. The following table reflects the accrual of vacation benefits, the use of those benefits as documented in either the district's absence tracking system (AESOP) or through email communications to the board for authorization/notification, and the reduction of benefits corresponding with payments processed through the district payroll system.

Pay Date	Balance	Earned (Days)	Vacation Paid Out	Vacation Days Used	Ending Balance	Notes
Jul-15	0	2			2	
Aug-15	2	2			4	
Sep-15	4	2			6	
Oct-15	6	2			8	
Nov-15	8	2			10	
Dec-15	10	2			12	
Jan-16	12	2	12		2	(a)
Feb-16	2	2			4	
Mar-16	4	2		2	4	(b)
Apr-16	4	2	14	2	-10	(c) (d)
May-16	-10	2			-8	
Jun-16	-8	2			-6	
Jul-16	-6	2			-4	
Aug-16	-4	2	48		-50	(e)
Sep-16	-50	2		5	-53	(f)
Oct-16	-53	2			-51	
Nov-16	-51	2		2	-51	(g)
Dec-16	-51	2			-49	
Jan-17	-49	2			-47	(h)
Feb-17	-47	2			-45	
Mar-17	-45	2			-43	
Apr-17	-43	2			-41	
May-17	-41	2			-39	
Jun-17	-39	2	24		-61	
Jul-17	-61	2			-59	
Aug-17	-59	2			-57	
Sep-17	-57	0			-57	
Total in Days		52	98	11	-57	
Notes	Description					
(a)	12 days paid for vacation payout					
(b)	2 days of vacation taken from March 30 - April 4 (per email) - 2 days in March					
(c)	14 days paid for vacation payout					
(d)	2 days of vacation taken from March 30 - April 4 (per email) 2 days in April					
(e)	48 days (384 hours) paid for vacation payout -					
(f)	5 days of vacation requested Sept. 12-16 and approved by board					
(g)	2 days of vacation; email states he will be out of town Nov. 11-15; the 11th is Veterans Day counted as a holiday; 12-13 are the weekend; only accounted for 2 days of vacation					
(h)	24 days (192 hours) paid for vacation payout					

Transactions recorded in the district's PeopleSoft payroll system from July 1, 2015 through September 1, 2017 indicate the former superintendent was paid for vacation as follows:

Date Paid	# Units Paid	Rate Paid	Amount Paid
1/29/2016	12 days	\$ 813.69 per day	\$9,764.25
4/29/2016	14 days	\$ 880.09 per day	\$12,321.26
8/31/2016	384 hours (48 days)	\$ 120.27 per hour	\$46,183.68
6/30/2017	192 hours (24 days)	\$ 120.27 per hour	\$23,091.84
Total Paid			\$91,361.03

With the exception of separation from employment, no provision in the former superintendent's contract or any of its amendments provides for the payment of accrued vacation balances or the advance of unearned vacation. FCMAT also found no evidence that the board authorized the deviation from the contract.

The former superintendent was compensated for 57 days over his contracted allowance; furthermore, the rates paid did not follow the terms of the contract, which specifies that in the event of termination unused accrued vacation is to be paid at the salary rate effective during the school year in which the vacation credit was earned. FCMAT requested but the district was unable to provide documentation supporting the amounts paid to the former superintendent for vacation pay.

Had no payments been made prior to separation from employment, the maximum vacation payout the former superintendent would have been entitled to would have been \$35,534.31, calculated as follows:

	Days Earned	Days Taken	Balance	Daily Rate	Total
2015-16	24	-4	20	\$815.78	\$16,315.60
2016-17	24	-7	17	\$899.31	\$15,288.27
2017-18	4	0	4	\$982.61	\$3,930.44
Total					\$35,534.31
Actual Payments					(\$91,361.03)
Amount of Overpayment					(\$55,826.72)

The daily rate of pay is calculated by taking the annual salary, dividing it by 2,080 hours and multiplying it by an eight-hour day. In 2017-18 the daily rate includes the 2% off-schedule increase.

On August 17, 2016 the former superintendent requested in a letter on district letterhead to no addressee, to "issue the total of 48 vacation days (*fringe benefit under contract agreement*) for the payroll to be issued on August 31, 2016 in accordance with Ed Code 45197 et al. for covering fiscal years 2015-16 and 2016-17." Only four months earlier, on April 29, 2016, the former superintendent received a payment for 14 days of accrued vacation and three months prior to that on January 29, 2016 he received payment for 12 days accrued vacation. While the August 17 letter concludes by stating that the superintendent understood that the payment of accrued vacation for 2016-17 had not yet been earned and that he would be responsible for repayment of any excess should separation of employment occur under any circumstance, it is reasonable to conclude that he was already aware he had been extended payments beyond his potential earnings. At the time of the August 17, 2016 directive for the payment amounting to double the

maximum vacation accrual benefit, his balance of accrued vacation was already fully exhausted. This was followed by taking five vacation days less than two weeks later for which he had no available balance.

The former deputy superintendent's contract provides for the accrual of two days of vacation per month of service. The contract also states that any unused vacation days will roll over to the next year but shall be capped at 40 vacation days maximum in any one year. The contract states that in the event employment is terminated, the former deputy superintendent shall be entitled to compensation for unused vacation days at the rate of pay effective during the school year in which the vacation credit was earned. No other terms are provided for the payout of accrued vacation.

While it would not be questionable for a district to implement a positive work year calendar based on total service days to be rendered for a classified administrator, it is more common and consistent with industry standard for classified administrators to accrue vacation. The work year of a classified administrator is dependent on the number of workdays in the calendar year and the number of paid holidays recognized by the district. For example, in a fiscal year that has 260 total possible workdays where the district recognizes 15 paid holidays, the work year, excluding the utilization of accrued vacation, is 245 days. It is consistent with industry standard to observe an accrual of vacation equivalent to four weeks (20 days) for classified administrators. If all 20 days are utilized the work year is 225 days. The former deputy superintendent's contract provides for 24 days of vacation accrual each year; if fully exercised the work year of his position would be 221 days.

The former deputy superintendent provided 26 months of service during his employment in the district from September 1, 2015 through November 3, 2017, accruing 52 days of vacation during this time frame. The following table reflects the accrual of vacation benefits, the use of those benefits as documented in the district's absence tracking system, and the reduction of benefits corresponding with payments processed through the district payroll system. (See next page.)

Pay Date	Balance	Earned (Days)	Vacation Payout	Used Per Email	Ending Balance	Notes
Sep-15	0	2			2	
Oct-15	2	2			4	
Nov-15	4	2			6	
Dec-15	6	2			8	
Jan-16	8	2	10		0	(a)
Feb-16	0	2			2	
Mar-16	2	2			4	
Apr-16	4	2	30		-24	(b)
May-16	-24	2			-22	
Jun-16	-22	2			-20	
Jul-16	-20	2			-18	
Aug-16	-18	2	48		-64	(c)
Sep-16	-64	2			-62	
Oct-16	-62	2			-60	
Nov-16	-60	2			-58	
Dec-16	-58	2			-56	
Jan-17	-56	2	24		-78	(d)
Feb-17	-78	2			-76	
Mar-17	-76	2			-74	
Apr-17	-74	2			-72	
May-17	-72	2			-70	
Jun-17	-70	2			-68	
Jul-17	-68	2			-66	
Aug-17	-66	2			-64	
Sep-17	-64	2			-62	
Oct-17	-62	2			-60	
Nov-17	-60	0			-60	
Total in Days		52	112	0	-60	
Notes	Description					
(a)	10 days (80 hrs) paid for vacation payout (Rate paid \$84.08 per hour) - brings him to a zero balance					
(b)	30 days (240 hrs) paid for vacation payout (Rate paid 90.95 per hour) - has a negative 24 days (192 hrs)					
(c)	48 days (384 hrs) paid for vacation payout - (Rate paid \$100.26 per hour) – has a negative 64 days (512 hrs)					
(d)	24 days (192 hrs) paid for vacation payout - (Rate paid \$100.26 per hour)- has a negative 78 days (624 hrs)					

Transactions recorded in the district's PeopleSoft payroll system from Sept 1, 2015 through November 1, 2017 indicate that the former deputy superintendent was paid for vacation as follows:

Date Paid	# Units Paid	Rate Paid	Amount Paid
1/29/2016	80 hours (10 days)	\$84.08 per hour	\$6,726.40
4/29/2016	240 hours (30 days)	\$90.95 per hour	\$21,828.00
8/31/2016	384 hours (48 days)	\$100.26 per hour	\$38,499.84
6/30/2017	192 hours (24 days)	\$100.26 per hour	\$19,249.92
Total Paid			\$86,304.16

As with the former superintendent's contract, with the exception of separation from employment, no provision in the former deputy superintendent's contract or any of its amendments provides for the payment of accrued vacation balances or the advance of unearned vacation. The cap imposed on vacation accrual balances is intended to prevent an uncontrolled liability to the district for outstanding benefits and serves to ensure administrative employees take at least some vacation each year. FCMAT found no evidence that the board authorized the deviation from the contract.

The former deputy superintendent was compensated for 60 days over his contracted allowance; similar to the superintendent, the rates paid did not follow the terms of the contract, which specifies that in the event of termination unused accrued vacation is to be paid at the salary rate effective during the school year in which the vacation credit was earned. FCMAT requested but the district was unable to provide documentation supporting the amounts paid to the former superintendent for vacation. A comparison of the accrual balances and amounts paid through the district's payroll system is shown in the table below. Had no payments been made prior to separation from employment, the maximum vacation payout the former deputy superintendent would have been entitled to would have been \$38,923.52, calculated as follows:

	Days Earned	Days Taken	Balance	Daily Rate	Total
2015-16	12	0	12	\$674.40	\$8,092.80
2015-16 (Step 3)	8	0	8	\$730.00	\$5,840.00
2016-17	24	0	24	\$771.20	\$18,508.80
2017-18	8	0	8	\$810.24	\$6,481.92
Total					\$38,923.52
Actual Payments					\$86,304.16
Amount of Overpayment					\$47,380.64

The daily rate of pay is calculated by taking the annual salary, dividing it by 2,080 hours and multiplying it by an eight-hour day. In 2017-18 the daily rate includes the 2% off schedule increase.

Separation Pay

The former superintendent resigned from his position on September 1, 2017 at a special board meeting. The report out from closed session documented in the minutes from that meeting state that the board accepted the resignation of the superintendent effective immediately by a vote of 5

to 0. The minutes further state, "... in exchange for 18 months of compensation and release of all claims." The separation agreement was executed by all parties on the same date.

The former superintendent's contract provides for a payout in the event of termination by the board based on "just cause" or without cause. The contract states that the board can terminate the agreement with six months prior written notice without cause and that the superintendent would be compensated for the remaining term of the agreement, with a maximum cash settlement equal to the monthly salary multiplied by the number of remaining months of the contract term with a maximum of 18 months; this language was consistent with Government Code in effect at the time of execution.

The former superintendent's contract also contains language stating that termination of the agreement can be made by mutual agreement at any time or by the superintendent with a 90 calendar day advance written notice. There is no language relative to payment of compensation under either of these terms in the contract.

On September 2, 2015, Assembly Bill 215 was passed amending previous Government Code 53260, reducing the maximum allowable payout of compensation of a superintendent's contracted salary from amounts equal to 18 months of the superintendent's salary to 12 months. This amendment applies to contracts executed on or after January 1, 2016. The former superintendent entered into his original contract on June 8, 2015. However, through the execution of the second amendment to the former superintendent's contract on March 11, 2016, the term of the contract was revised from three years to five years. It may be argued that broadening the term of the agreement effectively institutes a new agreement. As stated above, any amendments to contracts executed on or after January 1, 2016 are subject to the maximum cash settlement amount equal to the monthly salary of the employee multiplied by 12. Since the gap coverage language was added in the second amendment it could be further argued that it is subject to the limits on health and welfare benefits contained in Government Code 53261, which refers back to the time limitations in Section 53260; therefore, the maximum period is 12 and not 18 months. While it is allowable to add coverage to a contract, it seems reasonable that it would be held to the new Section 53261, which would then only allow the district to pay a maximum of 12 months for health and welfare benefits. Anything beyond the maximum of 12 months could be considered a gift of public funds.

FCMAT reviewed the termination agreement and supporting documentation supporting the payments processed for termination pay. Termination payout was initially processed using the district's off-schedule payroll cycle for the period ending September 7, 2017. Off-cycle payrolls produce a paper warrant and do not deposit automatically into the employee's bank account. Payroll warrant #13116485 processed for this off-cycle payroll included 18 months termination pay of \$405,450.04 and a payment for vacation of \$24,737.28; total net pay of \$339,159.46 after taxes and withholding. This warrant was not distributed to the former superintendent and was voided on September 29, 2017. A commercial warrant was processed on September 8, 2017 for the 18 months salary but excluded the amount for vacation; commercial warrant #14-304673 was issued for a net pay of \$314,806.05. When the commercial warrant is processed the net payment is recorded in a clearing account that is cleared when the transaction is processed through the payroll system.

The district appropriately processed the separation payment through the September 30, 2017 end of month payroll cycle to account for the gross salary and all appropriate payroll taxes and other withholding, and recognized the commercial warrant payment in the payroll ledgers. This payment included additional wages of \$5,009.38 for the 2% off schedule salary increase afforded

to all employees for the 2017-18 fiscal year that had not yet been processed. This resulted in a net payroll deposit into the former superintendent's account of \$3,816.51; the revolving clearing fund was credited to clear the net pay advanced through the commercial warrant process.

Procurement and Accounts Payable Transaction Testing

Besides the concerns raised with regard to the former employees' payroll compensation, additional concerns were raised regarding any further payments made to them outside of payroll, such as commercial warrants and revolving and petty cash reimbursements.

To accomplish this testing, FCMAT was provided the district's general ledger transactions for fiscal years 2015-16, 2016-17, and for 2017-18 from July 1, 2017 through December 31, 2017. From this FCMAT was able to identify all warrants paid to both former employees and began to preview those transactions. Previewing transactions means that all were reviewed in total and individually to determine if any should be examined further by reviewing the detailed supporting documentation.

Transactions Tests

FCMAT selected transactions for testing to evaluate the internal control structure including established operational procedures and to verify the validity and appropriateness of expenditures. FCMAT requested and obtained from the district reports for the 2015-16, 2016-17 and 2017-18 (7-1-17 to 1-5-18) fiscal years. FCMAT selected transactions from the warrant payment export files for each year. Transactions for both the former superintendent and the former deputy superintendent were selected for audit.

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

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

FCMAT selected and reviewed supporting documentation for transactions attributable to 78 disbursement checks drawn by the district from July 1, 2015 through January 5, 2018, many of which contained multiple transactions. The value of all transactions reviewed was \$579,207.71. The table below summarizes the exceptions noted during review of documentation provided for transactions selected for testing.

Exceptions Noted:		Number of Occurrences				
		2015-16	2016-17	2017-18 through 1/5/18	Total	% Total Review
1	No purchase order	16	33	14	63	80.8%
2	PO and/or authorization dated after receipt of goods or services	0	0	0	0	0.0%
3	Service contract not signed by both parties (district signatory and consultant)	1	5	2	8	10.3%
4	No detailed receipt or invoice attached	7	13	7	27	34.6%
5	No receiving document or payment authorization noted	10	11	5	26	33.3%
6	No advance authorization for travel or reimbursement	6	8	3	17	21.8%
7	Travel costs exceeded district policy limits	11	8	1	20	25.6%
8	Incorrect account coding for expenditure type	1	5	1	7	9.0%
9	No board approval provided	0	5	1	6	7.7%
10	No backup documentation provided	0	2	0	2	2.6%
11	No exceptions noted	1	0	0	1	1.3%
Totals		53	90	34	177	

FCMAT found exceptions in all but one of the transactions reviewed (99%); most transactions lacked advance authorization and/or should have been processed through the purchase order system to ensure board approved resources were available in the budget for expenditure.

Deficiencies noted by FCMAT during the review of transactions include the following:

- Transaction documentation reviewed for 70 out of 78 disbursements lacked a purchase order or other documented authorization, including travel requests.
- Transaction documentation for 29 disbursements lacked detailed receipt(s), vendor invoices and/or other appropriate supporting documentation.
- Transactions in 20 disbursements exceeded district travel policy limits.
- Transactions included in 7 disbursements were not coded correctly based on the Standardized Account Code Structure.

FCMAT also noted through the review of documentation transactions that included the following:

- Flight and hotel charges of \$3,336.77 for the former superintendent were prepaid on the former deputy superintendent's personal American Express card and reimbursed to him on 8-10-17. Staff reported during interviews that the former superintendent did not attend the activity for which these funds were expended. Cancellation of flights and room reservations may have resulted in credits back to the personal credit card of the former deputy superintendent. FCMAT did not find evidence of reimbursement to the district.
- April and May 2018 hotel costs for an employee were prepaid on the former deputy superintendent's American Express credit card and reimbursed on 9-1-17. Should these trips be canceled, the credit would go straight to the credit card and not the district.
- On 9-7-17, the former deputy superintendent was reimbursed \$9,803.32 for damage to his car while on campus. The payment was based on an auto repair estimate and a car

rental summary receipt. No detailed receipts were provided. If he had auto insurance coverage, which is likely, the district only should have reimbursed him the deductible amount if the district was liable for the damage. The documentation supporting the payment was inconsistent with all of the requirements outlined in Government Code Section 910 and only included a letter requesting a settlement payment, a release of all claims, estimates for repairs and the cost of a rental car to the account technician from the former superintendent authorizing a payment to be issued to the former deputy superintendent in the amount of \$8,880.24 for the repair of the vehicle and \$923.08 for the car rental. The board approved the expenditure under the consent agenda as part of its approval of warrants at its October 12, 2017 meeting.

- The 12-14-16 travel costs reimbursed to the former superintendent were overpaid by \$20. Additionally, two receipts were missing and a tip of 51% was paid on a cab fare. The district's board policy does not contain guidance pertaining to limitations on gratuity; however, 51% is inconsistent with industry standard.
- Reimbursement of \$2,859.45 on 4-15-16 to the former superintendent for a board member to attend the NSBA conference is over the board approved maximum of \$2,000 approved by the board on 8-13-15.
- The former superintendent was reimbursed \$67.92 on 2-24-16 for a lunch meeting he had with a board member. The lunch receipt shows one person had a filet/lobster combo for \$28. The board approved lunch allowance is \$12 per person. Furthermore, the IRS limits the employee reimbursement for meals when the amount paid exceeds the allowable board approved rate.
- The former superintendent was reimbursed \$24 on 10-7-15 for parking at Spreckles Theatre. FCMAT verified with Spreckles that the company name on the parking receipt is the company they use and that the rate for overnight parking is \$24. No documentation was present supporting the business purpose of the transaction.

Revolving Fund

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

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

The district frequently processes routine expenditures through this revolving fund.

During FCMAT's review the following was noted:

- The former deputy superintendent was reimbursed \$605.04 (check 1120 dated 8-28-15) for a conference meeting at the Westgate Hotel. Charges included room rental, three flip charts, lunch, service charges and tax. There were four attendees. Lunch cost including a \$39.20 tip totaled \$176.82 (\$44.20 per person). The board approved lunch allowance is \$12. There is no agenda, no list of attendees, and the only approval was the former superintendent's signature on the Invoice and Receipt for Payment from Revolving Cash Fund form.

- The former deputy superintendent was reimbursed \$75 for three employees to attend a 12-3-15 San Diego Housing Federation roundtable. The purchase order was dated 12-14-15 and the agenda item went to the board on 12-10-15. The former deputy superintendent was not an attendee.
- The former deputy superintendent was reimbursed \$56.87 for meeting with CA Financial Services. No attendee names were noted, and no agenda presented. Food receipt appears to be for three to four people.
- The former deputy superintendent was reimbursed \$257.50 for an EPA ID verification fee. The questionnaire was completed 11-30-15 and it was signed and dated 12-17-15 to be submitted with payment. The former deputy superintendent paid the fee with his American Express card on 12-23-15. This was not an emergency payment.
- The former deputy superintendent was reimbursed \$326.34 to renew a Survey Monkey membership and a two-year domain name registration. Membership went to the board on 1-21-16. The invoice was paid on 3-5-16 and purchase order dated 3-7-16. This was not an emergency payment.
- The former superintendent was prepaid \$100 for meals at the December 3-5, 2015 CSBA conference. There was no approval signature on the revolving cash fund request form or the reimbursement request form. There appears to be no reconciliation of the total cost of the conference, matching prepaid amounts to actual costs paid.
- The former superintendent was reimbursed \$56.58 for a Promise Neighborhood Initiative lunch on 11-16-15. There is no approval signature on the revolving cash fund request form or the reimbursement request form, and the receipts are partially illegible. There is no attendee list and no agenda. The receipt shows three guests, which means the expense was over the approved \$12 per for lunch.
- The former superintendent was advanced funds of \$775.82 for a three-night stay for the Superintendent's Symposium on 1-27-16 to 1-29-16. The conference request was not signed/approved. There appears to be no reconciliation of actual costs to the prepaid costs.
- The former superintendent was reimbursed \$314.10 for an additional night's stay for the Superintendent Symposium (1-29-16). The travel request form was not dated. Backup documentation did not include the required detailed receipt and did not have the name or address of the hotel on it.
- The revolving fund Board Policy 3314.2 states, "The Superintendent or designee shall provide regular reports to the Board regarding the use of revolving funds" FCMAT did not find evidence that the board was receiving this information.

Clearing and Petty Cash Accounts

FCMAT reviewed the clearing and petty cash account documentation for any payments processed to the former administrators in fiscal years 2015-16 and 2016-17, and transactions from July 1, 2017 through December 31, 2017. The purpose of the clearing account is to temporarily hold deposited monies until they have cleared the bank account they were drawn from. Once the checks have cleared they are transferred to the county treasury. The petty cash fund is a relatively small amount of cash kept on hand for making immediate payments for small expenses.

Approved detailed receipts are required to reimburse this fund from the district's account. The board approved maximum for petty cash is \$200.

In August 2017, a payment in the amount of \$4,049.44 was issued as a reimbursement to the former deputy superintendent to reimburse hm for two \$100 gift cards, two \$500 gift cards, a tablet, an iPad, and four televisions used as giveaways for a start of year breakfast. The giving of gifts has a personal as opposed to public character, and gift cards are not an allowable expense with public funds. Additionally, gift cards are considered cash equivalent. Without the verification of purchases and documentation that all funds were used appropriately, the purchases are considered an inappropriate gift or a misappropriation of public funds.

FCMAT did review the account for proper procedures and application and found numerous instances of insufficient internal controls such as untimely deposits; neither account had been reconciled on a routine and regular basis; and these accounts were used to circumvent the standard purchasing and accounts payable process.

Summary of Findings

Strong leadership, a strong ethical tone at the top, board members and management who fully understand their fiduciary duties, and sound internal controls are essential to an organization's success in maintaining the public's trust. If the board and management are not perceived as following the rules as set forth by their board policies and administrative regulations and are not regarded as looking out for the best interests of the district, the ethical tone or culture of the organization breaks down and fails.

Without a strong internal control system and proper checks and balances, further breakdowns in following the rules may occur, the risk for fraud increases, and the ability to detect and deter fraud is undermined. More importantly, with the breakdown of internal controls, it is more difficult to protect employees from the appearance of fraud and being accused of fraud. FCMAT identified numerous conditions that subject the district to increased risk for fraud.

The district has experienced a great deal of instability in its leadership at the superintendent level and other administrative levels for the past decade. Revisions to both the former superintendent's and deputy superintendent's contracts were virtually identical and were proposed simultaneously, suggesting that the two administrators worked together to modify their contracts in ways that were mutually beneficial. The number of amendments made to each of the former administrators' employment contracts during their short employment history further supports this. When attention was drawn to the details behind the proposed contract language amendments, the former administrators redirected the focus to the strained relationship between the district and the county office and the perception that the county office was biased in its scrutiny of these contracts.

In the table below are the total amounts that each former employee was paid over and above what they were entitled to. In addition to the amounts stated below, warrants and/or reimbursements made to the former employees as stated above in the report should be reviewed further. If a determination is made that they should not have received such payment the amounts should be considered owed to the district. This table does not consider the questionable payments of separation pay that contradict the terms of the former superintendent's employment contract.

Former Superintendent	
Term life insurance payout	\$107,000.00
Minus the district monthly premiums	-\$213.20
Vacation overpayment	\$55,826.72
Potential Amount Overpaid	\$162,613.52
Former Deputy Superintendent	
Salary overpayment	\$14,131.19
Term life insurance payout	\$100,000.00
Minus the district monthly premiums	-\$159.90
Vacation overpayment	\$47,380.64
Potential Amount Overpaid	\$161,351.95

Conclusion

Potential for Fraud

Based on the findings in this report, there is sufficient evidence to demonstrate that fraud, misappropriation of funds, or other illegal fiscal activities may have occurred in the specific areas reviewed.

Deficiencies and exceptions noted during FCMAT's review of the financial records and the district's internal control environment increase the probability of fraud, mismanagement and/or misappropriation. These findings should be of great concern to the San Ysidro School District and the San Diego County Office of Education and require immediate intervention to limit the risk of fraud, mismanagement and/or misappropriation of assets, or other illegal fiscal activities in the future.

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. Fraud is a broad legal concept, and auditors do not make legal determinations of whether fraud has occurred. The primary factor that distinguishes fraud from error is whether the underlying action is intentional or unintentional. Education Code Section 42638(b) states that action by the county superintendent shall include the following:

If the county superintendent determines that there is sufficient evidence that fraud or misappropriation of funds may have 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.

Per Education Code Section 1241.5(b), the county superintendent shall report the findings and recommendations to the board of the district at a regularly scheduled board meeting within 45 days of completing the audit. The board of the 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 San Ysidro School District, the state controller, the superintendent of public instruction and the local district attorney that sufficient evidence exists to indicate that fraud or misappropriation of district funds and/or assets or other illegal fiscal activities may have occurred.

Appendix

Appendix A - Study Agreement



CSIS California School Information Services

**FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
AB139 STUDY AGREEMENT
November 15, 2017**

The Fiscal Crisis and Management Assistance Team (FCMAT), hereinafter referred to as the team, and the San Diego County Superintendent of Schools, on behalf of the San Diego County Office 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 FCMAT to 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 developed information regarding possible fraud, misappropriation of funds or other illegal practices at the San Ysidro School District and is requesting that FCMAT review employee compensation (all payroll related expenses) and any additional payments made outside of payroll (including, but not limited to, salary, expense allowances, housing allowances, insurance buy-outs, off-schedule payments, retro payments, vacation payments, deferred compensation payments, termination payments, commercial warrant reimbursements, revolving cash reimbursements and petty cash reimbursements), and relevant internal controls related to former superintendent Julio Fonseca and former interim superintendent/deputy superintendent Jose Arturo Sanchez-Macias (collectively the "Scope of Work").

The primary focus of this review is to determine, based on the testing performed, whether (1) the district's reporting and monitoring of payroll and other payment transactions related to employee compensation (all payroll related expenses) and payments made outside of payroll (including, but not limited to, salary, expense allowances, housing allowances, insurance buy-outs, off-schedule payments, retro payments, vacation payments, deferred compensation payments, termination payments, commercial warrant reimbursements, revolving cash reimbursements and petty cash reimbursements) have adequate management and internal controls, and (2) based on that assessment, whether fraud, misappropriation of funds or other illegal fiscal practices may have occurred.

Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. Specific audit objectives will include evaluating the establishment, implementation and effectiveness of policies, procedures and internal control activities through the review of financial transactions recorded by the district relating to the Scope of Work.

The team will review and test recorded transactions for fiscal years 2015-16 through 2017-18 to date, to determine if fraud, misappropriation of funds or other illegal activities may have occurred. Testing for this review will be based on a sample of transactions and records for this period. Testing and review results are intended to provide reasonable but not absolute assurance regarding the accuracy of the district's financial transactions and activity to accomplish the following:

1. Provide reasonable assurance to management that the internal control system is established, implemented and monitored.
2. Prevent internal control activities from being overridden by management.
3. Help identify and correct inefficient processes.
4. Ensure that employees are aware of the proper internal control expectations.

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:

- | | | |
|-----------|-------------------------|-------------------------|
| <i>A.</i> | <i>To Be Determined</i> | <i>FCMAT Staff</i> |
| <i>B.</i> | <i>To Be Determined</i> | <i>FCMAT Consultant</i> |

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. \$950 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 \$26,000.

- C. Any change to the scope will affect the estimate of total cost.

Payments for FCMAT services may be reimbursed from funds pursuant to EC 1241.5 set aside for this purpose. Other payments, when deemed necessary, are payable to Kern County Superintendent of Schools - Administrative Agent 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 (2) prior years' audit reports
 4. Any documents requested on a supplemental list. Documents requested on the supplemental list should be provided to FCMAT only in electronic format; if only hard copies are available, they should be scanned by the 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 and/or district's administration will review a preliminary draft copy of the study. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the team prior to completion of the final report.

Pursuant to EC 45125.1(c), representatives of FCMAT will have limited contact with pupils. The 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 San Diego County Office of Education named as additional insured, indicating applicable insurance coverages upon request.

10. **HOLD HARMLESS**

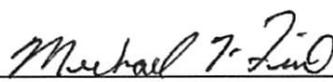
FCMAT shall hold the COE, its board, officers, agents and employees harmless from all suits, claims and liabilities resulting from negligent acts or omissions of its board, officers, agents and employees undertaken under this agreement. Conversely, the district shall hold FCMAT, its board, officers, 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: Brent Watson
 Telephone: (858) 292-3537
 E-mail Address: brwatson@sdcoe.net



 Paul Gothold, Superintendent Date 11/16/17
 San Diego County Superintendent of Schools
 San Diego County Office of Education



 Michael H. Fine Date November 15, 2017
 Chief Executive Officer
 Fiscal Crisis & Management Assistance Team