



Report to the Chief Financial
Officer, Area Superintendent –
Area 6, and the Principal, Clark
Middle School

April, 2016

CLARK MIDDLE SCHOOL

Review of the Associated
Student Body Fund

NOTICE

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinion of the Office of Internal Audit. Determinations of corrective action to be taken will be made by the appropriate San Diego Unified School District officials.

Highlights

Highlights of Report 16-05, a report to the Chief Financial Officer, Area Superintendent – Area 6, and Principal, the Clark Middle School

Clark Middle School

Review of the Associated Student Body Fund

Why OIA Did This Review

We performed this review of the Clark Middle School (Clark) Associated Student Body (ASB) Fund as part of our fiscal year 2015 work plan.

OIA conducted this review to determine whether the Clark ASB Fund's systems of internal control operated in a manner that were sufficient to ensure that all ASB Funds received were accounted for and expended in accordance with the relevant BOE policies and District APs.

What OIA Recommends

We included ten recommendations in the report. One recommendation regarding the improper use of the purchase card was provided to the Chief Financial Officer. Two recommendations regarding the operation of the ASB Fund, as a whole, were provided to the Area Superintendent – Area 6. Seven recommendations regarding the establishment of controls, compliance with policies and procedures, and accounting for the ASB Fund were provided to the Principal.

The Chief Financial Officer and Area Superintendent – Area 6 concurred with our recommendations and their planned corrective actions met the intent of the recommendations. The Clark Middle School Principal did not provide a response to our report.

What Did OIA Find

OIA's work identified the absence of: an effective system of internal controls, compliance with Board of Education (BOE) policies, and effective management oversight adversely impacted the financial operations and position of the Clark ASB Fund. As a result, the Clark ASB Fund lost \$15,120 in merchandise inventory and \$2,560 of cash receipts were either lost or stolen.

We were unable to obtain a reasonable assurance from the Clark administration that all of the receipts due to the ASB were received and accounted for in the ASB Fund, in part, because Clark did not maintain accountability for the cash receipt and sub-receipt forms used to record cash to be deposited to the ASB Fund. Clark did not maintain adequate controls for its merchandise inventory. Generally accepted business practices were not followed to ensure accountability was maintained, access to the merchandise was not controlled, and accountability at the sales point was not maintained.

The Clark ASB Fund's accounts payable and general fund accounts and the results of financial operations (income statement) were materially misstated because outstanding vendor invoices were not included in the ASB Fund as of 30 June 2015. When the invoices are included in the financial records, the income from operations had a deficit of \$5,141 and the general fund account had a deficit of \$4,512.

The Clark ASB Fund's Replacement Program and Uniform Assistance Program did not have a documented revenue source resulting in a reduction of the ASB Fund's revenues and merchandise inventory by \$1,790. This program appears to have violated the State Constitution's prohibition against donating public funds to individuals and not-for-profit organizations.

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Abbreviations and Acronyms Used

Administrative Procedure	AP
Area Superintendent, Area 6	AS-6
Associated Student Body	ASB
Board of Education	BOE
Chief Financial Officer	CFO
Clark Middle School	Clark
San Diego Unified School District	District
Financial Clerk	FC
Financial Clerk-1	FC-1
Financial Clerk-2	FC-2
Fiscal year 2014	FY-14
Fiscal year 2015	FY-15
Independent public accountant	IPA
Office of Internal Audit	OIA
Purchase card	P-Card
Physical education	PE
Supervisory Administrative Assistant	SAA
San Diego Unified School District	SDUSD
School year 2015	SY-15



15 April 2016

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This report summarizes the results of the Office of Internal Audit's (OIA) review of the Associated Student Body (ASB) Fund at the Clark Middle School (Clark). At the time of this review, Clark's ASB Fund had not been reviewed by OIA or the San Diego Unified School District's (District or SDUSD) independent public accountant (IPA) for more than five years.

This report provides a summary of our findings and observations, during the review, and provides recommendations to the Chief Financial Officer (CFO), the Area Superintendent for Area 6 (AS-6), and the Clark Principal to improve the systems of internal control, compliance with Board of Education (BOE) policies, and the District's Administrative Procedures (APs). We requested responses from these individuals to the recommendations in our draft version of this report. The CFO and AS-6 provided responses and generally concurred with our recommendations and their proposed corrective actions met the intent of the recommendations. The Principal, Clark Middle School did not provide a response to a draft version of this report.

Our review included the period 1 July 2013 through 30 June 2015. During this period the daily operations of the ASB were managed by three individuals. From 1 July 2013 through 9 September 2014 a permanent financial clerk (FC-1) operated the ASB Fund. From 10 September 2014 through 19 January 2015, the school's Supervisory Administrative Assistant (SAA) operated the ASB Fund as a collateral duty. A permanent financial clerk (FC-2) was assigned to the school on 20 January 2015 and provided for the daily operations of the fund through 30 June 2015, the close of our review period. The turnover of staff and the extended period between reviews may have impacted the operations of the ASB Fund and impacted the causes for some of the findings and operations included in the report.

Results in Brief

The operations and the financial results of the Clark ASB Fund were adversely impacted by the absence of effective internal controls, compliance with BOE policies and the District's APs for the ASB Fund, and the absence of effective management oversight. These weaknesses and deficiencies allowed the ASB Fund to suffer: (1) the loss of \$15,120 in merchandise inventory; (2) the loss of \$2,560 in

cash receipts; and (3) the loss of accountability and control for the ASB Fund cash receipts.

Clark did not record unpaid liabilities to vendors and the District, as of 30 June 2015, which materially distorted the financial statements and the ASB Fund's financial position at fiscal year-end. The absence of these entries masked a loss in the operation of the ASB for fiscal year 2015 (FY-15).

Clark's ASB Fund included two programs, during the review period, to supply students with physical education (PE) uniforms and combination locks that did not have a financially viable funding stream and lacked adequate controls and accountability for the resources used by the programs. Further, we were unable to obtain data supporting the programs were approved by the student council, or similar body, at Clark prior to their implementation and on an on-going basis and may have violated the State's Constitution.

Summary of Recommendations

This report includes a series of 10 recommendations. We have addressed recommendations to the CFO, AS-6, and the Clark Principal. OIA recommended that the CFO determine the appropriate administrative action to address the misuse of the Clark purchase card (P-Card) [Recommendation 3]. We recommended that the AS-6 confer with Human Resources and Legal Services to determine whether administrative action should be taken against the Clark management and staff involved in the management of the ASB Fund [Recommendation 9]. Further, we recommended the AS-6 contact the Finance Department and the Office of Secondary Schools to provide training in the operation and internal controls for the ASB Fund [Recommendation 10].

We provided a series of seven recommendations to the Clark Principal. These recommendations include in part:

- Notify the Chief of Police Services of loss or theft of ASB merchandise and cash collections as required by AP 5025;
- Improve the system of internal controls, accountability for the monies held by the ASB Fund, and compliance with the District APs;
- In consultation with the Finance Department determine the steps necessary to adjust the ASB Fund's financial records as of 30 June 2015; and
- Terminate the Replacement Program and consult with the Office of Legal Services to determine whether it is appropriate to operate a similar program.

Background

Clark is a middle school operating on the District's year-round calendar. At the close of school year 2015 (SY-15) 1,010 students

were enrolled at Clark. At the close of SY-15, Clark had an authorized staffing level of 83 teachers and staff.

OIA and the District's IPA have not reviewed the operation of the ASB Fund for more than five years. To address this condition we included a review of the ASB Fund in our annual work plan for FY-15.

The ASB Fund, established by State Education Code and the BOE, operates solely for the benefit of the Clark students. The ASB Fund serves as the financial clearing house for the funds necessary to operate the student's extracurricular activities, student clubs and organizations, and social events held by the students.¹ The ASB Fund is to be operated to benefit the current students at the school.² The ASB Fund is operated and accounted for as a trust fund. The school's principal is the sole trustee and is responsible for the programmatic and financial operations of the fund.³

At a middle school the student council, ASB council, or a combination of the two groups⁴ has oversight for the ASB budget and the student clubs and organizations within the ASB Fund. The student council represents the student body, as a whole, and decides how funds are to be raised and spent for the ASB Fund. As part of their responsibilities, they oversee and approve the proposed budgets and fund raising activities for all the student clubs and organizations within the ASB Fund. Additionally, they authorize proposed unbudgeted disbursements.^{5,6} AP 2227, *Student Body Budget*, §§ C.3.a and C.8.b state respectively that the ASB budget shall be balanced, dollar per-item budget. Overspending of the budget line items and in total is prohibited, and the ASB Fund's trust accounts and the student club and organization accounts should never have a negative balance.

The principal is responsible for the direction of the financial clerk (FC) in the daily operation of the ASB Fund and ultimately the books of account maintained for the ASB Fund. As part of the expenditure process, the principal is required to approve each proposed disbursement (ASB Requisition).⁷

¹ AP 2225, *Administration of Student Body Funds*, § C.5.b(1).

² AP 2225, § C.5.b(4).

³ AP 2225, §§ C.4.b and c.

⁴ For the purposes of this report, we will refer to these student organizations by the singular term student council.

⁵ Fiscal Crisis and Management Assistance Team, *Associated Student Body Accounting Manual, Fraud Prevention Guide and Desk Reference*, 2012; Bakersfield, CA;2012, page 7.

⁶ AP 2225, § C.4.e(3).

⁷ AP 2225, C.C.4.e(3)(b).

Additionally, the AP 2225 § C.6 requires that the ASB Fund adhere to the following restrictions:

- a. **Expending funds.** *Student body general funds shall be expended only for purposes that benefit the entire student body.*
- b. **Management.** *Student body funds shall be managed in accordance with the best business practices, including sound budgetary and accounting procedures.*
- k. **Debt.** *Schools may not assume a debt that will run beyond the current fiscal school year. (Emphasis provided).*

Objectives and Scope

The objective for this review was to determine whether the Clark ASB Fund's systems of internal control operated in a manner that were sufficient to ensure that all ASB cash collections were accounted for and expended in accordance with the relevant BOE policies and District APs.

The original scope of this review included 1 July 2014 through 31 May 2015. Based on the results of our interviews and initial testing, we expanded the scope to include the period 1 July 2013 through 30 June 2015. We expanded the scope to provide additional data on the operations of the Clark ASB Fund.

We limited our review to the cash account, merchandise inventory accounts, accounts payable account, and the general fund account. Additionally, we reviewed the purchase made through the District's purchase card (P-Card) account that was attributed to the ASB Fund.⁸

We relied on past experience with the data in QuickBooks, which we found sufficiently reliable for the purposes of this review.

The examination and testing which we applied to the ASB Fund accounts and the underlying records and supporting documentation are not sufficient to constitute an examination performed in accordance with generally accepted government auditing standards. The objective of which would be the expression of an opinion on the operation of the ASB Fund as a whole; we do not, and will not express such an opinion on the Clark ASB Fund. Had we conducted a review in accordance with generally accepted government auditing standards other matters may have come to our attention that we would have reported to you.

⁸ See page 13 for additional data on this purchase.

Oversight and Controls Failures Allow for Significant Losses

The ASB Fund sustained the loss of \$15,120 in merchandise inventory over the period of FY-14 and FY-15 (See Appendix I). Cash deposits, attributed to merchandise sales, totaling \$2,560 were either lost or stolen during the period 10 September 2014 through 19 January 2015. Unrecorded liabilities of \$6,314 for merchandise, PE uniforms and combination locks were not recorded in the ASB Fund's books of account resulting in the material distortion of the financial position of the ASB Fund and the amounts due to vendors. These deficiencies resulted in the general fund account balances in FY-14 and FY-15 being materially misstated. We determined the general fund account balances should be a deficit balance of \$1,687 on 30 June 2014 and a deficit balance of \$4,512 on 30 June 2015.

Loss of Merchandise Inventory During FY-14 and FY-15

To determine the amount of any merchandise that may be unaccounted for in FY-14, we performed the following:

- Using the balances of the items available for sale as of 30 June 2013 we added the purchases of saleable merchandise units⁹ for the period 1 July 2013 through 30 June 2014. We adjusted the inventory to reflect the items provided to certain students at no charge (see Distribution of PE Uniforms and locks to Students page 14).¹⁰ The result provided the total available merchandise for sale.
- From the total merchandise available for sale, we deducted the amounts recorded in the inventory as of 30 June 2014. This amount provided us with the number of units to be accounted for/sold during FY-14.
- We multiplied the counts of the units to be accounted for/sold by the sales price to determine the dollar value of the merchandise to be accounted for/sold.
- OIA subtracted the sales recorded in the books of account from the dollar value of the merchandise to be accounted for/sold to determine the difference between the physical inventory and amount recorded in the sales account.

This difference accounts for the shortage in the merchandise inventory.

We followed the same process to determine the FY-15 difference

⁹ For the purposes of this report, we consider saleable merchandise units the total of the individual PE uniform tee-shirts and shorts, the combination locks and yearbooks available.

¹⁰ This recorded amount reflects only the documentation provided to us; it does not reflect cash that should have been deposited in the ASB Fund. We were not able to determine that cash receipts were received for any of the merchandise provided to students without charge.

between the physical inventory and the recorded sales. Calculation of the FY-15 loss is independent of the FY-14 loss calculation.

Table 1 provides a summary of our analysis of the inventory shortages occurring in both fiscal years. Appendix I provides additional detailed schedules outlining the calculation of the amounts available for sale, the amounts to be accounted for/sold and the recorded sales in the books of account.

Table 1: Merchandise Inventory Discrepancies in FY-14 and FY-15

Item Type	FY-14	FY-15	Total
PE Uniforms (Tee-shirts, shorts)	\$7,356	\$4,729	\$12,085
Combination Locks	806	1,242	2,048
Yearbooks	882	105	987
Total of the Differences by Type	\$9,044	\$6,076	\$15,120

Source: ASB books of account and vendor invoices

Clark did not effectively manage and protect the inventory items during the periods we reviewed. Generally accepted business practices as:

- periodic counts and reconciliations of the merchandise were not taken and reconciled with the amounts sold; effective safeguarding of the inventory was not done;
- PE uniforms and locks were held in places where multiple individuals had uncontrolled access to the storage area and the merchandise; and
- accountability for the number of uniforms held at the sales points were not maintained.

PE teachers' roles in the sale of the uniforms were not appropriately segregated. Teachers held the merchandise inventory, received the cash in payment, prepared the ASB sub-receipt, disbursed the uniforms to the students, held the funds for deposit over multiple days, and may have reconciled the sub-receipts with the cash turned over to the financial clerk.

This system allowed a single individual to retain full control over the payment system for the PE uniforms and combination locks.

Cash Receipts of \$2,560 Were Missing or Stolen

OIA identified that \$2,560 was either lost or stolen from the ASB Fund during the period 10 September through 19 January 2015. Table 2 summarizes the sources and amounts of cash received, recorded in the books of account, and deposited during that period and the amounts that were not recorded in the books of account or deposited in ASB Fund's checking account.

Table 2: Deposit Events Chronology

Date	Event	Amount	
		Deposited	Not Deposited
3 Sep 14	FC-1 collected ASB Merchandise Sales	\$ 783	
9 Sep 14	SAA and office staff ^a collect ASB Merchandise Sales (29 Aug – 9 Sep 14) ^b	1,970	
15 Sep 14	SAA and office staff collect ASB Merchandise Sales (9 Sep – 15 Sep 14) ^b		\$1,530
2 Oct 14	SAA and office staff collect ASB Merchandise Sales (16 Sep – 2 Oct 14) ^b	1,220	
6 Oct 14	PE Department ^c remits PE uniform sales (9 Sep – 6 Oct 14) to the SAA ^d		740
10 Dec 14	SAA and office staff collect sales of ASB merchandise (16 Oct – 10 Dec) ^b		290
Summation of Deposit Events Chronology		\$3,973	\$2,560

Source: ASB Fund books of account, sub-receipts, and bank statements

- Notes:**
- ^a Office staff consisted of two clerical staff under the direction of the SAA for the review period.
 - ^b Dates listed on the sub-receipts (See missing sub-receipts from Clark’s offices.
 - ^c PE Department are PE teachers assigned to Clark. All teachers collected funds from uniform and lock sales.
 - ^d See missing receipts from the PE Department (page 8).

Missing Cash Receipts from Clark’s Offices

During OIA’s inventory observations in July 2015, we found 96 original sub-receipt forms that were placed inside a PE Department cabinet. These 96 forms had a total stated value of \$1,820. The sub-receipts are two part forms with the original printed on green paper and the copy printed on pink paper. These original receipts were provided by the SAA and two clerical staff to the students upon payment for their uniform but held by PE department when they distributed the PE clothes to the students. ¹¹

The auditor took the receipts from the cabinet, placed them in numerical order, determined that the receipts were from two different receipt books, and traced the receipt numbers to the sales of ASB merchandise recorded in the ASB records. We found that during the period 9 September through 10 December the receipts in question were not recorded in the ASB books of account. Nor were the funds received with these receipts deposited into the ASB Fund checking account.

The 96 receipts in question were from two sub-receipt books that were provided to the SAA prior to FC-1’s departure for a new

¹¹ The District’s accepted practice is to provide the original receipt to the student or the parent/guardian with the PE uniform, combination lock, or both. The pink carbon copy remains in the receipt book and the receipt book and the funds collected are turned over to the FC for processing. The FC balances the pink receipt copies against the amount of funds turned over.

position. As outlined in the following paragraphs, these receipts were provided to Clerk-1 and Clerk-2. In instances where the clerical staff received the cash for the PE uniforms and locks, the PE staff member would take the original receipt from the student to support the issuance of the items purchased.

The members of the Clark clerical staff, during our interviews, stated they had delivered to the SAA, their supervisor, all of the receipts, currency, and checks at the SAA's direction. The clerical staff was under the impression that the funds would be turned over to the bank.

The SAA in an interview with OIA regarding the missing funds and receipts stated:

Prior to FC-1 leaving for her new position, I asked that she supply the front office with sub-receipt books for us to use for selling PE clothes and locks. There were no other items being sold at that time. She provided the office with approximately two to three books. They were locked up in my desk and the reception desk. I trained Clerk-1 and Clerk-2 how to use these books, including what to do if a receipt was voided. All deposits were brought to me.

In our inquiries with SAA regarding why the \$1,820 could not be accounted for but according to both Clerk-1 and Clerk-2, in separate interviews, had been turned over to the SAA. The SAA replied that:

As for the receipts totaling \$1,820, I can only tell you that everything that was given to me or sold by me was deposited. I cannot answer to what did not come across my desk.

Missing Receipts from the PE Department

From 9 September through 6 October 2014, the PE Department recorded the sales of PE uniforms and combination locks of \$740. These sales were supported by sub-receipts (1233803 – 1233852) prepared by a PE teacher who sold the items to the students. The PE teacher told OIA both the sub-receipts and the cash receipts were turned over to the SAA for processing and deposit into the ASB Fund checking account. We inquired of the SAA the status of the deposit, and were told that she had never received the deposit. The SAA stated to us:

I am the one who discovered the receipt book from the PE Department with the pink copies removed in April 2015. I actually found the items that were boxed from the finance office, while looking for a check that was issued but never sent.

In a subsequent meeting, the Clark Principal stated that these receipts were found in December 2014 and not April 2015.

Our examination of the sub-receipt book, in question, found receipts (1233855 – 1233857) prepared and issued by the SAA on 23 February 2015. The stated amount of funds received through the receipt process was \$40.

In subsequent interviews with FC-2, she stated that during the week of 23 March 2015 she inquired of the SAA whether she had money that should be deposited, prior to the school's Spring Break. The SAA stated that she had no funds to be deposited. However on 11 May 2015 the SAA turned over \$40 and the receipts dated 23 February 2015 for deposit. The funds were held for 78 days following their initial receipt. The District requires that all receipts be deposited into the ASB Fund, within one day of receipt.¹²

Additionally, on 11 May 2015 the SAA provided the FC-2 with sub-receipt numbers 1233803 through 1233852, the missing receipts from the PE Department representing \$740 of PE uniforms and combination locks. However, the SAA did not provide the currency and checks supporting the receipts. The FC-2 attempted to verify that the currency and checks, totaling \$740 were deposited at an earlier date. FC-2 stated to the auditor, that on 12 May 2015 she advised the Clark Principal and the SAA that she was unable to verify the recording of the \$740 in the ASB financial records and that the funds were deposited in the ASB Fund's checking account.

Late Deposits of Cash Collections

SDUSD requires that all cash receipts for the ASB Fund be deposited in Fund's checking account within one day of receipt.^{13; 14} The District provides courier services to the schools daily to facilitate this requirement.

Clark on 6 December 2014 received cash receipts of \$1,638 from a Butter Braid fundraiser. The receipts were composed of \$932 in checks and \$706 in currency. Clark recorded the full amount, \$1,638, on receipt 297248 but only recorded \$932 in QuickBooks. The checks were deposited in the Fund's checking account in December 2014. The currency, \$706, was not deposited until 3 March 2015 using receipt 325011. This deposit was 100 days after receipt of the funds.

In OIA's opinion, Clark generally did not comply with the timely deposit requirements of AP 2435 and AP 2245. This delay in

¹² AP 2235, *Standard Student Body Receipts*, § C.2.e and f.

¹³ AP 2235, § C.2.e and f.

¹⁴ AP 2245, *ASB Deposits, Authorized Bank*, § C.4

depositing the funds increases the security risk of the funds being lost or stolen. Further, it deprives the students of the use of the monies for various ASB related projects.

Unaccounted for Sub-receipts

Clark was unable to account for 100 sub-receipts receipts (1234103 through 1234202). These receipts were provided to the SAA by FC-1 to account for transactions during July 2013. In the receipt log FC-1 listed the receipts as to be used for “summer school”.¹⁵

To account for all of the sub-receipts held by Clark, we reviewed the inventory list dated 22 July 2013, the close of Clark’s SY-13, for the receipts assigned to Clark. Subsequently we accounted for the used and unused receipts from 22 July 2013 through 30 June 2015.

Our accounting determined in addition to the two missing receipt books that we previously reported (see page 7) receipts 1234103 through 1234202 remained unaccounted for. FC-1 stated that she had assigned the missing receipts to the SAA to account for “2013 Summer School”.¹⁶ The SAA in our interviews regarding these documents stated that she had not received any blank receipts from the SAA, and that Clark did not operate a “summer school” during this period. OIA could not ascertain the validity of either individual’s statements.

A standard internal control practice is to account for and maintain control of all serially numbered financial documents. This practice assists in maintaining accountability for the documents. It provides an independent validation that all of the documents have either been voided, used and posted in the ASB Fund accounting system, or unused and held by specific individuals for future use.

Recommendations

OIA recommends that the Principal, Clark Middle School take the following actions:

1. Immediately notify SDUSD’s Chief of Police Services of the loss or theft of the ASB merchandise and cash collections, as required by AP 5025, *Property Damage or Loss*, § C.4.
2. Take the following actions to improve the systems of internal control, accountability for monies held in the ASB Fund, and compliance with the applicable District APs:

¹⁵ Clark operates on the District’s year round calendar and did not operate a summer school session in 2013. Our interviews with FC-1 confirmed that the written statement was incorrect and that it was for school activities in July 2013.

¹⁶ See footnote 18.

- a. Require that all funds received by Clark personnel be receipted and remitted to the Clark Financial Clerk on the day received.
- b. Take action to minimize the number of locations where receipts are collected and ASB merchandise inventory is disbursed;
- c. Require that the ASB Advisor and a student representative of the ASB take monthly inventories of all ASB merchandise, and provide the inventory count results to the Financial Clerk for computation of any differences.
- d. Mandate that the ASB Advisor and Financial Clerk investigate all differences and obtain explanations for the differences. Require that the Financial Clerk make the appropriate adjustments in the ASB Fund's books of account.
- e. Require that the Financial Clerk provide monthly financial results and financial and bank statements to the Principal, ASB Advisor and the student representative of the ASB. The financial statements should include notes with explanations for any adjustments, including merchandise inventory. The review of the financial statements and any subsequent actions should be documented by the Principal.

Unrecorded Liabilities to Vendors and the District

OIA concluded following a review of the ASB financial statements and underlying financial records that liabilities to vendors for PE uniforms of \$6,314 had not been entered into the ASB books of account. Additionally, the liability for a \$459 purchase of combination locks, using the District's purchase card (P-Card), had not been included in the ASB Fund's books of account. As a result, the ASB Fund's accounts payable account, the results of financial operations, and the financial position of the Fund were materially misstated. The purpose of the statements of results of financial operations (income statement) and the ASB Fund's balance sheet are to present the financial position of the ASB Fund at a point in time, generally the last day of the month and on 30 June, the fiscal year end. In order for the ASB Fund to properly report its financial results and financial position it must recognize all of the Fund's liabilities, including unpaid invoices (accounts payable) and other known debts. Accurate financial statements are keys in demonstrating the ASB Fund's accountability for its assets and transparency of its operations.

Liabilities to Vendors for PE Uniforms

The ASB Fund purchased \$6,314 of PE uniforms in September 2014 and February 2015. On 30 June 2015, the invoices for these uniforms remained unpaid as the ASB Fund lacked the available resources to fund these purchases. These invoices had not been included in the ASB Fund's financial records as that would have

resulted in a deficit in the financial operations and a deficit balance in the ASB Fund's general fund account.¹⁷

In interviews with the Clark staff we learned that due to a mix-up in the initial order of PE uniforms the school received more adult mediums, large, and extra-large shirts than were able to be sold. This resulted in lower than expected sales and required a second order be placed in February 2015 to obtain youth and adult small shirts. Again, the sales of these shirts was slower than expected and created a cash flow problem as the school lacked sufficient cash to pay the invoices.¹⁸ The inability of Clark to pay the invoice caused the ASB to carryover an obligation to the following fiscal year, which is prohibited by the District^{19,20}.

FC-2 appeared to be unaware that unpaid invoices were to be entered into the specific ASB Fund account involved in the purchase and instead of the Cash Account as the offset for payment; the Accounts Payable (A/P) Account would be used. The failure to record these invoices caused the statement of the results of financial operations and the balance sheet to be materially misstated.

Staff knowledgeable of the Clark ASB Fund operations told us that the PE Department would determine when and the amount of PE uniforms to order and then contacted the vendors to obtain pricing for the shirts and shorts. The PE Department would take control of the clothing on arrival and store it. They presented the invoice to the FC for payment

In both purchases, we did not receive documentation that a bid for the shirts and shorts was requested, and to support how the vendor was selected. The District requires that all ASB Fund purchases of \$1,500 or more must be publically bid, with requests for bids sent to at least three responsible vendors.²¹ Table 3 supplies additional detail regarding the missing bid documentation.

¹⁷ Deficit balances are prohibited by AP 2227, *Student Body Budget*, §§ C.3.a and C.7.b

¹⁸ The ASB Fund is operated and accounted for as a trust fund. It is not permitted for accounts to "borrow" from one another to cover income and cash deficits. The Clark ASB Fund was not permitted to borrow funds to cover the cash deficit and satisfy the vendor's invoices.

¹⁹ AP 2525, § C.6.k

²⁰ These invoices were subsequently paid by Clark in July 2015 after the school received an influx of cash (see Other Matters, page 19).

²¹ AP 2435, *Student Body Bids and Purchases*, § C.2

Table 3: Bid Documentation

Date	Selected Vendor	Documented Bids	Amount
18 Nov 13	Organized Sports	0	\$ 1,836
9 Sep 14	Organized Sports	1	2,246
23 Sep 14	Organized Sports	1	2,315
27 Feb 15	Duds by Dudes	3	3,998
Total Purchases Requiring Bids for Merchandise			\$10,395

Source: OIA analysis of bid documentation for ASB Fund purchases

In discussions with the SAA, she explained that all of the bids for ASB merchandise were let and awarded during the previous February and March and the vendor selections were based from those bids. Bid prices are often time sensitive and unless contractually required or outlined in the bid specifications that the prices would remain the same for the next fiscal year (15 – 16 months after the award of the bid) the prices expire. Due to the absence of documentation, of the bids OIA was unable to ascertain whether the PE uniforms were purchased at the bid price.

Use of the District's P-Card for ASB Fund Purchases

During the 1 July 2015 inventory observation, we included in our test counts the combination locks held by Clark. We counted 108 combination locks available for sale. Subsequent to our inventory count, we learned that Clark used its P-card on 23 May 2015 to purchase 100 combination locks from a local vendor. The use of the P-Card to purchase the locks for the ASB Fund violated the District's P-Card policies which prohibit the cardholder and approving official from making and authorizing any P-Card purchases to outside organizations including Parent – Teacher organizations, Booster Clubs, School Foundations, and the ASB Funds.²²

The ASB Fund's financial statements did not include an outstanding invoice and liability for \$459, the purchase price of the locks, owed to the District. On 29 August 2015, Clark staff requested that the vendor from whom they purchased the locks to issue the credit to the P-Card for the cost of the purchase.

The vendor agreed and in response Clark issued the vendor an ASB check for the amount of the purchase.²³ The Clark Staff by not disclosing the purchase of the locks prior to or during the inventory count attempted to obfuscate the purchase and to minimize the amount of merchandise lost during FY-15, The altered inventory impacts the balance sheet and results of financial operations.

²² San Diego Unified School District, Finance Division; *Purchase Card Policies and Procedures Manual*; San Diego, CA; January 2015; page 7.

²³ The merchandise losses for the sale of combination locks were adjusted to reflect the appropriate count for ASB Fund owned assets on 30 June 2015.

Impact of the Unrecorded Invoices on the Financial Results

Clark's statement on its result of operations and the balance sheet on 30 June 2015, displayed income from operations of \$1,172 and a general fund account balance of \$629. The inclusion of the unrecorded liabilities, the vendor invoices and the amount due to the District, would have resulted in the income from operations decrease from \$1,172 to a deficit of 5,141 and the general fund account similarly would decrease from a balance of \$629 to a deficit of 4,512. The restated balances represent reductions of 77.21 percent of the operating income and 86.06 percent of the general fund activity account balance.

Recommendations

3. The CFO should determine and take appropriate administrative action for the misuse of the P-Card by the Clark cardholder and the approving official.
4. The Principal, Clark Middle School should take the following actions:
 - a. Consult with the Clark FC and the SDUSD Finance Department to determine the adjustments necessary to adjust the ASB Fund's financial records to reflect the unrecorded liabilities and to prepare restated financial statements; and
 - b. Request from the CFO that Clark management and staff involved in the operation of the ASB Fund receive training on the proper operation of the fund and the appropriate accounting and reporting of transactions.

Absence of Compliance with ASB Fund Guidance Created Additional Financial Issues

During our fieldwork for this project, we were made aware of or identified several compliance issues that adversely impacted the operations of the ASB Fund. These issues included PE uniforms and locks valued at \$1,790 were distributed without charge to certain Clark students. ASB Fund requisitions of \$4,822 were not approved by the ASB Advisor and a student representative. Further, paid invoices and supporting documentation were not cancelled, increasing the risk of duplicate payments to the vendors and others.

Distribution of PE Uniforms and Locks to Students

During the period 5 September 2013 through 19 September 2014 Clark operated a program that provided PE uniforms to students whose families were unable to afford them. These distributions were based on the parent/guardian completing a form titled *Physical Education Uniform Assistance Application (PEUAA)*. Clark's management did not appear to set qualifying requirements for the uniforms or required the data on the PEUAA be verified. Based on the PEUAA forms provided to us 57 students received uniforms, valued at \$1,060, during the life of the program.

At the start of SY-15, Clark replaced the uniform distribution program with a "Replacement Program" that included both PE

uniforms and combination locks, which Clark provided from the ASB merchandise inventory. This program was to replace PE uniforms and combination locks that were stolen. To obtain the replacement uniform or combination lock the student would request the articles from a PE teacher, school security, a student counselor, or the vice principal. Applications or forms were not completed. The PE Department maintained a manual ledger showing the names of the students receiving the replacement items, and the specific items received. According to this ledger, 39 students received replacement PE uniforms or combination locks, with a value of \$730 during SY-15.

These replacement programs did not have the necessary system of internal controls to ensure that the ASB Fund's assets were adequately protected. It did not appear that Clark attempted to verify the validity of the information provided by the students to obtain the clothing or locks.

Clark did not identify an independent dedicated revenue source for the two programs. As a result, in addition to the loss of \$1,790 over the period of our review; Clark appeared to violate the State's Constitution which prohibits the gift of public funds to any individual by authorizing the use of ASB resources in this manner.

During the course of our fieldwork for this project, we advised the Clark principal that the practices outlined here were contrary with good business practices. The principal advised us that he would stop these practices immediately.

ASB Requisitions Not Fully Authorized and Invoices were not Cancelled

The State Education Code mandates a minimum of three individuals approving all ASB Fund requisitions prior to the expenditure of funds. The Education Code specifically states:²⁴

The funds shall be expended subject to such procedures as may be established by the student body organization subject to the approval of each of the following three persons which shall be obtained each time before any funds may be expended: an employee or official of the school district designated by the governing board, the certificated employee who is designated adviser of the particular student body organization, and a representative of the particular student body organization. (Emphasis added)

The District in addition to the three individuals designated in the Education Code requires the signature of the FC or elementary school assistant.²⁵

²⁴ Education Code § 48933(b)

²⁵ AP 2227, *Student Body Budget*, § C.7.b

Our review found that the Clark controls for the approval of ASB Fund requisitions were not fully effective. We identified 13 ASB requisitions, with stated values of \$4,822, from a non-statistical sample of 44 requisitions, prepared during the period 1 July 2014 through 31 May 2015 with a stated value of \$18,391, that were not approved by the ASB or student club adviser and the student representative of the student council or the student club. Table 3 provides additional detail for these requisitions.

Table 4: Requisitions – Not Fully Approved

Date	Check Number	Description	Amount
2 Jul 14	1720	Yearbook	\$1,993.60
8 Jul 14	1724	Student Snacks	197.78
14 Jul 14	1727	8 th Grade Yearbook Signing Party	431.35
15 Jul 14	1728	8 th Grade Pizza Party supplies	80.90
15 Jul 14	1730	8 th Grade Pizza Party beverages	63.05
15 Jul 14	1731	Trophy and plaque	113.40
15 Jul 14	1732	Field Trip supplies	226.46
15 Jul 14	1733	Food and Field Trip Passes	199.26
15 Jul 14	1734	Student Party and Field Trip Snacks	184.88
17 Jul 14	1738	Activity photographs	54.32
21 Jul 14	1743	PE awards	45.04
21 Jul 14	1744	Supplies for various ASB functions	314.23
27 Aug 14	1745	Combination Locks	918.00
Total – Requisitions Not Fully Approved by the ASB Fund			\$4,822.27

Source: ASB Fund books of account and supporting documentation.

Based on our testing we concluded that the Clark systems of internal control for processing ASB Fund disbursements did not provide a reasonable assurance that the required signatures would be obtained for the ASB requisitions. The risk of improper and prohibited transactions increases. The students do not have the opportunity to provide meaningful oversight of their funds.

We reviewed a sample of ASB disbursements, taken from the period 1 July 2014 through 31 May 2015, to validate that the invoices and supporting documentation were cancelled after the disbursement was prepared and approved. We identified that the SAA, when performing as the FC, did not consistently cancel the invoices and supporting documentation. We identified 13 disbursements, with a value of \$2,693 where the invoices and supporting documents were not cancelled or marked “PAID” to prevent reuse and potential duplicate payments. Table 4 provides additional detail for these disbursements.

Table 5: FY-15 Invoices Not Cancelled

Date	Check Number	Description	Amount
18 Nov 14	1749	ASB Fall Dance snacks	\$ 146.26
18 Nov 14	1750	Staff Gathering – Principal Appreciation	35.98
5 Dec 14	1752	Holiday Potluck	60.01
17 Dec 14	1753	Science supplies per grant	987.59
	1754	NAC supplies	57.37
	1755	Fundraising	936.00
	1756	Refreshments for AVID meeting	55.52
	1757	Refreshments for AVID meeting	75.59
18 Dec 14	1758	Staff Holiday Party Gifts	46.34
	1759	Dance supplies	124.17
	1760	Staff Holiday Party Expenses	100.00
	1761	ASB Supplies	37.43
	1762	Refreshments for FPR Visit	30.98
Total Disbursements – Invoices and Documentation Not Cancelled			\$2,693.24

Source: ASB Fund books of account and supporting documentation

The cancellation of the invoice and supporting documentation is a standard business practice that provides visual evidence that a specific invoice has been paid. This practice minimizes the potential for a payment to a vendor or other individual to be duplicated.

Recommendations

OIA recommends that the Principal, Clark Middle School take the following actions:

5. Terminate the Replacement Program and consult with the Office of Legal Services as to whether it is permissible to operate this program and whether it complies with State laws, regulations and Board of Education policies. If this program is permissible, a funding source should be identified and the program managed outside of the ASB Fund.
6. Identify a funding source to repay the ASB Fund for the PE uniforms and combination locks that were impermissibly taken from the ASB Fund merchandise inventory.
7. Develop a system of internal controls providing a reasonable assurance that the ASB requisitions will comply with State law and the District’s APs.
8. Require that the FC develop a practice to ensure that all invoices and supporting documentation are cancelled upon approval of the ASB Fund check.

Conclusion

In OIA’s opinion, the cause of the findings that we reported in the prior sections of this report was the absence of effective management and oversight of the ASB Fund and the related processes. The turnover in the FC position did contribute to some of the deficiencies that we reported; however, we believe that the deficiencies could have been mitigated by oversight of Clark’s management and the ASB Advisor that is required by AP 2225.

Recommendations

We recommend that the AS-6 take the following actions:

9. Confer with the Human Resources Department and Office of Legal Services to determine the appropriate administrative action, if any, to take against Clark management and staff involved in the administration of the ASB Fund.
10. Arrange with the Finance Department and Executive Director, Secondary Schools to provide training in the operation and control of the ASB Fund at the secondary school level.

Other Matters

The following events occurred subsequent to the close of our review period and prior to the issuance of this report. These events are related to the operations of the ASB Fund during our review period.

- FC-2 who was appointed to this position on 20 January 2015 resigned from the position on 23 September 2015.
- Cash collections from the sales of PE uniforms and combination locks during the period 1 July 2015 through 30 September 2015 were 140 percent higher than the collections during the same period in 2014. This additional revenue allowed the ASB Fund to liquidate the outstanding PE uniform invoices of \$6,314.
- The SAA informed OIA that on 29 September 2015 Clark requested the vendor who provided them with the combination locks in May 2015 acquiesced to accepting an ASB Fund check for \$459.01 and providing a credit to the District's P-Card. This transaction liquidated the ASB Fund's liability to the District.

Contributor

Jaime Buensuceso, CFE, is the principal auditor and contributor to this report.

Copies of the final report are provided to the Board of Education, the Audit and Finance Committee, the Superintendent of Public Education, the General Counsel, and the Chief of Staff. OIA placed a copy of this report on the District's webpage at <https://www.sandiegounified.org/audit-reports>.

Should you have any questions regarding this report or our review process, please contact Mr. Buensuceso at jbuensuceso@sandi.net or at 619.725.5694 or you may contact John Cashmon at jcashmon@sandi.net or at 619.725.5696.



John M. Cashmon
Director, Internal Audit

Appendix I: Analysis of ASB Fund Merchandise Losses

Clark Middle School Associated Student Body Fund
Analysis of Merchandise Losses
Physical Education Uniforms

For the Period 1 July 2013 through 30 June 2014

Date	Transaction	Uniform Items			Total \$
		Shorts	Shirts	Sweat Pants	
	Unit Sales Prices	\$10.00	\$10.00	\$12.00	
1 Jul 13	Opening Balance	849	621	335	18,720
18 Oct 13	Purchase from Organized Sports	144	192	0	3,360
	<i>Units Available for Sale – FY 14</i>	993	813	335	22,080
	<i>Less: PEUAA Forms on File 5 Sep 13 – 25 Jun 14</i>	49	49	0	980
	<i>Adjusted Units Available for Sale FY-14</i>	944	764	335	21,100
30 Jun 14	Units on Hand per Inventory	(493)	(214)	(148)	(8,846)
30 Jun 14	Units to be Accounted For	451	550	187	12,254
30 Jun 14	Sales per ASB Fund Books of Account				(4,898)
30 Jun 14	Monetary Calculation of Inventory Difference FY-14				(7,356)

Source: ASB Fund Books of Account and Inventory Summary prepared by Clark staff

For the Period 1 July 2014 through 30 June 2015

Date	Transaction	Uniform Items			Total \$
		Shorts	Shirts	Sweat Pants	
	Unit Sales Prices	\$10.00	\$10.00	\$12.00	
1 Jul 14	Opening Balance	493	214	148	8,846
9 Sep 14	Purchase from Organized Sports	204	212	0	
23 Sep 14	Purchase from Organized Sports	204	224	0	
27 Feb 14	Purchase from Duds by Dudes	120	150	132	12,724
	<i>Units Available for Sale – FY 15</i>	1,021	800	280	21,570
	<i>Less: PEUAA Forms on File 2 Jul 14 – 19 Sep 14</i>	32	32	0	
	<i>Less Replacement Program Units</i>	4	4	0	720
	<i>Adjusted Units Available for Sale FY-14</i>	985	764	280	20,850
30 Jun 14	Units on Hand per Inventory	(480)	(301)	(239)	(10,678)
30 Jun 14	Units to be Accounted For	505	463	41	10,172
30 Jun 14	Sales per ASB Fund Books of Account				(5,443)
30 Jun 14	Monetary Calculation of Inventory Difference FY-15				(4,729)
	Total Calculated Difference for FY-14 and FY-15				(12,085)

Source: ASB Fund Books of Account and OIA's Inventory counts on 1 July 2015

Note: All calculations in the preceding tables are based on retail sales price. We did not attempt to calculate the gross profit or loss using this data.

Clark Middle School Associated Student Body Fund
Analysis of Merchandise Losses
Combination Locks²⁶

For the Period 1 July 2013 through 30 June 2014

Date	Transaction	Quantity	Total \$
	Unit Sales Price	\$5.00	
1 Jul 13	Opening Balance	518	2,590
	No Purchases During the Period	0	0
	<i>Less: Waiver Program Units</i>	0	0
	<i>Adjusted Units for Available for Sale FY-14</i>	518	2,590
30 Jun 14	Units on Hand per Inventory	(195)	(975)
30 Jun 14	Units to be Accounted For	323	1,615
30 Jun 14	Sales per ASB Fund Books of Account		(809)
30 Jun 14	<i>Monetary Calculation of Inventory Shortage FY-14</i>		(806)

Source: ASB Fund Books of Account and Inventory Summary prepared by Clark staff

For the Period 1 July 2014 through 30 June 2015

Date	Transaction	Quantity	Total \$
	Unit Sales Price	\$5.00	
1 Jul 14	Opening Balance	195	975
	Purchase 26 Aug 14	200	1,000
	<i>Less: Waiver Program Units</i>	0	
	<i>Less: Replacement Program Units</i>	18	90
	<i>Adjusted Units for Available for Sale FY-14</i>	377	1,885
30 Jun 14	Units on Hand per Inventory	(12)	(60)
30 Jun 14	<i>Add: Units Sold from P-Card Purchase of Locks</i>	4	20
30 Jun 14	Units to be Accounted For	369	1,845
30 Jun 14	Sales per ASB Fund Books of Account		(603)
30 Jun 14	<i>Monetary Calculation of Inventory Difference FY-15</i>		(1,242)
	<i>Total Calculated Difference FY-14 and FY-15</i>		(2,048)

Source: ASB Fund Books of Account and Inventory Summary prepared by Clark staff

Note: All calculations in the preceding tables are based on retail sales price. We did not attempt to calculate the gross profit or loss using this data.

²⁶ This schedule presents the inventory and calculated shortage for the combination locks without the May 2015 purchase of 100 combination locks using the District's P-Card (see page 13). Had the 96 locks been included in OIA's inventory calculation the calculated inventory loss is \$892 a \$480 difference.

Clark Middle School Associated Student Body Fund
Analysis of Merchandise Losses
Yearbooks

For School Years 2013 and 2014

Transaction	SY-13	SY-14	Total \$
Unit Sales Price	\$25.00	\$25.00	
Units Ordered and Received	220	220	11,000
Yearbook Inventory on Hand	(73)	(112)	(4,625)
<i>Accountable Units</i>	147	108	
Monetary Value of the Accountable Units	\$3,675	\$2,700	6,375
Yearbook Sales per ASB books of account			
15 July 2013 through 19 July 2013	(2,793)		
19 May 2014 through 18 August 2014		(2,595)	
Total Calculated Monetary Difference for SY-13 and SY-14	(882)	(105)	(987)

Source: ASB Fund Books of Account and OIA's Inventory counts on 1 July 2015


Note: All calculations in the preceding tables are based on retail sales price. We did not attempt to calculate the gross profit or loss using this data.

Appendix II: Response from the Chief Financial Officer



San Diego Unified
SCHOOL DISTRICT

Jenny Salkeld
Chief Financial Officer
Finance Division
jsalkeld@sand.net
619.260.5445 • 619.726.7662 fax

TO: J. Cashmon
FROM: J. Salkeld 
DATE: March 24, 2016
SUBJECT: **RESPONSE – CLARK MIDDLE SCHOOL:
REVIEW OF THE ASSOCIATED STUDENT BODY FUND**

In response to Recommendation #3 noted on page 14 of the report, the Chief Financial Officer reviewed the detail associated with the transaction associated with the purchase of the combination locks. Since the school canceled the order and received a credit from the vendor, the Chief Financial Officer will issue a warning letter to the procurement card approver and cardholder. The letter will indicate that card privileges will be revoked if there are any future transactions that are not in compliance with the procurement card policy and procedure. The letter will be issued by March 25, 2016.

JS:dn


Appendix III: Response from the Area Superintendent – Area 6



San Diego Unified
SCHOOL DISTRICT

Fabiola Bagula
Area 6 Superintendent
EUGENE BRUCKER EDUCATION CENTER
4100 Normal Street, Room 2017
San Diego, CA 92103-2662
Phone: (619) 725-7210
Fax: (619) 725-7110

MEMO

DATE: March 16, 2016
TO: J. Cashmon, Director, Internal Audit
FROM: F. Bagula, Area 6 Superintendent 
SUBJECT: AUDIT INVESTIGATION CLARK MIDDLE SCHOOL

Thank you for your thorough audit investigation at Clark Middle School. I am in possession and have reviewed both your reports and the school site reports. I will be discussing this issue with the appropriate district offices.

AREA SUPERINTENDENT | 4100 Normal Street, San Diego, CA 92103-2662 | (619) 725-7210 | www.sdsd.net