

Effective and Compliant Student Body Programs

for
2017 CADA Annual Convention

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San Diego, CA

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Some of the Basics



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ASB Types

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



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ASB Types, cont.

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



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All Clubs Need to be Approved

- All clubs need to be approved, even activity clubs, for liability reasons.
 - Each club must have a certificated club advisor assigned to it, and only that certificated club advisor can approve activities and expenditures
- A formal application should be completed that includes:
 - Title, powers and duties of the officers and the manner of their election
 - Scope of proposed activities
 - Name of organization
 - Endorsement by a certificated club advisor
- New clubs must be approved by:
 - Student council*
 - Principal

** For organized ASB*



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What it Means to be Part of ASB



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Most Importantly

- It's all about students:
 - Fundraising
 - Participating
 - Doing
 - Learning
 - Experiencing
 - Making decisions (if organized ASB)




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Student Club and Trust Accounts

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

**Optional if unorganized ASB




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Student Club and Trust Accounts, cont.

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




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How Do Parent Groups Fit In?

- Parent group funds cannot be commingled with district/ASB funds.
 - Nonstudent groups cannot deposit funds in the ASB accounts unless they are being donated to the ASB
 - Once the funds are donated to ASB, only the student organizations control how the funds will be used
 - Parent groups and student groups must keep their funds and activities separate




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ASB is ASB

- ASB accounts should not be used as pass-through or clearing accounts.
- Only money that should be deposited in ASB:
 - Actual ASB funds
 - Will be used for appropriate ASB purposes
- When non-ASB activities are commingled with ASB, problems begin.
- Commingled funds should never be allowed; may appear to be fraudulent or there through negligence.
- Avoid even the **APPEARANCE** of fraud.




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What to Do with Funds that Don't Belong in ASB

- Non-ASB accounts, including pass-through or clearing accounts, should be transferred into a district account.
- Non-ASB donations from parents, students or community members or groups should be deposited in the school site's district donation account, not accounted for through the ASB, unless truly supplementing fundraising.
- Only money that should be deposited into ASB:
 - Actual ASB funds
 - Will be used for appropriate ASB purposes



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District Board Policy and Regulations

Govern:

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



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Who is Responsible for What?




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Site Principal

- Works with district office
- Approves fundraising events
- Approves expenditures along with students and ASB advisor
 - Can be only approver for unorganized ASB
- Appoints the ASB and club advisors
- Supervises ASB bookkeeper and ASB advisors
- Enforces and communicates all laws, policies and procedures




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Site Principal, cont.

- Ensures that a student council is established and approves club constitutions
- Works with each student organization to develop methods for securing cash collected after hours and on nonschool days
- Ensures proper cash control procedures established and followed at all times
- Ensures minutes are kept of all ASB and club meetings
- Receives and reviews bank statements MONTHLY
- Reviews budgets and financial reports MONTHLY




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ASB Advisor(s)

- Critical link between principal – bookkeeper – students; aka the principal's designee for day-to-day ASB functions
- Must be a CERTIFICATED employee
- Needed to supervise EACH club and student council/leadership class
- Works directly with students on a day-to-day basis, supervising the activities and serving as a link between the students and the ASB bookkeeper and the principal




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ASB Advisor(s), cont.

- Assists the students in preparing the annual budget and revenue projection estimates for fundraisers
- Ensures that adequate internal controls are in place
- Approves expenditures along with students and board designee (for organized ASB)
- Ensures that the clubs are meeting and keeping minutes
- Reviews with the students all budgets, financial reports and transactions
- Ensures all laws, policies and procedures are followed



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Student Council

- Represents the students
- Primary authority of how student-raised funds will be spent
 - Approves expenditures along with ASB advisor and board designee (for organized ASB)
- Develops and approves annual budget for student council and leadership class
- If unorganized, student council is not mandatory; for organized, it is mandatory



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Student Council, cont.

- Authorizes ALL:
 - Student club budgets
 - Student clubs
- Reviews ALL:
 - Student club fundraising events
 - Student fund purchases/expenditures
- Reviews ALL:
 - Student club financial reports
 - Student club reconciliations
 - Anything else it would like to review




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ASB Bookkeeper

- The site ASB bookkeeper safeguards money held at school site.
 - Ensures funds get to the ASB bank account in a timely manner
 - Responsible for receipts received from ASB advisor until deposited
- Prepares proper financial records of financial transactions in accordance with established procedures and policies
 - Club reports, check registers, deposit registers, etc.




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ASB Bookkeeper, cont.

- Provides materials to ASB advisors for fundraisers, and keeps stock on hand (change box, receipt books, tickets, etc.)
- Processes purchase orders, payments, and invoices
- Prepares bank reconciliations monthly
- Upholds ASB laws, procedures and policies
- We'll discuss the bookkeeper's duties in much more detail soon!




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THAT'S A LOT OF WORK!

I THOUGHT IT WAS EASIER TO SPEND MONEY FROM ASB, NOT HARDER!



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Let's Talk about Some More Specifics




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Budgets

- Every club must have a budget if organized
- Budget is an ESTIMATE
 - If the budget goes off track during the year, REVISE it
- Budget = Usually one year
 - Often Forgotten: AT END OF SCHOOL YEAR, prepare **NEXT YEAR'S budget** (needed to conduct business)
 - This "next year's budget" can be as simple as using current year actual revenue and expenditures
- Students need to participate in the budget process
- Require that a budget is in place and approved BEFORE the club enters into any commitments (i.e., spends any money)
 - No budget = No spending!
- If unorganized, budgets are not mandatory




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Budget Carryover

Possible; HOWEVER – Students should spend what they raise

- Seed money for next year = OK
- Reasonable carryover balances = OK
- Multiyear projects with carryover balances = OK
- Get permission to carry over and/or set percentage limits
- There should be a form to get approval to carry over funds from the prior year




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What Happens When a Class Graduates?

- Funds held in ASB can only be spent on CURRENT students
- If graduating:
 - Spend remaining funds prior to graduation
 - Gift the funds to another ASB club at the same school site
 - Gift the funds to the general ASB at the same school site
- Balances cannot follow students graduating from elementary or middle school and moving on to next level
 - Funds stay at same school where they were raised
- If class has already graduated, need to clear funds
 - General ASB unless board policy or constitution says otherwise




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What Should We Know About Raising Money?

- Obtain district governing board approval BEFORE the fundraiser occurs. This is required by Ed Code.
 - Best Practice: ASB fundraising events should be approved at the beginning of year, by the board or whomever the board delegates to do so, or the governing board should approve policies and administrative regulations that delineate allowable and unallowable fundraising events
- Ensure that ASB fundraisers are preapproved and consist of students raising money to purchase "extras" for their own educational experience
- Ensure that ASB and parent organizations coordinate the timing of their fundraisers so they don't compete with each other




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Revenue Potential

- Complete a revenue potential form for each fundraiser
 - An internal control requirement; absence of this results in a finding in the district's independent audits
- The form will include an ESTIMATE, ACTUAL results, and the difference
- Revenue potential form can serve as the document to:
 - Complete and submit to the board or designee for event approval
 - Ensure that the site administrator is informed and approves of all fundraising activity at the site
 - Notify the bookkeeper of an upcoming deposit
 - PLAN!




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Don't Forget....

- ASB fundraisers must be preapproved and consist of students raising funds to purchase "extras" for their educational experience and not for individual students
- Charging students a fee is not a fundraiser
 - If not allowed by Ed Code, don't charge it!
- School districts and ASBs cannot hold raffles
 - Against Penal Code
 - But silent auctions are allowed as fundraisers
- It is not legal for teachers to raise funds to increase their site budgets by fundraising using the district's tax ID number. If they do, the funds may be considered taxable income to the teacher



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Donations

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

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Allowable Expenses

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

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Allowable Expenses, cont.

- Expenses **CANNOT** be considered a gift of public funds
 - Article 16, Section 6, of the California Constitution
 - Must have a direct or substantial purpose
 - Misappropriation of public funds is considered a criminal act, with no monetary limit specified
 - Better to be safe than sorry

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Gift of Public Funds

- Expenditures of school funds must be for a direct and primary public purpose to avoid being a gift of public funds
 - Private individuals are benefitted only incidentally
 - Approved public purpose must be within the scope of a school district's jurisdiction and purpose
- Expenditures that most directly and tangibly benefit students' education are more likely justified
 - Expenditures driven by personal motive are not justified even if long-standing custom or based on benevolent feelings

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Gift of Public Funds, cont.

- To justify the expenditure of public funds, the governing board must determine that the expenditure will benefit the education of its students.
- If the governing board has determined that a particular type of expenditure serves a public purpose, courts will almost always defer to that finding: **Put it in board policy.**
- The following can be considered a gift of public funds unless in board policy:
 - Scholarships to college
 - Donations to charity
 - Flowers

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Examples of Allowable Expenses

- Student magazines and newspaper subscriptions
- Supplemental equipment for student use not provided by the school (e.g., telescopes)
- Field trips/excursions/outdoor education camps
- Extracurricular athletics costs, i.e. game officiating and security
- Social events for students
- Awards if there is a district policy allowing them (E.C. 44015)
- Substitute teacher if the teacher is absent due to an authorized ASB event


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Examples of Unallowable Expenses

- Regular curriculum and classroom supplies
- Salaries/supplies that are the district's responsibility
- Repair and maintenance of district equipment/facilities
- Employee clothing/attire, including coaching uniforms
- Large awards (over \$200 in value) unless specifically approved in board policy
- Employee appreciation meals or gifts
- Donations to other organizations without specific board approval
- Items for employee personal use
- Faculty meeting or parent group costs
- Gift cards unless specifically allowed in board policy
- Gifts of any kind



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And Don't Forget About Contracts

- ASB contracts are legally binding on the district just as all other district contracts are
 - Those who are authorized to sign district contracts are the same individuals who are allowed to sign ASB contracts
 - Unless board policy states otherwise
- District contract policies and procedures protect the ASB, the students, and their assets



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Let's Talk About Fraud and Internal Controls



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What is Fraud?

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




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Fraud in Government

Don't ever think fraud cannot happen at your educational agency!


- *Report to the Nations* – 2014 is a global fraud study conducted annually. Here are some facts:
 - 1,483 cases of occupation fraud worldwide
 - 646 of those cases, representing 48% were in the USA
 - Median loss \$100,000



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Types of Fraud

So What Are the Different Types of Fraud?



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Occupational Fraud

Committed by the owners, executives, directors, managers and/or employees of an organization, which has three primary classifications:

- Asset Misappropriation Fraud
- Corruption Schemes
- Financial Statement Fraud


Occupational fraud is the most common type of fraud that occurs in school settings. Misappropriation represents 85.4% of all fraud cases in the Report to the Nations -- 2014.



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Occupational Fraud, cont.

- One of the most difficult types of fraud and abuse to detect
- Most common method of detection is receiving **tips** from current and/or former employees
 - Represents 51.0% of all tips from a hotline
 - Accounts for 42.2% of detection methods overall




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Asset Misappropriation Fraud

Asset misappropriation fraud includes three main areas:


- Cash: Skimming, larceny and cash on hand
- Fraudulent Disbursements: Schemes that include – billing, payroll expense reimbursement, check tampering and register disbursements
- Inventory and All Other Assets



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Corruption Schemes

- Corruption schemes involve an employee 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
- Includes conflicts of interest
- Corruption schemes accounted for 36.8% of all occupational fraud cases reported with a median loss of \$200,000



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Financial Statement Fraud

Financial statement fraud includes the intentional misstatement or omission of material information in financial reports.



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Why Do You Think So Many Fraudsters Target ASBs?

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




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Cash

- Cash from fundraising – (candy drives, auctions)
- Cash from events – (football gate receipts, dances, bake sales)
- Cash from donations


Most fraud that occurs in ASB is directly related to procedures for handling of cash and checks.




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Fraud Triangle





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Motivation/Pressure Includes....

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



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Opportunity Includes....

- Poor internal controls
- Poor training
- Poor supervision
- Those who steal are not prosecuted; no punishment
- Poor or ineffective anti-fraud programs, policies and procedures
- Management is perceived as unethical
- Unethical business culture/environment




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Rationalization Includes....

- I need it more than the other person (Robin Hood theory).
- I'm borrowing the money and will pay it back.
- They treated me unfairly, talked down to me, or were rude.
- I've earned it.
- Nobody will get hurt.
- The district/school is big enough to afford it.
- Everybody is doing it.



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What Are Internal Controls?

- Policies and procedures designed to provide the governing board and management with reasonable assurance that the district, including ASB, achieves its objectives and goals. They include:
 - Segregation of duties
 - Limiting access to assets
 - Management review and approval
 - Reconciliations
 - Efficient and effective accounting and business policies, procedures and standards of conduct
 - Appropriate management tone – "tone at the top"
 - Performance evaluations
 - Training programs
 - Appropriate oversight




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What Are Internal Controls?, cont.

- Internal controls are CRITICAL to:
 - Protect ASB's assets.
 - Protect students, employees and staff who handle cash.
- There are many rules and regulations that require compliance; there are also many people who don't want to follow them, as well as others who don't allow enough time or patience to implement or follow them through.
- ASB has not traditionally been scrutinized enough.
- Often school site administrators/principals are just happy to fill ASB positions, even if they are not qualified.




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What Are Internal Controls?, cont.

- School site administrators/principals must ensure:
 - Proper cash control procedures established and followed:
 - During fundraising event.
 - When cash and checks given to ASB bookkeeper for deposit into the ASB account.
 - Unless cash control procedures are in place for the fundraiser, the event should not be held (or approved).




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What Are Internal Controls?, cont.

- Internal controls do a lot in helping to prevent errors that may look like fraud.
- Internal controls also help mitigate fraud, protect against motive, opportunity and access, as well as keep employees, volunteers and students from being accused of fraud.



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What Are Internal Controls?, cont.

Don't forget:

- ASBs are responsible to follow the district's policies and procedures. The district's policies and the ASB's policies should mirror one another.
 - For example, there should not be two sets of policies for not-sufficient funds (NSF) checks, travel, etc.



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What Are Internal Controls?, cont.

- Principal mechanism for preventing and/or deterring fraud or illegal acts, misappropriation of assets, or other fraudulent activities
- Effective internal control processes provide reasonable assurance that the district's/ASB's operations are effective and efficient, that the financial information produced is reliable, and that the organization operates in compliance with all applicable laws and regulations



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What Do Internal Controls Include?

An organizational culture that promotes awareness and takes fraud seriously at all levels.



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Examples of Internal Controls in ASB

- Purchase order/requisition completed prior to purchase
 - ASB/school is not obligated to pay for the expenditure without a PO, which proves prior approval
- Proper forms to be used, completed, and properly signed/dated
- Checkbook and extra check stock in a secure place
- Void checks that are incorrect or not issued
- Have backup signers--never sign checks in advance
- Never make check out to "cash"
- Do not cash personal or third-party checks
- Use checks in proper sequence
- Ensure there are two signatures on checks
- Endorse all checks – "For Deposit Only ..."



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Examples of Internal Controls in ASB, cont.

- Cash is never counted alone. Always have a witness present.
- Preapproval of fundraisers/completion of revenue potential forms
- Inventory control and review
- Proper cash handling and physical chain of custody for all cash receipts
- No commingling of receipts from separate events
- Immediate delivery of all event proceeds to the ASB bookkeeper with appropriate backup to justify amount
- Cash boxes to keep the received money safe
- Profit and loss statements for student stores
- Timely deposits
- Budgets for each club



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Examples of Internal Controls in ASB, cont.

- All financial and reconciliation reports are issued timely, per district policy, and reviewed/approved by the district office.
- Site administrator works with each student organization to develop methods for securing cash collected after hours and on nonschool days.
- Unexpected internal audits performed.
- Separate user IDs and passwords are issued to each accounting software and system user.
- People are not allowed to walk funds unescorted to the safe or bank.
- Secure safes at each school site (Funds never taken home, put in a desk drawer or in a locked file cabinet.)



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Examples of Internal Controls in ASB, cont.

- Bank reconciliations done within two weeks of receiving bank statement, with proper review and approval afterward
- Use prenumbered tickets, receipt books, or tally sheets and control where they are stored
- Service/product/goods MUST be RECEIVED and authorized before payment is made
- Payments or disbursements made ONLY if original documents/receipts exist (i.e., proof of purchase)
- Student council and each club prepares and maintains a record of each meeting and the action(s) taken in them
- Report overages and shortages
- Limit access to safes



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Always Remember.....

- A fraudster's best ability to commit fraud is to acquire cash "before" the cash is counted, confirmed, and put into the books and bank.
- Good internal controls assist in protecting the district and its employees as well as assisting in identifying the perpetrator.
- Go with your gut feeling and ASK QUESTIONS!
- When asking questions, if you do not get an answer that makes sense or you are not sure of an answer, ask again and/or get help.



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Whom Do Internal Controls Protect?


- Employees
- Volunteers
- Students
- Your organization's assets



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ASB Minutes Requirements

- The student council and each club must prepare and maintain a record of each meeting and action taken in them
 - Details of proceedings
 - Actions taken
 - Demonstrate that policies and procedures are followed by ASB
- Need to be concisely and clearly written
- If ASB is unorganized, and if meetings are not held, then minutes are not mandatory. But if meetings are held, and decisions are made there, minutes are mandatory.




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ASB Minutes Requirements, cont.

- Any information introduced to those attending the meeting should be attached to the original copy and kept on file, such as list of purchase orders, list of checks, financial information, and letters
- The club secretary, or whoever took the minutes, should sign the minutes when they are completed
- Review and approve at next meeting
- Maintain a binder of all of the approved minutes for the school year




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ASB Bank Accounts

- ASB bank accounts should always be in the name of the ASB organization rather than in the name of any individual
- Only ASB funds are deposited in ASB accounts
- There must be at least two signatories on each bank account, and these signatories should not include students
 - Should also not include the bookkeeper




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Annual Independent Audit Report

- Auditors report directly to the governing board
- Annual audits protect the district
- Not every transaction is reviewed; samples are selected
- The audit is an annual compliance audit, NOT a fraud audit
- Incorrect procedures, once known, even if they are undetected by the auditors should be corrected to protect the students, the ASB/school, the district, and YOU
- **FIX PROBLEMS BEFORE SOMETHING GOES VERY WRONG!!**




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When You Have Questions


- Work with your district office.
 - No one knows the rules and policies of your district better
- Ask your auditors.
 - They have an annual responsibility to review your district, including ASB
- Review FCMAT's *ASB Accounting Manual, Fraud Prevention Guide and Desk Reference*.
 - Can be accessed and downloaded for free from FCMAT's website at www.fcmat.org
- Use FCMAT's online help desk at www.fcmat.org
 - If your question hasn't been answered before and is not contained in the archives, you can submit your question and receive a confidential answer



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Are there any questions I can help you with now?




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Q & A
You Get To Ask The Questions!
for
2017 CADA Annual Convention
March 1 to 4, 2017
San Diego, CA

Presented by:
Michelle Giacomini
Chief Management Analyst, FCMAT
&
Michael W. Ammermon, CPA, CFE




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FCMAT receives an incredible amount of questions on a variety of ASB subjects when doing ASB workshops across the state. This is your chance to ask those burning questions that you've been holding for a while.

Who is going to go first?



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When You Have Questions

Work with your district office.

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Thank You For Attending



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