

Other People's Money

As stewards of public funds, school boards often must make unpopular decisions, but they are dedicated to getting the best deal for their school and community

In 1989, I entertained some overseas trading colleagues. I took them to an off-Broadway play called *Other People's Money*. I anticipated the play would be a hit with our group because we used other people's money as money market traders. Using our bank's AAA credit rating to borrow at low rates, we funded U.S. farmers and agricultural corporations at very competitive prices. When farmers reduce their borrowing costs, they can produce more affordable consumer food products. The play seemed like a great idea.

Although billed as a comedy, the play is very dark. The banking character, Larry the Liquidator, is a money-grubbing parasite who destroys companies with no regard for employees or owners. Larry seeks opportunities to

squeeze maximum value out of targeted companies to generate profits for his investors. Although entertaining, the play really didn't hold any parallels for our work.

Different venue, different values

Board members are sometimes unfairly portrayed as Larry the Liquidator. As the stewards of district money, they sometimes are forced to make unpopular economic decisions, such as cutting personnel and programs and increasing class sizes. Unfortunately, taxpayers, unions, and teachers may not understand that outside forces are actually imposing these changes. For example, legislative actions may reduce or delay state aid, impose unfunded mandates, limit tax increases, or cap allowable reserves with little or no regard for how it all affects the classroom.

Board members are deeply committed to getting the best deal for their stakeholders. They use other people's money to provide quality education for students while ensuring the community receives value for its tax dollars. But, unlike Larry the Liquidator, board members maintain the "tone at the top," adhering to high ethical

standards while considering the impact of their decisions on all concerned.

When money is tight, boards work hard to maintain standards. Sometimes they reach beyond ordinary funding sources to find needed cash. More and more, boards search for creative ways to supplement district revenue and consider alternative methods to supplement tax revenue, federal and state aid, and grants.

Supplementing money

Creative boards often look for sensible opportunities to raise more money. This is especially crucial at times when traditional funding sources are shrinking. For example, some districts now rent advertising space on school buses, charge parking fees, sell naming rights for athletic fields, or seek sponsors for athletic events.

Other districts have expanded the concept of parent- and community-financed football booster clubs to include other sports such as baseball, swimming, and tennis. Sophisticated booster clubs often have a formal governing body. By securing Internal Revenue Service (IRS) status as a tax-exempt entity, they can establish effective internal controls and offer contributors transparent financial accountability.

Another fundraising vehicle getting increasing attention is the tax-exempt education foundation. These parent-run, community-based organizations pay for classroom programs or equipment that have been cut from school budgets. Alternatively, foundations may hire classroom teachers to conduct after-school programs or underwrite visits from published authors. Their tax-exempt status makes them attractive to



donors wishing to support educational programs while benefiting from their IRS-recognized contributions.

Creative solution risks

Across the country, these important fundraising organizations gather millions of dollars for school district sports and education programs. But they also can present risks to the district. Because clubs and foundations are usually outside of the formal district organization, the school board may not have influence over how finances are managed or fundraising is conducted.

But difficulties can arise if these organizations do not have adequate internal controls. They can create a reputation risk for the school district. If a fundraising group using your district's name is charged with fraud, the public is likely to forget that the group is a separate entity. Inevitably, you will suffer the political and financial fallout of the crime.

Therefore, board members must establish clear guidelines for all organizations using the district's name to raise funds. Your school business official can be a valuable resource in helping these groups develop internal financial controls and establish clear communication with their membership and the district. Encourage administrators to also work closely with them regarding financial reporting, the separation of duties, and the use of receipts.

Shady solicitations

While Larry the Liquidator is certainly not on the school district scene, other shady characters may play a sinister role in your community's efforts to raise additional cash. Administrators and board members must be aware of fraudulent sports solicitations.

As recently as September, scam artists have been soliciting funds from residents and businesses for the alleged purpose of helping the local district print sports calendars and programs. Since 2007, there have been reports of

this national solicitation scam operating in Connecticut, Massachusetts, Nevada, and New York.

Potential donors are solicited with printed material requesting authorization for annual direct debits from their bank or credit card accounts. The company issues official-looking billing statements with fine print at the bottom stating that the company has no affiliation with the local district.

In a few cases, nominal donations have been made to a district, but most receive nothing. The fraudsters simply take the money. These types of scams have the potential to tarnish your district's reputation when donors discover they have been cheated.

Protect your investors

Donors contributing money or goods are investing in your district's mission. Let community members know that all fundraising activities must be preapproved by district leaders. Such procedures will reassure potential donors that the soliciting organization is legitimate. In addition, if the district puts measures in place to coordinate fundraising, competition between groups may be minimized.

Urge community members to check with the district if they have any questions regarding fundraising activities. With effective internal controls in place, donors will know that their contributions will be used wisely, and they will be more likely to make future contributions.

Be skillful

The process you use to encourage community fundraising groups to establish financial reporting and internal controls must be thoughtful and implemented with sensitivity. As volunteer organizations not under the school board's official authority, they might resent that the district is not adequately funding a particular sport or activity. In addition, volunteers generously donate abundant time and energy to these projects and

understandably may be offended at any suggestion they are not being honest.

Be certain that you adequately acknowledge their dedication and leadership. When offering suggestions, emphasize that your concern is not only for the district's protection but also for the financial and legal protection of the volunteers.

Highlight how an objective review of project records by the district could save the organization embarrassment and suspicion. Point out how a simple addition error could create questions about the financial condition of the group. Explain how well-run organizations need financial transparency and strong internal controls. Finally, suggest that requiring receipts for purchases and expenditures will earn the respect and trust of group members as well as the community.

Your concern for the individual welfare of organization members will be clear if you inquire whether the organization has purchased directors and officers liability insurance. Once a group's leadership recognizes that you are concerned about their personal safety as well as their accountability, they may be more willing to collaborate.

Throughout *Other Peoples' Money*, Larry is always looking for opportunities to squeeze the most gain out of a deal to benefit his stockholders, with no regard for collateral damage. But board members strive to get the best value from available resources while minimizing ethical and reputation risk. The bottom line is that booster club and foundation volunteers, like you, are using other people's money to benefit your students. That's a good investment for everyone. ■

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